



Malton Women Council



Legal Requirements for Businesses in Ontario



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Types of Business Ownership Structures

- Sole Proprietorships
- Partnerships
- Corporations
- Co-operatives
- Trusts



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Sole Proprietorship

- A Sole Proprietorship is an unincorporated business owned by a single individual. There is no legal distinction between the individual and the business.
- As your business grows, you can choose to incorporate later.



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Pros

- You keep full control of the business.
- Easy and affordable to set up.
- Earn all the profits.
- You can deduct losses and expenses from your personal income.
- Tax advantages. From a tax and legal authority perspective, the owner and the business are treated as the same. The sole proprietorship is viewed as an income source for the owner. The business financial details must be listed in a separate section of the personal income tax form. When filing annual returns, you can receive tax advantages. If the business reports a loss, the loss can be used towards reducing your income from other sources.



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Cons

- There is no separation between personal and business liabilities. You are personally liable for all debts and losses. Creditors can take your personal assets and your business to pay debts. Given this, know your limits.
- Your business name is not protected.
- Your income is taxable at the personal rate. This may result in a higher tax rate as income increases.
- Limited Growth Potential. It can be hard to raise capital or expand, as most sole proprietors rely on personal finances.



You will need to register the sole proprietorship if you are not using your legal name as the business name. You must also register provincially if the business has employees, facilities, or offices in Ontario.

Sole proprietorships work well for freelancers, consultants, and solo entrepreneurs looking for a simple, low-cost setup for their business.



Partnerships

- Partnerships are associations or relationships between two or more individuals, corporations, trusts, or partnerships that join for a trade or business.
- Entering into a partnership without a written partnership agreement is risky. An agreement can prevent disputes, outline each partner's rights and obligations, and protect your business interests during changes or conflicts.



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Pros

- Easy and affordable to set up
- Partners can contribute to costs
- Partners bring different skills to the business
- Debts and losses are shared between partners.
- Expenses and losses can be included on your tax returns.



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Cons

- All partners are personally responsible for all debts and losses.
- Hard to find the right partner
- Hard to agree on business decisions
- Partnerships have lower chances of receiving funding compared to sole proprietorships or corporations.

To learn more about the different types of partnerships in Ontario and their pros and cons, please visit:

<https://www.pawlina.ca/partnership-agreement/>



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Corporations

- A Corporation is a separate legal entity from the business owner. A Corporation can enter into contracts and own property in its name, separately and distinctly from its owners.
- You can choose to incorporate federally or provincially, and each option has its own pros and cons. If you choose to register provincially, you can change to federal incorporation later.



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Pros

- Liability Protection. As a corporation is a separate business entity, personal assets are protected from the liabilities of the corporation (except in certain circumstances).
- You can transfer ownership. A business can exist beyond its original founders.
- Corporations have more access to capital and grants compared to sole proprietorships or partnerships.
- The Business name is protected (for federal registrations)
- Corporations have the potential for lower tax rates.

Cons

- Corporations are costly to set up. Incorporation fees and annual filing costs are high.
- Corporations have complex tax rules and stricter regulatory requirements.
- Annual filings and corporate records will be required.
- Detailed records and meeting legal obligations are required.



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Co-operatives

- Co-operatives are corporations controlled by a group of people (members) with common needs/goals.
- They can be set up for profit or not-for-profit. Like a corporation, co-operatives can be registered federally or provincially, with each option having pros and cons.



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Pros

- You are not responsible for all debts and losses.
- Co-operatives have a democratic decision-making process (one member, one vote). This allows members to elect the board of directors and decide how profits are used.

Cons

- Long decision-making process. Decision making involves a majority of people agreeing to a decision, ex., 8 out of 15 people agree to a decision.
- All members must participate to succeed



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Register your Business

After you decide on your business structure, you may need to register your business and business name:

- Business name registration applies to entrepreneurs who want to register a sole proprietorship, a partnership, or an operating name (trade name) for a corporation.
- The name of a new business must be registered if it is different than the business owner's legal name.
- There are two modes of registration – in person (mailing to the address indicated on the form) or online through Service Ontario.

To learn more about business registration, please visit:

<https://www.ontario.ca/page/business/start/register-your-business-online>





Ontario Business Corporations Act

There are 6 requirements to register a business in Ontario

- Determining the Business Name
- Determining the Business Structure
- Gathering Essential Documents
- Getting Licences and Permits
- Requirements of Physical Address in Ontario
- Requirements of Shareholders and Directors



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Q and A

Which business structure is the best?

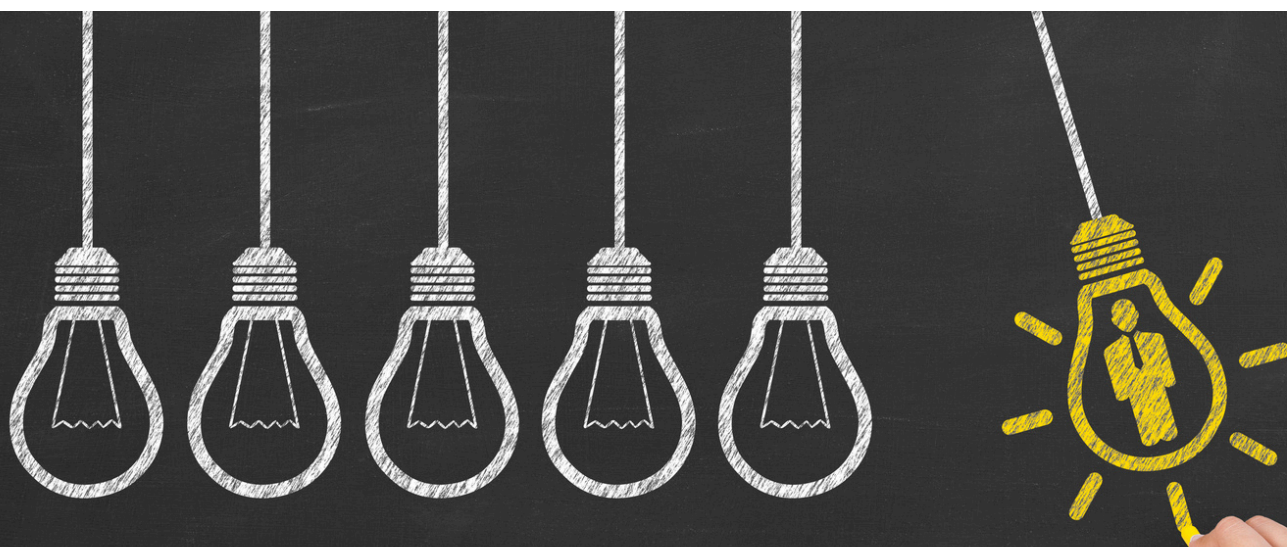
- Pallavi's personal preference – If you have one person in business, a sole proprietorship is the best option. To begin with, corporations are not recommended; funding is separate, accounting is separate, lot of burden. Keep it simple. If you have one person in business, a sole proprietorship is the best option, but with knowledge of your limits (otherwise, you will be held personally liable). As your business grows, you can switch to a corporation, if desired.





Resources and References

- Legal Requirements Presentation by Pallavi Kataria, Barrister, Solicitor, and Notary Public.
- Pro Bono Ontario – Free Legal Advice Hotline
<https://www.probonoontario.org/hotline/>
- Pallavi Law Office <https://www.pallavilaw.ca/>
- Government of Ontario Ownership Structures
<https://www.ontario.ca/page/business/start/decide-ownership-structure>





- Ontario Business Central Comparing Sole Proprietorship, Partnership, and Corporation
<https://www.ontariobusinesscentral.ca/blog/understand-difference-sole-proprietorship-partnership-incorporation/>
- BDC Business Structures:
<https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/advantages-different-business-structures>
- Government of Ontario Register Your Business:
<https://www.ontario.ca/page/business/start/register-your-business-online>
- Ontario Business Central Registering a Business in Ontario
<https://www.ontariobusinesscentral.ca/blog/register-a-business-in-ontario/>



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