

Choosing a business structure



One of the first decisions you'll need to make when you're planning your business is which structure it will take. For legal and tax purposes, you must select one and then operate your business according to that structure's guidelines. So it's important to choose the structure that best suits the needs of your business.

There are four main business structures in Canada:

- **Sole proprietorship** – You are the business and own 100% of it.
- **Partnership** – There are two or more owners of the business.
- **Corporation** – The business is a legal entity separate from its shareholders.
- **Co-operative** – The business is owned and controlled by an association of members.

Going solo as a proprietor

Choosing to do business as a sole proprietor is your simplest option, and the one that many small business owners choose. It's the most commonly selected structure and the easiest to set up.

The advantages of going solo include:

- You have the freedom to take full control and make all the decisions without anyone else.
- There are few costs to set it up.
- You get some tax advantages, such as the ability to deduct losses and expenses from your personal income.
- You earn all the profits.

There are also some perceived disadvantages of becoming a sole owner, such as:

- You are accountable for all parts of your business – meaning debts and losses are your own.
- A creditor can claim your personal assets as well as the business if you don't pay a debt.

It's the most straightforward way to structure your business, less paperwork, and you can be up and running immediately. You can also decide later to change the structure as your business grows.

[Learn more about sole proprietorships](#) at the Canada Business website.

Teaming up in a partnership

A partnership is a group of two or more people who set up a business together. The pros of starting a partnership include:

- It's fairly inexpensive to set up a partnership agreement, and the business is shared equally among you and your partners.
- Each member of the partnership is liable for the debts of the business – so you have shared responsibility for losses, and profits are divided among the partners.
- If income from the partnership is negative (i.e. the business loses money), you and your partners can include your share of the loss on your individual tax returns.
- You have support and ideally complementary skill sets in the business.

The potential cons of creating a partnership include:

- There's no legal difference between you and your business, so you're still liable for all business activities in the same way a sole proprietor is.
- Each person in your partnership is responsible for the partnership's debts – regardless of whether that person directly caused the debt.
- Finding the right partner can be difficult, and there's always the possibility of conflict between you and your partners.

If you're forming a partnership, finding the right person or people is essential. You want to be in business with someone you can trust because if they make bad decisions, you'll be liable for them as well. That's why it's important to be in business with someone that you can work with in good times and bad. While having a partner who brings a different perspective to the discussion is good, being in a partnership where decision-making is delayed due to a difference of opinion could impact your success.

[Learn more about partnerships](#) at the Canada Business website.

Forming a corporation

A corporation is a separate legal entity from you and is set up formally with a certain number of shares (which you determine). People (you and others) are then allocated a percentage of these shares, which indicates the ownership structure of the corporation. You can get a salary (and maybe a dividend) from a corporation.

Some advantages include:

- You keep your personal assets and the corporation's assets separate, so if the company is in debt, it's less likely you will be personally liable.
- A corporation will live on despite a change in management, so you can more easily pass on or sell the business.

- You can sell shares to raise money for expansion or growth projects.

Incorporation can be done at the federal or provincial/territorial level.

[Learn more about corporations](#) at the Canada Business website.

Creating a co-operative

This is set up so it can be controlled by an association of members, and is used for non-profit organizations as well as businesses. It's not a common way to structure a business, but it can work well if a group of individuals or businesses decides to pool their resources. Co-ops are different from other structures as they're structured to meet the common needs of their members rather than maximize profits for their shareholders.

Advantages include:

- Limited liability, the same as a corporation.
- Profits are distributed among the members.
- It's democratically controlled.

[Read more about co-operatives](#) at the Canada Business website.

Summary

It's important to understand your options for your business's structure, their tax implications and their advantages and disadvantages. Spend some time learning about the different business structures so you can choose the best one for yourself and your business.

It's also a good idea to get advice when deciding on a business structure. Consult either a lawyer, accountant or professional adviser. Remember, our small business advisors are on hand to help you 24/7. Don't hesitate to call us at 1-800-769-2520.

