

Ownership Types

SOLE PROPRIETORSHIP

To establish a sole proprietorship, all that is necessary is to register the business name with the Ontario government. If you carry on business in your own name, you don't even have to register. The fundamental concept to understand about a sole proprietorship is that it is an extension of the owner's personal activities. This means that the owner is 100% liable for all the debts and obligations of the company.

For income tax, all revenues and expenses from a sole proprietorship are attributed directly to the owner. It is important to remember that income tax is payable on the profits of the company before personal drawings, not on the amount of money the owner has actually drawn out of the business.

PARTNERSHIPS

A partnership is essentially a proprietorship with more than one owner. All partners should keep in mind that they are "Jointly and Severally Liable" for the debts and obligations of the partnership. It is strongly recommended that partners sign a written partnership agreement at the outset.

INCORPORATION

With incorporation, the business is a separate legal "person" from the owner. This new person files its own income tax and is fully liable for its own actions. The business name must be registered with the government, and the name used for the corporation must be unique. This requires a special type of name search, called a NUANS search, to establish that no other corporation in the jurisdiction uses that particular name or one similar enough to cause confusion. Incorporation allows the business to raise funds by selling a portion of the ownership (shares). If there are more than 50 shareholders, the corporation must be publicly traded.

CO-OPERATIVES

A co-operative is owned by an association of persons seeking to satisfy common needs (access to products or services, sale of their products or services, employment, etc.). Co-operatives are managed by everyone involved with the co-op, including consumers, producers and workers, all of which contribute their opinions as to how the organization should be run.

| | ADVANTAGES | DISADVANTAGES |
|----------------------------|--|---|
| Sole Proprietorship | <p>Low start-up costs</p> <p>Fewest regulations</p> <p>Owner has direct control</p> <p>Possible tax advantages</p> | <p>Unlimited liability</p> <p>Difficult to raise capital</p> <p>Lack of continuity</p> |
| Partnership | <p>Low start-up costs</p> <p>Easy to form</p> <p>Broader management base</p> <p>Possible tax advantages</p> <p>Limited outside regulations</p> <p>Broader asset base</p> | <p>Unlimited liability</p> <p>Difficult to raise further capital</p> <p>Divided authority</p> <p>Suitability of partners</p> |
| Corporation | <p>Limited liability</p> <p>Continuous existence</p> <p>Ownership transferable</p> <p>Easier to raise capital</p> <p>Specialized management</p> <p>Possible tax advantages</p> | <p>Highest start-up costs</p> <p>Closely regulated</p> <p>Charter restrictions</p> <p>Extensive records required</p> |
| Co-operatives | <p>Owned and controlled by members;</p> <p>Democratic control by one member, one vote;</p> <p>Limited liability;</p> <p>Profit distribution (surplus earnings) to members in proportion to use of service; surplus may be allocated in shares or cash.</p> | <p>Possibility of conflict between members;</p> <p>Longer decision-making process;</p> <p>Participation of members required for success;</p> <p>Extensive record keeping necessary;</p> <p>Less incentive to invest additional capital.</p> |