

## Selecting a Business Structure

When starting a business, one of the first decisions will be selecting the business structure or form of your company. This will have implications on various aspects of your business including taxation, succession and liability.

There are three basic legal structures of business: sole proprietorship, partnership, and corporation.

This document will provide basic information on each of the three structures but you should consider consulting a lawyer about which structure is right for you if you have questions.

### Sole Proprietorship

As a sole proprietor, you own the business and are responsible for all the functions of making the business a success. This is the most common and most straightforward business structure.

#### Advantages:

- Simple and inexpensive to set up
- Business profits go directly to you
- Limited regulatory burden

#### Disadvantages:

- Personal liability for business debts
- No protection of business name
- More difficult to secure funding

### Partnership

A partnership exists when two or more people agree to share resources to start and operate a business. A business partnership agreement should be drawn up to clearly outline the terms of the partnership.

#### Advantages:

- Simple and inexpensive to set up
- Limited regulatory burden
- Shared start-up costs
- Shared responsibility and management expertise

#### Disadvantages:

- Shared liability for business debts
- Potential conflict between partners
- Limited protection of business name
- Potential for partners to legally bind each other with their decisions

### Corporation

The act of incorporation creates a legal entity (the corporation) which is separate from its shareholders. The corporation can assume debts, acquire assets, enter into contracts and perform other such tasks. Incorporation can occur at either the provincial or federal level.

#### Advantages:

- Limits your liability
- Easier to raise capital
- Possible tax advantages
- Continuity and transferability of ownership

#### Disadvantages:

- More complex and costly registration process
- Closely regulated
- Greater requirement for documentation and record-keeping