

# **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. The key thing to keep in mind about partners is 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.

It is possible to take on "silent partners" by registering as a "Limited Partnership". The silent partners formally give up the right to become actively involved in the company, and are not held liable for the actions of the company beyond the amount of money invested.

## **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 close enough to cause confusion. The name must also include the words "Limited", "Incorporated", or "Corporation" or a short form of one of those. Incorporation allows the business to raise funds by selling a portion of the ownership (shares). Shareholders do not have direct input into the running of the company. Directors, who are elected by the shareholders, represent shareholder interests.

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	ADVANTAGES	DISADVANTAGES
<b>Sole Proprietorship</b>	<ul style="list-style-type: none"> <li>Low start-up costs</li> <li>Fewest regulations</li> <li>Owner has direct control</li> <li>Possible tax advantages</li> </ul>	<ul style="list-style-type: none"> <li>Unlimited liability</li> <li>Difficult to raise capital</li> <li>Lack of continuity</li> </ul>
<b>Partnership</b>	<ul style="list-style-type: none"> <li>Low start-up costs</li> <li>Easy to form</li> <li>Broader management base</li> <li>Possible tax advantages</li> <li>Limited outside regulations</li> <li>Broader asset base</li> </ul>	<ul style="list-style-type: none"> <li>Unlimited liability</li> <li>Difficult to raise further capital</li> <li>Divided authority</li> <li>Suitability of partners</li> </ul>
<b>Corporation</b>	<ul style="list-style-type: none"> <li>Limited liability</li> <li>Continuous existence</li> <li>Ownership transferable</li> <li>Easier to raise capital</li> <li>Specialized management</li> <li>Possible tax advantages</li> </ul>	<ul style="list-style-type: none"> <li>Highest start-up costs</li> <li>Closely regulated</li> <li>Charter restrictions</li> <li>Extensive records required</li> </ul>