How to Choose the Right Business Structure

SOLE PROPRIETORSHIP, PARTNERSHIP & CORPORATION?

Before registering your business, you should consider the different options available to you. From a legal point of view, there are three common types of businesses: Sole Proprietorship, Partnership, and Corporation. Each structure has different and important implications for liability, taxation, and succession. What are the advantages for your business of incorporating a company versus registering a partnership or a sole proprietorship? We suggest you contact a lawyer or accountant if you are not sure which type of business structure will meet your needs.

Please note that sole proprietorship and partnership names have no statutory name protection. If name protection is important to you, you may wish to incorporate your business or to register for a trademark at cipo.gc.ca.

ADVANTAGES & DISADVANTAGES OF SOLE PROPRIETORSHIP

Starting a sole proprietorship is the simplest way to set up a business. The sole proprietor is said to be self-employed. As a sole proprietor you would be fully responsible for all debts and obligations related to your business. A creditor with a claim against a sole proprietor would normally have a right against the sole proprietor's assets, whether business or personal. This is known as unlimited liability.

In a sole proprietorship, you would perform all the functions required for the successful operation of the business. These include:

- Securing the capital
- Establishing and operating the business
- Assuming all risks
- Accepting all profits and losses

ADVANTAGES	DISADVANTAGES
• Low start-up costs • Greatest freedom from regulation • Owner in direct control of decision making • Minimal working capital required • Tax advantages to owner • All profits to owner	• Unlimited liability • Lack of continuity in business organization in absence of owner • Difficulty in raising capital • No name protection

ADVANTAGES & DISADVANTAGES OF GENERAL PARTNERSHIP

A partnership is an agreement in which you and one or more people combine resources in a business with a view to making a profit. In a General Partnership, you and one or more other owners would share the management of a business, and each partner would be personally liable for all debts and obligations incurred. This means that each partner is responsible for, and must assume, the consequences of the actions of the other partner(s).

In order to establish the terms of the Partnership and to protect yourself in the event of a disagreement or dissolution of a Partnership, a partnership agreement should be drawn up.

ADVANTAGES OF PARTNERSHIP	DISADVANTAGES OF PARTNERSHIP
• Ease of formation • Low start-up costs • Additional sources of investment capital • Possible tax advantages • Limited regulation • Broader management base	• Unlimited liability • Divided authority • Difficulty in raising additional capital • Hard to find suitable partners • Possible development of conflict between partners • Partners can legally bind each other without prior approval • Lack of continuity • No name protection

ADVANTAGES & DISADVANTAGES OF INCORPORATION

A corporation, also known as a limited company, is a legal entity that is separate and distinct from its members (shareholders). Companies are incorporated in BC according to the provisions of the Business Corporations Act.

When a company is incorporated, it acquires all of the powers of an individual, an independent existence – separate and distinct from its shareholders, and an unlimited life expectancy. In other words, the act of Incorporation gives life to a legal entity known as the corporation, commonly referred to as a company. A company can acquire assets, go into debt, enter into contracts, sue or be sued. Ownership interests in a corporation are usually easily changed. Shares may be transferred without affecting the corporation’s existence or continued operation.

The following characteristics distinguish a corporation from a partnership or sole proprietorship:

- **Limited Liability:** normally no member can be held personally liable for the debts, obligations or acts of the corporation beyond the amount of share capital the members has subscribed. Each shareholder has limited liability. A creditor with a claim against the assets of the company would normally have no rights against its shareholders, although in certain circumstances shareholders may be held liable. We recommend that you seek professional legal advice.
- **Perpetual Succession:** because the corporation is a separate legal entity, its existence does not depend on the continued membership of any of its members.

ADVANTAGES OF INCORPORATION	DISADVANTAGES OF INCORPORATION
• Limited liability • Possible tax advantage (if you qualify for a small business tax rate) • Specialized management • Ownership is transferable • Continuous existence • Separate legal entity • Easier to raise capital • Name protection	• Closely regulated • Most expensive form of business to organize • Charter restrictions • Extensive record keeping necessary • Possible double taxation of profits • Shareholders (directors) may be held legally responsible in certain circumstances • Personal guarantees undermine limited liability advantages

INCORPORATING A COMPANY IN BRITISH COLUMBIA

Incorporation can be a very involved process and it is recommended that you seek the advice and services of a lawyer and/or an accountant.

Companies are incorporated in British Columbia according to the provisions of the Business Corporations Act. By filing in the necessary paperwork and paying the prescribed fees, one or more individuals can form an incorporated company.

The following Acts provide for an incorporation and formation structure for people going into business. They do not enable entry into the marketplace or provide licensing.

- **Business Corporations Act:** This Act stipulates the rights of shareholders, directors and the rights of other parties.
- **Cooperative Association Act:** This act provides for the incorporation of associations for the purpose of carrying on business on a cooperative basis. Unlike the Business Corporations Act, each member of a cooperative association has one vote, regardless of the number of shares held by each member.

FEDERAL INCORPORATION

You have the option to incorporate at a provincial level or at a federal level. If the company intends to carry on its activities solely in one province, provincial incorporations may be preferable. If the company wishes to expand its activities outside of its provincial jurisdiction at a later date, it must obtain an extra-provincial license from every other province in which it wishes to open an office or obtain a physical presence.

You should consider federal incorporation if you want to carry on business in more than one province or outside the country. The heightened name protection to federal corporations is also a reason for choosing incorporation under the Canada Business Corporation Act. This is seen as an important element of the right to carry on business throughout Canada. Once federally incorporated, the corporate name has a protected status second only to Trade Mark protection.

COMMUNITY FUTURES CAN HELP YOU START, GROW AND MANAGE YOUR BUSINESS.

How Community Futures Sun Country can help you:

- **Business Loan Options**: Comprehensive assistance with obtaining loans for starting, expanding, or purchasing a business. This includes guidance through the entire lending process, from identifying suitable financing options to preparing loan applications and supporting documentation
- **Advisory Services**: FREE professional guidance on various aspects of business such as financial projections, marketing plans, and business plans. We offer no-cost, expert advising to help entrepreneurs and small business owners navigate critical components of building and growing a successful business. Our experienced business consultants provide personalized support in key areas, including
- **Workshops & Seminars:** We provide entrepreneurs and small business owners with opportunities to build critical skills and stay current with the latest trends through a variety of workshops, training sessions, and events. These offerings are designed to support both new and experienced business owners in developing the knowledge and tools needed to grow and manage a successful business.
- **Business Succession Planning:** We offer personalized support to business owners who are planning to retire, ensuring a smooth and strategic transition that protects their legacy and secures their financial future. Whether you're just beginning to consider retirement or actively preparing to exit your business, our expert advisors can help.
- **Business Recovery & Resiliency Coaching:** We provide dedicated assistance to businesses affected by natural disasters, economic disruptions, or other unforeseen emergencies. Our goal is to help business owners respond, recover, and rebuild with resilience—ensuring continuity, minimizing losses, and positioning for long-term success.
- **Partnership Support:** We support entrepreneurs and business owners in building strategic relationships that drive growth, innovation, and long-term success. Whether you're seeking a co-founder, investor, supplier, service provider, or collaborative partner, we provide the resources and guidance to help you connect with the right people and organizations.

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