

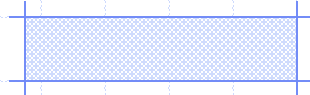
Business Organizations



MECH 8260 & ELEX 7880

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Based on slides and material by Alan Inglis and John
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Introduction and Overview

“Business” has no legal definition

Three basic types of business organization:

1. Individual
2. Partnership
3. Corporation

- Look at these in overview first.

No business or organization optimizes all objectives

1. Individual

Two types of Individual Businesses

- a. Sole Proprietor
- b. Incorporated

1.a. Sole Proprietorship

- Individual Owner
- The person and the business are one entity
- Unlimited personal liability
- All profit is income (taxed at the personal tax rate)

1.b. Incorporated

GENERAL & COSMETIC DENTISTRY

DR. MEREDITH MOORES INC.

- Corporation is an separate entity with one or more shareholders
- Income taxed at corporate tax rate
- Shareholders may draw salary and/or dividends (pay personal income tax on that)
- Remaining income stays in company (for investment and future withdrawal)

2. Partnership

- Two or more persons are owners
- No separate legal entity
- Unlimited joint and several liability
- Partnership can be created between individuals and corporations!
- All profit is income, taxed accordingly.
 - if a person = personal rate,
 - if a corporation, at the corporate rate

2. Partnership



3. Corporation

- Any number of shareholders (1...1000's)
- Limited owner liability
- Corporation is a separate legal entity
- Most popular form of business structure in Canada.
- Two levels of tax.

Some Basic Definitions

Business:

- no legal definition,
- Generally viewed as an enterprise organized for profit through trade or service

Individual:

- people or persons
- includes corporations, societies, banks, governments and individuals.
- each is a separate legal entity.

Some Basic Definitions

Liability:

- The extent that assets are available to satisfy creditors.
- Two basic forms:
 - Limited Liability: limited only to business assets.
 - Unlimited Liability: personal assets are also available.

Re-Examine in Greater Depth

Re-examine each of these business models in greater depth/detail.

1.a. Sole Proprietorship: Description

- An individual who carries on a business alone rather than in combination with others or through a corporation
- Simplest and most basic form of business model
- No distinction between the individual and the business

1.a. Sole Proprietorship: Advantages

- Inexpensive to set up
- Profit and losses directly attributed to the proprietor
- Proprietor has sole decision making authority
- Minimal regulation

1.a. Sole Proprietorship: Disadvantages

- Unlimited personal liability
- Profit is taxed as personal income (at personal tax rate)
- More difficult to transfer ownership of the business
- Difficult to raise capital

1.a. Sole Proprietorship: Requirements

- Business name
- GST registration
- Business checking account
- Liability Insurance*
- Example business registration company to help with setting up a business:
 - http://www.bdc-canada.com/BDC/Corporate/Business_Registration_BC.htm

* This topic is treated separately later in the course.

1.a. Sole Proprietorship:



The screenshot shows the Business Development Centre website. The header features the logo and the tagline "Your personal team of advisors for every business situation!". A navigation bar includes links for Home, Incorporation, Business Registration, NUANS Search, Trademarks, and Business Services. Below the navigation bar, there are buttons for "live support online", "Non-Residents now Register a Company in Canada", "Order", "Log-In", and "Contact". The main heading is "Business Registration Services in British Columbia". The text states: "Business Development Centre provides complete registration services for Sole Proprietorships and Partnerships in BC. If you are looking to incorporate a company [follow this link](#)." Below this, a section titled "In order to operate a business in BC you may need the following:" lists seven steps: 1. Check availability of the proposed business name. 2. Request a formal approval of the name. (Approval has to be granted by BC government) 3. Register the business name. 4. Apply for HST number (former GST number) 5. Apply for Payroll Account (if you are planning to have employees) 6. Apply for Import/Export Account (if you are planning to trade with other countries) 7. Apply for WCB Account. This is mandatory if you are going to have employees. To the right of the list, there is a "LIVE SUPPORT" button with a woman's image and a yellow box asking "Are you starting a new business? Need to know what steps to take? Get your own step-by-step guide here".

Business Development Centre
Your personal team of advisors for every business situation!

Home Incorporation Business Registration NUANS Search Trademarks Business Services

live support online Non-Residents now Register a Company in Canada Order Log-In Contact

Mobile version

Business Registration Services in British Columbia

Business Development Centre provides complete registration services for Sole Proprietorships and Partnerships in BC. If you are looking to incorporate a company [follow this link](#).

In order to operate a business in BC you may need the following:

- Check availability of the proposed business name
- Request a formal approval of the name.
(Approval has to be granted by BC government)
- Register the business name
- Apply for HST number (former GST number)
- Apply for Payroll Account (if you are planning to have employees)
- Apply for Import/Export Account (if you are planning to trade with other countries)
- Apply for WCB Account. This is mandatory if you are going to have employees.

ONLINE
Click for
LIVE SUPPORT

Are you starting a new business?
Need to know what steps to take?
Get your own step-by-step guide here

1.b. Individual Incorporation: Advantages/Benefits

- Company becomes a separate legal entity
- Limited (personal) financial liability
- Two levels of tax
- Deferred income
- Continuous existence

1.b. Individual Incorporation

Two levels of tax/Deferred income

- Useful when income exceeds personal needs
- Shareholder draws salary or dividend and pays personal income tax on it
- Balance of profit stays in corporation and taxed at 23%
- Or profit reduced by investment in capital equipment
- Or profit reduced by interesting investments (rental property, vintage cars, fine wine)
- Additional dividends can be arranged (to cover children education costs etc.)
- Money withdrawn after retirement

1.b. Individual Incorporation

Incorporating

- Determine what type and scope of business: (eg. provincial, national, international – different rules for each).
- File (individually or via Lawyer)
 - Articles of Incorporation
 - "Initial Registered Office Address and First Board of Directors" form
 - Enclose filing fee (Federal \$200 online, \$250 by mail, fax or in person)

1.b. Individual Incorporation

Incorporating



The screenshot shows the Business Development Centre website. The header includes navigation links: About Us, Log-In, FAQ, and Resources. The main banner features the Business Development Centre logo and the tagline "Your personal team of advisors for every business situation!" with a photo of three advisors. Below the banner is a red navigation bar with links: Home, Incorporation, Business Registration, NUANS Search, Trademarks, and Business Services. A secondary navigation bar includes "Non-Residents now Register a Company in Canada", "Order", "Log-In", and "Contact". The main content area is titled "Business Incorporation Services in Canada" and includes a "Mobile version" link. The text states: "Business Development Centre provides complete business incorporation services for **Federal (Canada)**, **Alberta**, **British Columbia**, **Ontario** and **Saskatchewan** corporations." It also provides a link for sole-proprietorship or partnership registration. A section for "Alberta" lists advantages: lowest business taxes, low corporate income tax rates, no capital tax, no general sales tax, no payroll tax, and the lowest gasoline tax. A section for "British Columbia" lists the advantage of non-resident directors. A section for "Federal (Canada)" lists the advantage of increased name protection. On the right side, there is a "LIVE SUPPORT" button and a yellow box asking "Are you starting a new business? Need to know what steps to take? Get your own step-by-step guide here."

Business Development Centre
Your personal team of advisors for every business situation!

Home | Incorporation | Business Registration | NUANS Search | Trademarks | Business Services

live support
Non-Residents now Register a Company in Canada | Order | Log-In | Contact

Business Incorporation Services in Canada

Business Development Centre provides complete business incorporation services for **Federal (Canada)**, **Alberta**, **British Columbia**, **Ontario** and **Saskatchewan** corporations.

If you are looking to register a sole-proprietorship or a partnership, please follow this link.

For specific information related to your location, please select one of the following jurisdictions.

- [Alberta](#)

The main advantage of registering in Alberta is that Alberta businesses enjoy among the lowest business taxes in Canada. Alberta's business tax advantage results from low corporate income tax rates, no capital tax, no general sales tax, no payroll tax, and the lowest gasoline tax among the provinces.
- [British Columbia](#)

The main advantage of registering a BC Corporation is that BC Business Corporation Act allows for non-resident directors. This allows a non-resident to establish presence in Canada.
- [Federal \(Canada\)](#)

The main advantage of registering a Federal Corporation is increased name protection and ability to operate in multiple

ONLINE
Click for
LIVE SUPPORT

Are you starting a new business?
Need to know what steps to take?
Get your own step-by-step guide here

1.b. Individual Incorporation

Incorporating

- Sample Article of Incorporation
 - <http://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs04851.html>
 - Who can form a corporation?
 - One or more individuals 18 years of age of sound mind and not in a state of bankruptcy
- A lawyer may provide valuable advice, but is not a requirement for incorporation.
- How long? Same day or next day.

1.b. Individual Incorporation

Incorporating

The screenshot shows the Industry Canada website. At the top, there is a navigation bar with the Government of Canada logo and links to Canada.ca, Services, Departments, and Français. Below this is a blue banner with the Industry Canada logo and a search bar. A breadcrumb trail indicates the path: Home > Corporations > Corporations Canada > Business Corporations > Fees and Service Standards. The main heading is 'Corporations Canada'. On the left, a sidebar lists various topics, with 'Fees and Service Standards' highlighted. The main content area is titled 'Fees and Service Standards - CBCA' and includes a 'Note' section with three points. Below the note is a table titled 'Fees and Service Standards'.

Government of Canada / Gouvernement du Canada

Canada.ca | Services | Departments | Français

Industry Canada

Search Industry Canada

All topics ▾ Just for businesses ▾ Just for consumers ▾ Forms, reports, guides ... ▾

Home > Corporations > Corporations Canada > Business Corporations > Fees and Service Standards

Corporations Canada

- Business Corporations
 - Forms
 - Fees and Service Standards**
- Not-for-profit Corporations
- Cooperatives
- Boards of Trade
- Name a Corporation
- Search for a Federal Corporation
- Online Filing Centre
- Railway Documents
- About Us
- Monthly Transactions

Fees and Service Standards - CBCA

Note:

1. Same Day/Next Day Service means that, when an application is received before 1:00 pm on a business day, the related certificate will be issued the same day. If an application is received after 1:00 pm, the related certificate will be issued the next business day.
2. By Paper means that the document was received by mail, fax or email attachment (i.e., not through the Online Filing Centre).
3. Information on [how to file a CBCA application](#) with Corporations Canada.

Fee Services		Fees	Service Standards (business days)	
			Online Filing Centre	By Paper
Annual return	Filed online	\$20	Filed on submission	N/A
	Filed by paper	\$40	N/A	5
Incorporation	Filed online	\$200	Same Day/Next Day	N/A

1.b. Individual Incorporation

Incorporating

Fees and Service Standards

Fee Services		Fees	Service Standards (business days)	
			Online Filing Centre	By Paper
Annual return	Filed online	\$20	Filed on submission	N/A
	Filed by paper	\$40	N/A	5
Incorporation	Filed online	\$200	Same Day/Next Day Service	N/A
	Filed by paper	\$250	N/A	5
Certificate of compliance or certificate of existence		\$10	1	1
Amendment of articles		\$200	Same Day/Next Day Service	5
Revival of a dissolved corporation		\$200	N/A	5
Continuance (import) into the CBCA		\$200	Same Day/Next Day Service	5
Letter of satisfaction for continuance to another jurisdiction (export)		\$200	N/A	5
Restated articles when not submitted with articles of amendment		\$50	N/A	5
Amalgamation		\$200	1	5
Arrangement		\$200	N/A	5
Revocation of the intent to dissolve		\$50	Auto-returned	5
Correction (no fee when the error was made solely by Corporations Canada)		\$200	N/A	20
Exemption		\$250	N/A	30
Copies of documents (active corporations)		\$1 per page	N/A	1
Copies of documents (inactive corporations)		\$1 per page	N/A	6
Certified copies of documents (active corporations)		\$35	N/A	1
Certified copies of documents (inactive corporations)		\$35	N/A	6

2. Partnership: Description

- One step up (from sole proprietorship) in size and complexity
- Legally “the relationship between two or more persons carrying on business in common with a view to a profit”
- Not a separate legal entity
- All partners share:
 - in losses and revenues on equal basis unless agreed otherwise
 - Joint and several liability

2. Partnership: Description (cont'd)

- May enter contracts, sue, or be sued under the firm/business name
- Duty to render accounts
- Full disclosure of partnership information
- Duty of partner to not compete with partnership
- Each partner must account for any benefits received without consent of the other partners

2. Partnership: Formation

- Relatively simple and inexpensive to set up
- Similar to Sole Proprietorship.
- Formed by agreement or conduct (action).
- May be a partnership whether you intend to or not (eg. Common-law relationship).
- Free to structure partnership as partners see fit
- Share of contributions in and profits out
- Management: decision making, disputes settled

2. Partnership: Agreement – Items to Consider

- Location
- Date of commencement
- Partner contribution
- Division of responsibilities
- Division of ownership
- Voting strength
- Voting - majority
- Partner salaries
- Record keeping
- Dissolution plan
- Plan for incapacitated partner (option to purchase, spouse continue as a partner, close business)

2. Partnership: Advantages

- Broader skill base
- Deeper resources (eg. \$\$)
- More contacts
- Share the risks associated with the business
- Share the responsibilities of management

2. Partnerships: Disadvantages

- No limit to liability
 - Liability to third parties, such as creditors, same as a sole proprietor
 - Each partner fully liable for the acts of their partners (jointly and severally liable)
- Inability to transfer ownership
- Difficult to raise capital
- Profit of partnership taxed as personal income.

2.a. Limited Partnerships:

- Consists of one or more general partners (GPs) and one or more limited partners (LPs)
- GPs are in the same legal position as partners in a conventional partnership
 - management control
 - share profits of the firm in predefined proportions
 - joint and several liability for the debts of the partnership.

2.a. Limited Partnerships:

- LPs have limited liability - only liable on debts incurred by the firm to the extent of their registered investment and have no management authority
- GPs pay the LPs a return on their investment (similar to a dividend)
- Only GPs are authorized to transact business

2.a. Limited Partnerships:

- LPs should ensure their name is not used in the partnership name
- LPs involved in the control of the business may find themselves elevated to general partners

2.b. Limited Liability Partnerships

- Partnership where some or all partners have limited liability
- Exhibits elements of partnerships and corporations
- One partner is not responsible or liable for another partner's misconduct or negligence
- In some countries, an LLP must also have at least one GP with unlimited liability.

3. Corporations:

Description

- Legal entity of “person” separate and apart from shareholders
- Shareholders own the corporation through shares and appoint directors
- Income and losses are separated from the owners (shareholders)
- Directors oversee management of the corporation
- Directors appoint the company officers
- Officers manage the day to day operation of the corporation

3. Corporations: Formation

- Created by fulfilling the formal requirements of either a federal or provincial statute (recall need to determine scope and location of business)
- Foreign corporations can be recognized under federal and provincial statutes
- Cost - filings and incorporation
- Residency – where are the directors

3. Corporations:

Formation - Jurisdiction

- Federal corporations can carry out business throughout Canada
- Provincial corporations can only carry on business as a right in own province
- Foreign corporations carrying on business in the province must register

3. Corporations:

Formation - Requirements

- Name requirements
- Name reservation
- File incorporation documents
- Have registered and record offices
- Issue shares
- Appoint directors

3. Corporations:

Advantages

- Shareholders (owners) have limited personal liability
- Liability limited to the value of shares purchased in the corporation
- Corporation is immortal
- Ability to raise capital
- Taxed independently of shareholders
- Potential tax benefits

3. Corporations:

Disadvantages

- Limits on transferring money (profits) to share holders
- Two levels of tax
- Overhead cost of incorporation (cost of filing, shareholder meetings, preparation of financial records, appointment of auditor, keeping minutes, etc.)
- Filing requirements

3. Corporations:

Corporate Governance

- Shareholders participate in management through election of directors
- Directors are responsible for the management of the corporation
- Directors have exclusive power to manage the corporation – subject to any shareholder agreements

3. Corporations:

Criteria for Directors

- Must be at least one director
- Federal corporations must have 25% of directors resident in Canada
- Directors must:
 - have no criminal record
 - not be bankrupt.
 - be 18 or over

3. Corporations:

Director's Duties

- Directors have a duty to act:
 - With honesty
 - in good faith and the best interest of the corporation (i.e. avoid conflicts of interest, employ full disclosure)
 - with care, diligence and skill of a reasonably prudent person

3. Corporations:

Directors' duties to whom?

- Directors have a responsibility to:
 - At common law, has only a duty to the corporation
 - Employees
 - Creditors (including shareholder).

3. Corporations:

Shareholder Agreements

Specify shareholders rights, such as:

- Restriction on share transfer
- Rights to appoint directors
- Control sale of shares (on death)
- Allotment of shares
- Voting rights for selecting directors
- Who can be a shareholder

Other forms of Organization

- Joint ventures – essentially partnerships
- Trusts
- LLC – simplicity to set up, fewer formal requirements than a corporation, finite life, limited personal liability.

Raising Money

- Angel Investors:
 - Typically for a very early start-up and just to get it off the ground or to the next level of fund raising. (eg. Shark's Den TV show).
 - Typically a very high level of risk and a corresponding high level of potential return.

Raising Money

- Private Placement:
 - Friends and family who have relatively deep pockets and who want to help out.
 - Typically informal but it can lead to formal arrangements.
 - Absence of formal arrangements can lead to problems if the venture is successful or if it fails.

Raising Money

- Private Limited Company:
 - Typically a small to medium sized company where there are a limited number of partners or shareholders.
 - Any financial arrangements need to have formalized agreements in place to avoid potential for serious legal difficulties.
 - Typically at a high rate of return, but may be at a lower rate of return (sweetheart deal) for some other negotiated reason.

Raising Money

- Public Company:
 - For example a Bank or other lending institution.
 - Typically they will want a “guarantor” or some collateral to back up the loan (i.e. that they can seize and cash-in to recoup their losses if the venture is not successful).
 - May want to have shares in the company in exchange for the loan.

Setting up your own business



MECH 8260 & ELEX 7880

Bob Gill, P.Eng.

Based on slides and material by Alan Inglis and John Jenness P.Eng.



1. Business Name

- Use your own name.


OR

- Register with the Corporate Registry:
 - within three months of your start date.
 - Registry carries out a name search.
 - Registry approves the business name.
 - Approval of any name is at the discretion of the Registrar of Companies.
- Beware of “Restricted” words.

2. GST Registration


- Need a GST if Annual taxable sales are more than about \$30,000.
- Federal Business number (BN) is issued by the Canada Revenue Agency.
- <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rgstrng/menu-eng.html>
- On-line or at a CRA office Registration form
- Used to operate corporate income tax, import/export accounts, payroll deductions and GST/HST

2. GST Registration

 Government of Canada / Gouvernement du Canada

Canada.ca | Services | Departments | Français

Canada Revenue Agency



Canada

Search

Individuals and families | **Businesses** | Charities and giving | Representatives

[Home](#) → [Businesses](#) → [GST/HST](#) → Register for a GST/HST account

Resources

Online services

Forms and publications

A to Z index

Enquiries

Register for a GST/HST account

The following explains who needs to register and what you need to do to register:

- [Do you have to register?](#)
- [How do you register?](#)
- [What is your effective date of registration?](#)
- [What do you have to do once you are registered?](#)

Do you have to register?


You have to register for a GST/HST account if:

- you provide taxable property and services in Canada in the course of your commercial activity; and
- you no longer qualify as a [small supplier](#).

You also have to register for a GST/HST account if you

Video series: GST/HST Information for a New Small Business

Segment 3: Who needs a GST/HST account?



[Play in larger display \(12:11 min.\)](#)

[Alternative formats and transcript](#)

All comments for this series

2. GST Registration

- The BN consists of the Business number and the account identifier - 15 characters:
 - nine digits to identify the business
 - two letters and four digits to identify each account a business may have
 - Business Number 123456789
 - GST/HST account 123456789 **RT** 0001
- BN should appear on your invoices:

GST-# → 895220101 RT0001F

e-mail: Alan.Inglis@telus.net

Thank-you!

3. Bank Account

- Separate from personal accounts
- Higher bank charges!
- Banks may provide overdraft/line of credit facilities

4. Liability Insurance

- Important topic that is subject of a separate session

5. Exit Strategy

- Are you building a business to sell?

OR

- Does the business exists to facilitate you to carry out your professional work?
- Your end plan can help you decide what type of organization you need to set up.

6. Consultancy

- Very much built on your personality
- Hard to share (into a partnership)
- Can be bought into a partnership.
- Little asset value (your personality?)
- Most likely to be wound up at retirement

7. Incorporated Entity: Corporation

- Has assets and residual value (Shares)
- Initial share issue raised capital
- Which was used to invest
 - In production facilities
 - Computers
 - Land
 - Buildings
 - Inventory
 - Intellectual property

7. Incorporated Entity: Corporation

- Share holders (you and your wife) can be bought out at an agreed valuation
- Corporation continues to exist after your retirement (death).