

Canada Business Network

Government Services for Entrepreneurs
<http://www.canadabusiness.ca/eng/page/2853/>

Corporation, partnership, or sole proprietorship?

Now that you have decided to start your own business, you will have to determine what business structure or form of organization suits your needs. The structure of your business will depend on whether you want to run your business yourself or with a partner or associates. There are four types of business structures: sole proprietorships, partnerships, corporations and cooperatives.

1. Sole proprietorship
2. Partnerships
3. Corporations
4. Cooperatives

1. Sole proprietorship

With this type of business organization, you would be fully responsible for all debts and obligations related to your business and all profits would be yours alone to keep. As a sole owner of the business, a creditor can make a claim against your personal or business assets to pay off any debt.

Advantages:

- Easy and inexpensive to form a sole proprietorship (you will only need to register your business name provincially, except in Newfoundland and Labrador)
- Relatively low cost to start your business
- Lowest amount of regulatory burden
- Direct control of decision making
- Minimal working capital required to start-up
- Tax advantages if your business is not doing well, for example, deducting your losses from your personal income, lower tax bracket when profits are low, and so on
- All profits will go to you directly

Disadvantages:

- Unlimited liability (if you have business debts, personal assets would be used to pay off the debt)
- Income would be taxable at your personal rate and, if your business is profitable, this may put you in a higher tax bracket
- Lack of continuity for your business, if you need to be absent
- Difficulty raising capital on your own

2. Partnerships

A partnership is a good business structure if you want to carry on a business with a partner and you do not wish to incorporate your business. With a partnership, you would combine your financial resources with your partner into the business. You can establish the terms of your business with your partner and protect yourself in case of a disagreement or dissolution by drawing up a specific business agreement. As a partner, you would share in the profits of your business according to the terms of your agreement.

You may also be interested in a limited liability partnership in the business. This means that you would not take part in the control or management of the business, but would be liable for debts to a specified extent only.

When establishing a partnership, you should have a partnership agreement drawn up with the assistance of a lawyer, to ensure that:

- You are protecting your interests
- That you have clearly established the terms of the partnership with regards to issues like profit sharing, dissolving the partnership, and more
- That you meet the legal requirements for a limited partnership (if applicable)

Advantages:

- Easy to start-up a partnership
- Start-up costs would be shared equally with you and your partner
- Equal share in the management, profits and assets
- Tax advantage, if income from the partnership is low or loses money (you and your partner include your share of the partnership in your individual tax return)

Disadvantages:

- Similar to sole proprietorship, as there is no legal difference between you and your business
- Unlimited liability (if you have business debts, personal assets would be used to pay off the debt)
- Hard to find a suitable partner
- Possible development of conflict between you and your partner
- You are held financially responsible for business decisions made by your partner (for example, contracts that are broken)

3. Corporations

Another type of business structure is incorporation. This can be done at the federal or provincial level. When you incorporate your business, it is considered to be a legal entity that is separate from the owners and shareholders. As a shareholder of a corporation, you will not be personally liable for the debts, obligations or acts of the corporation. When making such decisions, it is always wise to seek legal advice before incorporating.

Advantages:

- Limited liability
- Ownership is transferable
- Continuous existence
- Separate legal entity
- Easier to raise capital
- Possible tax advantage as taxes may be lower for an incorporated business

Disadvantages:

- A corporation is closely regulated
- More expensive to incorporate than a partnership or sole proprietorship
- Extensive corporate records required, including shareholder and director meetings, and documentation filed annually with the government
- Possible conflict between shareholders and directors
- Possible problem with residency of directors

More information:

To learn more about incorporation, please consult the following information:

- [Guide to Federal Incorporation](#)

Step by step guidelines to help you incorporate your business and set up an appropriate structure.

Provincial or territorial incorporation

Alberta

Corporate Registry

SERVICE ALBERTA, GOVERNMENT OF ALBERTA

APPLIES TO: Alberta

To register your business name in Alberta, contact one of the Alberta Registry Agents. You will need to register:

- Cooperatives
- Corporations
- Extra-provincial registrations
- Non-profit companies
- Societies
- Trade names and partnerships
- [Learn more](#)
- [Find contacts](#)
- [Access application form\(s\)](#)
- To conduct business in Alberta, register your cooperative, corporation, extra-provincial company, non-profit company, society, trade name and/or partnership.

4. Cooperatives

The last business structure you could create is a cooperative. With a cooperative, you would have a business that would be owned by an association of members. This is the least common form of business, but can be appropriate in situations where a group of persons or businesses decide to pool their resources to provide access to common needs, such as the delivery of products or services, the sale of products or services, employment, and more.

Advantages:

- Owned and controlled by members
- Democratic control (one member, one vote)
- Limited liability
- Profit distribution

Disadvantages:

- Possible conflict between members
- Longer decision-making process
- Participation of members needed for success
- Extensive record keeping
- Less incentive to invest additional capital

More information

To learn more about cooperatives, please consult the following information:

- [Create/Maintain a Cooperative](#)

APPLIES TO: ALL OF CANADA

Find out what a cooperative is and how to create and maintain one.