

## TYPES OF BUSINESS OWNERSHIP

### Sole Proprietorship

A sole proprietorship is an unincorporated business that is owned by one person. It is the simplest kind of business structure. The owner has sole responsibility for making decisions, receiving profits, claiming all losses, and does not have a separate legal status from the business.

#### **Advantages:**

- Easy and inexpensive to form. Registration fee of \$60 through an Ontario Business Connects workstation<sup>i</sup> or \$80.00 through the mail.
- Taxes are paid through regular income tax. Since personal tax rates are lower than for corporations considerable savings can be made (especially when the business is just beginning and profits are low).
- Business losses can be offset against the owner's other income, thereby reducing the owner's overall personal marginal tax rate.
- A sole proprietor has complete control over all aspects of the business. There are no other owners to consult or argue with.
- All profits go to the owner.
- It is always possible to incorporate later as the business grows.

#### **Disadvantages:**

- The owner is personally liable for all debts or obligations of the business as well as any negligence.
- It can be much more difficult to raise capital since only the owner's financial resources can be used as security.
- The business does not exist without the owner, meaning your personal time and input may be much higher.
- The life of the proprietorship is limited to the life of the proprietor.
- The business's resources are limited to the skills of the owner and the employees he/she can afford to hire. This may limit growth as there is only so much one person can do.

### Partnership

A partnership is an unincorporated business association between two or more individuals who join together to carry on a business. Each partner contributes money, labour, property or skills to the partnership. In return each partner is entitled to a share of the profits or losses in the business. This share is determined through a partnership agreement.

#### **Advantages**

- Financial resources and talent are pooled from all the members of the partnership.
- Simple and inexpensive to form. Registration fee of \$60 through an Ontario Business Connects workstation<sup>ii</sup> or \$80.00 through the mail.
- It is often easier for a partnership to obtain capital than for a sole proprietorship because the financial resources of all the partners can be used as security.
- As with a sole proprietorship, taxes are paid through each partner's personal income tax so the same savings are possible.
- All profits are divided among the owners as per the partnership agreement.
- It is always possible to incorporate later as the business grows

## **Disadvantages**

- All partners are personally liable for all the debts and obligations of their business and for any negligence on the part of any of them. Partners are liable both as a group and individually.
- There could be conflict between the partners that might hurt the business.
- Changing ownership in a partnership is generally difficult; as a new partnership agreement must be drawn up each time there is a change.
- Personal and professional relationships can become mixed creating the potential for conflict at the office to spread to the home and vice versa.

## **Corporation**

A corporation is a separate legal entity. It can enter into contracts and own property in its own name, separately from its owners. It is created by filling out an Article of Incorporation and filing it with the correct authorities. Owners are called shareholders and elect directors who are responsible for managing the business affairs of the corporation. Profit is distributed based on share ownership through dividends, which are issued at the discretion of the board of directors.

### **Advantages:**

- Shareholders are not personally liable for any of the debts or obligations of the business.
- More financial options are available to raise money including selling stock.
- Since a corporation is a separate legal entity, it is not tied to the owner. Therefore if an owner leaves or dies, the corporation can easily carry on.
- Treated as a separate tax entity, which means that a corporation's income does not appear on your own income tax. (Depending on your situation this may be considered a disadvantage).
- There is no limit to the growth potential of a corporation and since it is less tied to the owners themselves, growth is much easier.
- Ownership is much more transferable.
- As long as controlling interest of 51% is maintained an owner can operate the business while minimizing their financial risk.

### **Disadvantages:**

- The costs of incorporating are much higher and complicated than in other forms of ownership. Usually a lawyer is needed as well as other professional assistance. In Ontario, it usually costs between \$500 and \$1000 in legal and other fees to set up a corporation. There is also an annual fee for maintaining the registry.
- A corporation is subject to numerous and complicated legal formalities and regulations. They must file annual reports, hold annual meetings, and file Federal and Provincial tax returns. This can be very time consuming and require costly professional assistance.
- Losses from a corporation cannot be set against personal income.
- A much more complicated structure than the other two. It requires much more time and energy to set up and understand.
- It is not possible to go back to the other forms of business ownership.

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i. Ontario Business Connects workstations in the Middlesex area are available at  
659 Exeter Rd., London (519) 873-4000 or 130 Dufferin Ave., London (519) 433-3901