



A simple guide to choosing your business structure in Canada

Here's your roadmap from great idea to starting your company:

Running your own business can be an exciting and rewarding career choice. It gives you the chance to be your own boss while building something of lasting value for yourself, your family and your community.

But starting a business is not easy. **Close to 40%** of new businesses with one-to-four employees don't make it to their fifth birthday. Beating those odds will call on you to be hard working, well-prepared and constantly creative.

It may seem scary at times, but just remember millions of Canadians have already done it and, with planning, determination and ingenuity, you can too.

This guide is here to help. It will lead you through the steps to get your company up and running. As your business takes shape, your confidence will grow and you will develop the skills to take it further.

What business are you trying to build?

Before you start spending money to set up your company, it's essential to ensure [your business idea](#) has the potential to be successful. It's a competitive world out there. Taking some time to research your idea will pay huge dividends down the road.

- ★ How will your company [stand out from the crowd](#)?
- ★ Who are your [target customers](#)?
- ★ How much money will you need and where will you get it?

Start with market research

To find a profitable niche, you should do some initial [market research](#) to identify your target customers and understand their needs and desires. You should also get familiar with the competition and pinpoint market gaps your company can fill.

Your goal is to find the right [product-market fit](#)—the sweet spot where you are attracting customers and turning them into loyal advocates for your company. Statistics Canada's [Small Business Hub](#) offers research resources to help existing and aspiring entrepreneurs plan and run their enterprises.

Think about financing and look for mentors

This is also the time to start thinking about where you're going to find the money to start and run your business. Here, there are more possibilities than ever before, but you have to make sure the one you pick fits your ambitions. There is more information on financing your company lower down in this article.

To help with these tasks and others on the road to launching your company, it's a good idea to [find a mentor](#) with deep business experience. If you are between 18 and 39, [Futurpreneur Canada](#) can assist you in finding a mentor.

Choose a business structure



The next step is to select a structure for your new company.

In Canada, there are three common types of business structures, each with their own pros and cons.

- ★ **Sole proprietorship**—A [sole proprietorship](#) is quite informal and easily created, which is why it's the most common structure chosen by new entrepreneurs. In this structure, the business and the operator are the same in the eyes of law and tax authorities. The downside is that the owner is personally liable for all functions and debts of the business.
- ★ **Partnership**— A [partnership](#) is similar to a sole proprietorship, but instead of one proprietor there are two or more. As with a sole proprietorship, there is no legal

structure, as such, for a partnership. However, partners usually have some type of contractual agreement among themselves that governs the sharing of revenues, expenses and tasks.

- ★ **Corporation**—When you **incorporate a business** you create ownership shares, which produce a taxation and legal distance between the company and its shareholders. This has tax advantages for the owners; provides some liability protection from the corporation’s debts; and offers some measure of protection for a company’s name. The downside is that setting up a corporation involves initial and ongoing costs for legal and accounting fees.

Pros and Cons of the business structures

Here’s a summary of the pros and cons of the three most common business structures.

	Sole proprietorship	Partnership	Corporation
Legal status	Does not exist as a separate legal entity. Proprietorship = ownership	Does not exist as a separate legal entity. Partnership = partners as owners	Corporation is treated as a separate legal entity from its owners. Corporation = shareholder ownership
Control	Owner has total control.	Partners’ agreement determines control between partners.	Directors and shareholders.
Profits	Profits are paid to the owner.	To partners according to a partnership agreement.	Earned by the corporation. Dividends may be paid to shareholders and/or retained in the corporation.
Debts	The owner is responsible (unlimited liability).	Partners are individually and collectively responsible.	Paid by corporation.
Taxation	The owner is taxed as an individual on the income of the business as if he or she was employed.	Partners are taxed individually according to their share of the income.	The corporation pays corporate taxes separately from taxes paid by directors and shareholders.

Assets	Business assets are wholly owned by the proprietor.	Partners jointly own business assets and/or ownership is governed by partnership agreement.	Business assets are owned by the corporation. There is no specific claim on the corporate assets by shareholders.
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How to register as a corporation

To register as a corporation, you will need to take the following steps:

- ★ Incorporate your business through [federal incorporation](#) or **provincial/territorial incorporation**.
- ★ Get a [federal business number](#) and [corporation income tax account](#) from the Canada Revenue Agency (CRA).
- ★ Register as an [extra-provincial or extra-territorial corporation](#) in all other Canadian jurisdictions where you plan to do business.

Do start-ups have to pay taxes in Canada?

If you provide taxable property and services in Canada and your total taxable revenues exceed \$30,000 in any single calendar quarter or in four consecutive calendar quarters, you will have to register for the GST/HST. More details are available on the [Canada Revenue Agency website](#)

You may also need to collect income tax for the profits you earn. You will need to complete a tax return at the end of your first year of activity to determine how much tax you owe, if at all. Income tax laws vary by province and territory and at the federal level. It is probably best to hire a professional accountant to help you complete your annual tax return.

The Canada Revenue Agency offers a [free liaison officer service](#) to owners of small businesses and self-employed individuals to help them understand their business tax obligations.