DO I REGISTER A BUSINESS OR INCORPORATE?

This sheet provides general information on registration of a business and incorporation. It is not intended to convey legal or tax advice, and you may find it useful to consult a lawyer and an accountant. The list of advantages and disadvantages may not be complete.

BUSINESS NAME

There are two types of business name registrations:

a. Sole Proprietorship
b. Partnership

Sole Proprietorship

This is a business which is owned by one person who is solely responsible for its management and capital.

Advantages

- It is easy to start up and manage.
- It is not as costly as incorporation.
- In the initial years of operation, there may be tax advantages operating as a sole proprietor until the operation becomes profitable. (Operating losses of sole proprietorships can be deducted against personal income). Once profitability is established, the operation could be converted to a corporation. Specific advice should be obtained from an accountant.

Disadvantages

- The owner is personally liable for all business debts. Creditors may be able to recover against the owner's personal assets (e.g. home, car) to satisfy business debts.
- The sole proprietorship is not taxed separately. The proprietor's business income is taxed as part of personal income.
- If the owner passes away, the business becomes part of his or her estate, and there may be immediate tax consequences.

Partnership

This is a business enterprise which exists between two or more persons carrying on business in common, intending to make a profit.

Advantages

- The partners can combine their financial resources and skills.
- Registration is not as costly as incorporation.

Disadvantages

- Each partner is liable for all the debts and obligations incurred by the other partners in the course of the partnership business.
- Each individual partner is liable both on his own, and with the other partners, for any wrongful acts or omissions by another partner in the course of the partnership business.

- The partnership is not taxed as a separate entity. Each partner's share of the business income is taxed as part of that partner's personal income.
- In the absence of a partnership agreement, when a partner leaves or dies, or when there is a dispute which cannot be resolved, the partnership must be dissolved.

CORPORATION

A corporation is a distinct legal entity, separate from its individual shareholders. The assets are owned by the corporation and the liabilities are the responsibility of the corporation, not its shareholders.

Advantages

- The main advantage is limited liability. The corporation's shareholders are liable only to the extent of their investment in the corporation's shares or any loans the shareholder may have made to the corporation. The directors of a corporation may have some additional liabilities respecting the obligations of the corporation.
- The life of a corporation is not affected by a shareholder's death.

Disadvantages

- It is more expensive to incorporate.
- It is more complex to operate. There is more of an administrative burden in that, for example, annual meetings of shareholders must be held, and annual return filings are required by the Companies Office.
- It is more expensive to operate. As one example, the corporation requires its own tax return separate and apart from its shareholders.