Choosing a Business Structure

When starting a business, one of the first decisions to make will be selecting the legal business structure. It is important to note that a business may change its legal structure as it grows.

The three most common types of legal business structures are ***Sole Proprietorship***, ***Partnership*** and ***Corporation.*** The structure you choose will depend on which one best suits your business needs and future goals as each business structure has its own set of advantages and disadvantages to consider.
It is strongly recommended that you contact a lawyer or an accountant for assistance if you are unsure.

Sole Proprietorship is the least expensive and most common for start-up businesses. As a sole proprietor, the business owner accepts all profits and losses as well as all liability. The business owner assumes all risk and is personally responsible for all debt and obligations related to the business. If a business is unable to pay its liabilities, claims can be made against any personal and business assets you own in order to reclaim any unpaid debt (***"Unlimited liability***").

Sole Proprietorship	
Advantages	Disadvantages
• Owned by one person • Low start-up costs • Profits go to the owner while losses can be deducted from personal income (tax advantage) • Business is directly controlled by owner • Simplified record keeping and tax returns • Requires minimal working capital	• Owner and business are legally one and the same • Unlimited liability - owner is liable for all debts and obligations • Accessing credit from lenders or suppliers may be difficult • No protection of business name • May be difficult to raise capital

Partnership is a similar structure to sole proprietorship. Two or more individuals may co-own a business and equally share the profits and responsibilities of management and operations. All partners are jointly held personally responsible for liabilities of the business. It is strongly recommended that a legal contractual partnership agreement be established defining the rights and obligations of everyone involved.

There are two types of partnerships:

A **General Partnership** is created when two or more co-owners equally share the profits and the responsibility of managing and operating the business. All partners assume equal liability for any debt and/or obligations incurred by the business. It is strongly recommended that you seek professional legal assistance in establishing terms of a partnership agreement.

A **Limited Partnership** is created when a partner only contributes capital to the business. Limited partners are not involved in the management or operations of the business. In order for a “Limited Partnership” to be recognized, a legal partnership declaration must be established. It is strongly recommended that you seek professional legal assistance in establishing terms of a partnership agreement.

Partnership	
Advantages	Disadvantages
• Two or more owners • Equally shared low start-up costs • Shared management responsibilities • Shared profits / losses • Additional partners can contribute more capital into the business • If low profit/loss, partners can claim on personal tax returns	• No legal difference between owners and the business • Unlimited liability - owners fully liable for all debts and obligations • Partnerships can create conflict • More complex record keeping and tax returns • A partnership agreement is essential • May be difficult to raise capital

Corporation is a more complicated process and expensive legal structure. The main advantage being that a corporation (limited company) is a legal entity separate from its shareholders and provides some limited liability protection. Unlike sole proprietorship, where the owner assumes all the liability of the business, when a business becomes incorporated, an individual shareholder’s liability is limited to the amount the owner has invested into the company. A corporation must maintain detailed financial records and remit corporate tax returns separate from its owners. Annual audits are required by qualified accountants. It is strongly recommended that you seek professional legal assistance. Companies are incorporated in BC in accordance to the Business Corporations Act.

Corporation	
Advantages	Disadvantages
• Separate legal entity • Limited personal liability • Easier to raise capital through company shares • Business name protection • Transferable ownership • Possible tax advantages	• More costly to start-up and maintain • Requires legal and accounting assistance • Requires extensive record keeping • Closely regulated by government taxation agencies • Annual renewal corporate fees • Possible conflict between shareholders/directors • Shareholders may be held legally responsible in certain circumstances

Steps to incorporate a business in BC: [Incorporating a business in BC]