Starting a Small Business
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There are four general ways in which a business may carry on: sole proprietorship, partnerships, co-ownership or joint ventures, and corporations. No one type of entity is best in every circumstance, and consideration must be given to several factors before a decision is made. This article is to discuss the advantages of incorporation of your business.

There are three main advantages that incorporation offers: Limited Liability, Structure, and Income Tax. I will discuss each of these in turn.

<u>Limited Liability</u>

A corporation is a distinct and separate entity from those directors, officers and shareholders that are active in it. As such, as a general rule it is the corporation that bears the liability, not the directors, officers, and shareholders. This is different from proprietorships and partnerships where the individuals involved generally are considered one-and-the-same as the business and as such bear personal responsibility for liability.

As corporations bear the liability, it is the corporation that creditors or litigants that go after, and it is only the assets of the corporation that are at risk for collection, seizure or garnishment. Therefore, if the business involves large accounts receivable, or possible uninsurable risks, incorporation of the business is often the recommend route for liability reasons alone.

<u>Structure</u>

The corporation is a creature of statute. As such the structure of the corporation is defined by law, and much of the organizational work has already been done. The other advantage of such a statute derived entity is that the corporation enjoys perpetual existence. As a separate entity and "person" under the law, it will continue on past the involvement of its original incorporators, directors, officers and shareholders.

The corporate structure also lends itself more easily to estate and family planning. If the business succeeds, share ownership in the corporation could be such that share value and dividends or proceeds could be split among other family members. The corporation could hire family members as employees, thereby income splitting. A well planned share structure could mean that the original business owner could maintain control of the business of the corporation but pass on equity and growth to his or her sons or daughters.

The corporation may also become a vehicle wherein individuals may invest by buying shares of the corporation without having to worry about liability. The established set of rules for investment and for governance of a corporation as established by the statutes that create them is appealing for individual investors as well as institutional investors. As a matter of fact, you may find that some institutional investors insist on incorporation of a business before financing of the business is even considered.

Income Tax

Once the business achieves a certain level of profit, such that the owner is concerned more about income tax than deductions, the advantage of incorporation is obvious. Canadian controlled private corporations enjoy –for the most part- a lesser level of taxation for its initial annual profit than individuals. Even if not eligible for this small business deduction, right now the marginal tax rates for a corporation are still less than for an individual. There are other possibilities, such as deferrals, available for corporations where there is no equivalent for proprietorships or partnerships.

This article only attempts to address the more obvious advantages of incorporation, and does not include the disadvantages of incorporation for your business. We recommend that you consult your accounting and legal advisors before making a decision of the appropriate vehicle for your business.

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