

GoForth Institute

Module 8 – Lesson 1



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Lesson Agenda

- Forms of business organization
 - Sole Proprietorship
 - Incorporation
 - Partnership
 - Cooperative
- Naming your company

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Sole Proprietorship

- One person owns his/her own firm
- Oldest, simplest, most common form of business organization
- Single ownership of all assets, earnings and profits
 - As well as all responsibility for debts, legalities and liability
- Can be risky due to unlimited liability
- No need for business registration, although a separate business bank account is a good idea

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Sole Proprietorship

- Law does not distinguish between you as sole owner and your business
- Pay personal income tax – T1 Income Tax form
 - If revenue is greater than \$30,000, register for GST/HST
 - Register online at Canada Revenue Agency

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Sole Proprietorship

- Perks
 - Affordable, low start-up costs, low working capital
 - Fewer regulations
 - Easily dissolved, sold or exited
 - You're the boss

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Sole Proprietorship

- Drawbacks
 - Exposing personal assets
 - Unlimited personal liability
 - Less favourable taxes than corporations
 - Hard to find employees due to non-tax deductible benefits
 - Raising funds is more difficult
 - Look less legitimate than a corporation

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Partnership



- Two or more people combine resources to start firm
- Law does not distinguish between business and owners
- Types of partnerships
 - General Partnership
 - All parties share in management and responsibilities
 - Each party is liable for debts, responsibilities and obligations of all partners
 - Limited Partnership
 - General partners have managerial power in business but limited partners contribute capital
 - General partner exposes personal assets and earns share through sweat equity

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Partnership



- Joint Venture
 - Similar to general partnership
 - Formed for single projects
- Partnership Agreements are essential – consider legal assistance

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Partnership



- Perks
 - Easy to start
 - Combined strengths
 - Easy to entice employees with piece of equity
 - Less regulation

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Partnership



- Drawbacks
 - Responsible for partners
 - Unlimited liability
 - Disputes between partners
 - Decision making, authority and control must be shared
 - Harder to dissolve company

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Partnership Agreement



- Important to draw boundaries
- Create clauses to anticipate challenges:
 - Includes a description of the business and owners
 - Distinguishes ownership, duty, roles, decision making
 - Deciphers profit sharing split
 - Adding / deleting parties
 - Non-compete, non-disclosure, non-solicitation clauses are vital

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Corporation



- Very complex
- Is treated under law as its own entity
 - Has its own property, assets, taxes etc.
- Lots of regulations and paperwork
 - Behaves according to law as a separate person
- Owners are shareholders
 - Liability is limited to share contribution

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Corporation



- Outside world must be aware of incorporation
 - Inc.
 - Limited
 - Ltd.
 - Corp.
 - Corporation
- Comprised of shareholders, board of directors (usually 1-9 members), management team, president, vice presidents etc.

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Types of Corporations



- Three types:
 - Private
 - One or more owners, one of which must be Canadian
 - Not publicly traded on a stock exchange
 - Public
 - Issues shares, sells securities on public stock exchange (TSX for example)
 - Heavy regulation on stock exchange
 - Federal
 - Follows Canadian Business Corporations Act
 - Must be registered in each province the you do business

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Corporation



- Perks
 - Limited liability – personal assets and business assets are distinct under the law
 - Lower marginal tax rate
 - Loss capturing advantage
 - Ownership can be transferred easily
 - No lifetime limit
 - Raising capital only requires issuing shares
 - Benefits of a specialized management team

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Corporation



- Drawbacks
 - Time consuming
 - Regulations and red tape
 - Expensive and complicated
 - Conflicts between management and shareholders

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Unanimous Shareholder Agreement



- All shareholders and corporation agree unanimously with a USA
- Important clauses to include:
 - Company structure
 - Division of shares and equity
 - Roles and responsibilities
 - Right of first refusal
 - Buy / sell provisions
 - Shotgun provision

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Unanimous Shareholder Agreement



- Organization clauses to include
 - Dispute resolution
 - Compensation issues
 - Proper valuation of business
 - Transfer restrictions
 - Dispute resolution
 - Cash calls (investments)
 - Compensation
 - Valuation of shares
 - Consider getting legal assistance to create a corporation

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Documentation



- Minute book
 - Financial statements
 - Bank resolutions
 - Materials contracts
 - Meetings and resolutions from shareholder and director meetings
 - Annual reports
 - Articles and certificate of incorporation
 - Bylaws
 - Allows business to grow
 - Unanimous shareholders agreement

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Cooperative



- Organization controlled by members that act in a democratic manner
- Satisfies a common need
- Subject to bylaws
- Federal and provincial legislation

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Cooperative



- Advantages
 - Limited liability
 - Every member has one vote
 - Owned, controlled and run by its members
 - Can offer community development
 - Long life
 - Even after original members have left

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Cooperative



- Disadvantages
 - Can take longer to come to decisions
 - Conflicts among members
 - Record keeping
 - Less incentive to invest money
 - All members must participate

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Naming Your Company



- Try to make it clever, memorable, consistent and *legal*
 - Search for unused names on the internet
- NUANS search
- Should be descriptive and distinctive
- Can be brand new or combined words
- Compound words, puns
- Acronyms
- Named after you
- Must have a qualifier at the end

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Lesson Summary



- Legal forms of organization
- Naming your company

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