



Canada-Ontario Business Service Centre

Forms of Business Organization

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Summary

From a legal point of view, there are four types of businesses:

1. Sole proprietorships;
2. Partnerships;
3. Corporations; and
4. Co-operatives.

A brief description of each type is followed by a summary of their advantages and disadvantages. For specific information on how or where to register or incorporate a business, contact your local Canada Business service centre.

Sole Proprietorships

This is the simplest way to set up a business. A sole proprietor is fully responsible for all debts and obligations related to his or her business. A creditor with a claim against a sole proprietor has a right against all of his or her assets, whether business or personal. This is known as unlimited liability.

This type of business comes under provincial jurisdiction. If the proprietor chooses to carry on a business under a name other than his/her own, he/she must register with the province. Your business name registration, or renewal of registration, will be valid for a certain number of years. Call your local Canada Business service centre to determine when business name registrations need to be renewed in your jurisdiction.

If a sole proprietor establishes a business in his/her own name, without adding any other words, it is not necessary to register the business.

Note: In Newfoundland and Labrador, only incorporated businesses are required to register with the Provincial Registry of Companies and Deeds.

Partnerships

A partnership is an agreement in which two or more persons combine their resources in a business. In order to establish the terms of the business and to protect partners/shareholders in the event of disagreement or dissolution of the business, a partnership/shareholders agreement should be drawn up with the assistance of a lawyer. Partners share in the profits according to the terms of their agreement.

General Partnership

All members share the management of the business and each is personally liable for all the debts and obligations of the business. This means that each partner is responsible for and must assume the consequences of the actions of the other

partner(s).

Limited Partnership

Some members are general partners who control and manage the business and may be entitled to a greater share of the profits, while other partners are limited and contribute only capital. Limited partners take no part in control or management and are liable for debts to a specified extent only. A legal document, outlining specific requirements, must be drawn up for a limited partnership.

Note: In Newfoundland and Labrador, only incorporated businesses are required to register with the Provincial Registry of Companies and Deeds.

Corporations

A corporation is a legal entity that is separate from its owners, the shareholders. No shareholder of a corporation is personally liable for the debts, obligations or acts of the corporation. This type of business can be incorporated at either the federal or provincial level.

A corporation is identified by the terms "Limited", "Ltd.", "Incorporated", "Inc.", "Corporation", or "Corp.". Whatever the term, it must appear with the corporate name on all documents, stationery, and so on, as it appears on the incorporation document.

Private Corporation

A private corporation can be formed by one or more people. A majority of its directors must be Canadian residents. If none of the directors reside in the province in which it does business, the corporation must appoint a Power of Attorney who reside in the province. A private corporation cannot sell shares or securities to the general public.

Public Corporation

A "public corporation" is one that issues securities for public distribution. Besides filing incorporation documents, a public corporation must file a prospectus with the appropriate Securities Commission in the province, must employ outside auditors and must distribute semi-annual financial statements.

Federal Corporations

Private and public corporations may be incorporated federally under the **Canada Corporations Act**. A firm operating nationally or in several provinces may find this advantageous. A federally incorporated business must still register in each province in which it does business.

Cooperatives

A co-operative is a corporation organized and controlled by its members, who pool resources to provide themselves and their patrons with goods, services, or other benefits. A cooperative business structure provides:

- democratic control based on one member one vote;
- open and voluntary membership;
- patronage dividends.

ADVANTAGES AND DISADVANTAGES OF EACH FORM OF BUSINESS ORGANIZATION

Sole Proprietorship

Advantages

- relatively low start-up costs;
- greatest freedom from regulation;
- owner in direct control of decision making;
- minimal working capital required;
- tax advantages to owner;
- all profits to owner.

Disadvantages

- unlimited liability;
- lack of continuity in business organization in absence of owner;
- difficulty raising capital.

Partnership

Advantages

- ease of formation;
- relatively low start-up costs;
- additional sources of investment capital;
- possible tax advantages;
- limited regulation;
- broader management base.

Disadvantages

- unlimited liability;
- lack of continuity;
- divided authority;
- difficulty raising additional capital;
- hard to find suitable partners;
- possible development of conflict between partners.

Corporation

Advantages

- limited liability;
- specialized management;
- ownership is transferable;
- continuous existence;
- separate legal entity;
- possible tax advantage;
- easier to raise capital.

Disadvantages

- closely regulated;
- most expensive form to organize;
- charter restrictions;
- extensive record keeping necessary;
- double taxation of dividends;
- possible development of conflict between shareholders and executives.

Co-operatives

Advantages

- owned and controlled by members;
- democratic control (i.e. one member, one vote);
- limited liability;
- profit distribution (surplus)

Disadvantages

- possibility development of conflict between members;
- longer decision-making process;
- participation of members required for success;
- extensive record keeping necessary;

earnings) to members in proportion to use of service; surplus may be allocated in shares or cash.

- less incentive to invest additional capital.

Related Reading

- Corporations Canada (<http://corporationscanada.ic.gc.ca/epic/internet/incd-dgc.nsf/en/home?OpenDocument>)

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