BUSINESS TYPES – WHAT SHOULD I CONSIDER?

There are many considerations when choosing a business structure that best suits the needs of your business. As your business grows, your business structure may change. Among the most important considerations are:

a. Cash flow of the business
b. Potential for liability
c. Tax Planning
d. Business Succession (a.k.a. "Retirement")

Whether just starting out or already established, ensure you have your "professional team" in place to assist you with optimizing your business growth and minimizing your liabilities. Your professional team should consist of at least: a lawyer, an accountant (or tax specialist) and a financial planner. Other professionals may be required depending on the type of business activity and the structure of the business.

BUSINESS TYPES – WHICH ONE AM I?

Sole Proprietor: With this type of structure, "the individual is the business and the business is the individual". There is no legal entity which means that if the individual is negligent, the individual will be personally responsible. This may place the individual's personal assets at risk. Taxes are assessed on all business income pursuant to the individual's tax bracket. Personal income tax brackets yield the highest level of tax payable.

When is this structure appropriate? If the business is just starting up and is not generating a high level of income. Use this structure if the risk of liability is low.

Partnership: Partnership is the association of 2 or more individuals or corporations and the "rules" governing the relationship are defined in a Partnership Agreement. "Limited Liability Partners" may be part of the partnership, but do not share in the liability or the decision-making involved with running the business. Limited Liability Partners are usually investors who contribute capital to the business and share in the growth. Taxes are assessed against the respective partners. In most cases, liability is shared among the Partners, meaning that the assets of the Partnership and the individual Partners are at risk in cases of liability.

When is this structure appropriate? If the business owners would prefer to keep their corporations (or persons) separate from one another, yet work together in relation to a common business interest. You will often find this is the case with professionals (eg. Lawyers, accountants, etc.). As long as there is a Partnership Agreement that provides clear direction, Partnerships are relatively easy to dissolve without collapsing the entire business.

<u>Corporation</u>:	Incorporation creates a separate "legal entity" from the individual. The corporation is taxed as if it is a separate individual from the person(s) who own it. Alberta has the lowest levels of corporate taxation in Canada and tax liability can be significantly reduced. If the corporation is liable for negligence, only the corporate assets are at risk (in most cases). If there is more than one Shareholder, a Unanimous Shareholders Agreement should be in place to ensure the business does not collapse in the event of disagreement, death or departure of a Shareholder. **<u>When is this structure appropriate?</u> If the business has a higher or more established level of income. This type of structure allows for "income splitting" between spouses and accommodates creative life insurance and pension options that minimize personal income tax consequences. Use this structure if the risk of liability is higher or the individual(s) who own the corporation have a significant amount of personal assets.**
<u>Joint Venture:</u>	A Joint Venture is appropriate when 2 entities (usually corporations) coordinate or pool their resources for a "one time only" business transaction. The relationship is defined in a Joint Venture Agreement that expires once the business involved has been completed. Taxes are levied against the respective entities and all parties to

the Joint Venture Agreement would be liable in cases of negligence.

<u>When is this structure appropriate?</u> Most appropriate when 2 or more corporations intend to carry on business for a specific project, especially in instances where each party has a specific skill or resource to contribute. The distinction between a Joint Venture and a Partnership is that the Joint Venture comes to a natural end when the project is complete, whereas the Partnership will only end if a Partner chooses to leave the business relationship.