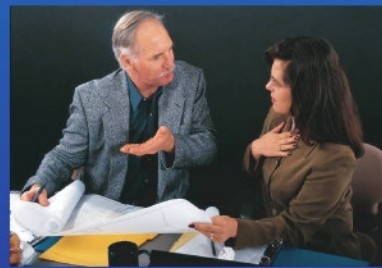


# 3 business centre d'affaires

## Business Start-up Information



Economic Partners Sudbury East / West Nipissing  
Community Futures Development Corporation

Partenaires dans l'économie Sudbury Est / Nipissing Ouest  
Société d'aide au développement des collectivités

## **Business Registration**

The proper registration of your business is crucial, and in most cases, mandatory. A business bank account cannot be opened without a business registration number.

Registration of an unincorporated business is a provincial responsibility. Corporations may register either provincially or federally.

### **Generally, businesses operating in Canada use one of these forms of organization:**

1. A proprietorship, which is the simplest form, in which an individual and his/her company are considered a single entity for tax and liability purposes. All that is required is a business license, although a sole proprietorship can operate legally under the individual's name, even without registration.
2. A partnership is a type of unincorporated business organization in which multiple individuals called general partners, manage the business and are equally liable for its debts. A partnership is governed by the Partnership Act of the province. A partnership name must be registered under the Business Names Act by filing a declaration with the companies Branch at the address below.
3. Limited Partnership: A partnership where the liability of some partners, the limited partners, is limited by the amount of capital that they contribute to the business. If a limited partner is involved in the management of the business he/she becomes a general partner.
4. A corporation or limited company is a business organization where the business is a distinct entity, separate from its owners. Characterized by the limited liability of its owners, the issuance of shares of easily transferable stock, and existence as a going concern.

### **When to register**

- If you operated a sole proprietorship under your given name, ie. John Smith, you are not required to register your business.
- However, operated under a modified name, such as John Smith and Associates or John Smith Designs, the Business Names Act requires that you register your sole proprietorship.
- Partnerships must be registered by filing a declaration with the Companies Branch.
- You are responsible for determining whether your business name is already in use, which can be done by doing a name check at the OBC station.
- Sole proprietorship and partnership registration do not protect your business name; others can register and use the same name. To protect your business name you need to incorporate your business, and/or apply for a trademark.
- While it is more expensive and onerous to incorporate, a corporation may offer tax and legal benefits that make the expense worthwhile.

## Where to register

Sole proprietorship or partnerships in Ontario are registered through Ontario Business Connects (OBC). These consist of workstations in business help centers, and registration can also be done online. Your business registration is valid for five years, after which time you need to renew your registration.

Current fees\* (as of April 3, 2001)

Registration activity	Cost @ OBC	Cost via the mail
Sole proprietorship registration:	\$60	\$80
Partnership registration:	\$60	\$80
Name check:	\$8	\$12
Online registrations	\$60	--

While this answer explains how to register a business in Ontario, when you register a business you also need to find out whether any regular or special licenses (municipal, liquor, import-export, manufacturing, etc.) are required.

You can now register or renew an Ontario sole proprietorship or partnership register or renew a business name with the Ministry of Consumer and Business Services or apply for these accounts:

- Ontario Retail Sales Tax
- Ontario Employer Health Tax
- Ontario Workplace Safety and Insurance Board

On the Canada Revenue Agency (formerly Revenue Canada) website at:  
[www.businessregistration.gc.ca](http://www.businessregistration.gc.ca)

You can also register for a Business Number (GST and payroll taxes are sub-sets of the BN), and register for CRA programs at this address.

\* Please note that fees may change at any time; those mentioned in this answer are provided as a general guideline only to help you understand what fees to expect.

## Which form of business is right for you??

### **1. Sole Proprietorship**

Sole proprietorships are the simplest business organization to set up, and the least expensive. If you plan to operate under a name other than your own, most provinces require only that you run a name search and register your business name. Sole proprietorships are the least regulated of any of the business organizations. They have the least reportability and accounting requirements. As the owner, you are in sole control of the decision-making. However, you also have no one to share business decisions, no one to add insight and expertise and no one to assist with brainstorming. What's more, you risk loss of continuity if you are absent from your business. As the owner of a sole proprietorship, you and the business are legally one and the same. You can transfer funds back and forth between your personal and business bank account, withdraw money from the business without delays or restrictions, and file only one income tax return. On the other hand, you are personally responsible for business debts or liabilities. If your business is sued, you are sued personally. If your business goes bankrupt, you are personally bankrupt. If you apply for a business loan, you must personally guarantee the loan. It is difficult to raise cash or venture capital for a sole proprietorship. Investors are more likely to invest in a corporation than in a sole proprietorship. On the other hand, if you incorporate with yourself as the only shareholder and officer, you will still be asked to personally guarantee a loan. This effectively removes the advantages of the corporate veil but the disadvantages remain. When you operate a sole proprietorship, all profits go to you. In Canada, sole proprietorships are one of the three legal business organizations: the other two are partnerships (including limited partnerships) and corporations.

### **2. Partnerships**

A partnership is a relationship between persons carrying on a profit-motivated business in common. That is, a defining characteristic of a partnership is that there must be more than one person involved in the business. Any number of individuals operating a business in common can establish a general partnership without any government approval. A general partnership is created by the partners and is routinely registered with the government within 60 days of creation. Registration is relatively easy and primarily involves paying a fee to the government. Determining and documenting the rights and obligations of the partners is much more involved. These rights, responsibilities and obligations are typically detailed in a partnership agreement. It is a good idea to have such an agreement for any partnership. A partnership is a legal entity recognized under the law and as such it has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. Any partner is responsible for all liabilities of the partnership. Creditors often "go after" the wealthier partners first when the partnership does not pay its obligations. When a partnership is small creditors may require a personal guarantee of the partners before granting credit. A partnership does NOT have to file income tax returns or pay income tax. The financial information from the partnership is combined with the personal income of the partners to determine their overall tax liability. Partnerships with more than FIVE partners have to comply with Revenue Canada's reporting requirements.

### 3. Corporation

A corporation is a separate legal entity, which exists under the authority granted by either provincial or federal law. A corporation has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file income tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a corporation are protected from most of the liabilities of the business. However, when a corporation is small, creditors may and almost all banks will require personal guarantees of the principal owners before extending credit. The legal protection afforded the owners of a corporation can far outweigh the additional expense of starting and administering a corporation. Corporations must file annual income tax returns with the Canada Revenue Agency (federal) and the Ministry of Finance (provincial) and possibly other provinces in which it does business. Legal fees for incorporating commonly run from \$ 500 to \$ 1,000, and government fees, vary depending on provincial (\$ 315 in Ontario) or federal (\$ 500) incorporation."

#### **Incorporating Your Business in Canada**

Do it yourself or hire a lawyer. Limited companies (corporations) are one of the three ways to carry on a business in Canada. (Sole proprietorship and partnership are the other two.) If you are considering incorporating your business, you can engage a lawyer to file the corporation papers, or you can opt to do it yourself.

To incorporate federally under the Canada Business Corporations Act, you must be conducting business in two or more provinces and have a fixed place of business in more than one province. If you are conducting business in only one province, you incorporate at the provincial level. You can download your kits, guides and other information about federal incorporation from [Strategis Web site](#) or locate self-help kits from the Self-Counsel Press.

1. Choose a name for your corporation.  
Naming guidelines require that your corporate name consist of three components - a distinctive element, a descriptive element and a legal element. (i.e. Adams Consulting Inc.)
2. Contact a search house and arrange for a name search to ensure that the name is available.  
Newly Upgraded Automated Name Search Reports (or NUANS) are done for a fee of about \$75.
3. If your name is available, you submit the NUANS report to the Corporations Directorate for pre-approval.  
They will determine whether your name is acceptable or whether you must try again. If your name is accepted, the name will be reserved for you for a period of 30 days.
4. Obtain corporation papers from Industry Canada's Corporation Directorate.  
Submit the forms and your filing fee before the end of the 30-day period. (The filing fee is currently \$500 but is subject to change without notice).
5. If your papers are in order, your certificate of incorporation is usually issued within five business days.
6. Corporate seals (not required) can be purchased from legal stationery stores.
7. Check with your province to see if you are also required to register at the provincial level.

Corporations are subject to various reporting requirements. An accountant's input is advisable.

## **Five Questions to Ask When Naming a Business**

Your business name should be unique, easy to remember and in tune with your business goals.

### **1. Can my name grow with my business?**

You don't want an overly ambiguous name, but you also don't want an overly precise name that could restrict your business in the future. For example, if you call your store Janet's Calendars, you'll be in a bind two years down the line when you decide to sell posters. Try to find a name that will grow with your business. Another tip: Resist the urge to use a business name that includes the latest lingo - it will sound dated quickly.

### **2. Is another business already using my name?**

First, conduct some local research. Look in your phone book and search the Internet to see if any local companies have already registered the name you want. If you plan to incorporate your business, you'll want to check provincial government records to see whether another company is using the same or a similar name. If your name is too similar to another business's, you will not be able to register it as your corporate name.

Next, turn your attention to the Web and do a search for similar names as well as related domain names. Although a Web site may be the farthest thing from your mind at this point, you may want to expand into the virtual world in the future. Now's the time to find out if your domain name is available -- and to register it.

The Canada Business Service Centres (CBSC) offers helpful, online assistance for selecting and registering your business name.

### **3. Does my name distinguish me from my competition?**

Your business identity is built around your name, so make sure it's unique and memorable. Here's an exercise to help you think creatively about names or to test your top choices: Drive through a downtown area and observe the business signs. Pay attention to which signs stand out, which are self-explanatory, which are confusing and which are too vague. What stores are you most likely to enter? Look for your competitors -- how can you rival their most memorable names while remaining true to your business?

### **4. Will my name appeal to current and future customers?**

Think about how your name will look on a business card or a sign. Try your top choices out on friends and family. Live with each name for a little while. Does the name get old, fast? Is it too hard to get used to? Will the name appeal to the types of customers you want?

### **5. Will my name be easy for customers to locate in a directory?**

Don't underestimate the importance of the phone directory - being clearly listed and easy to find is vital to a business. Hyphens, periods, a "The" or "A" at the beginning of your business name and unusual spellings will change your business's alphabetical placement in the phone book, potentially confusing your customers. Clarity is more important than cleverness.

## **Provincial Regulations**

The province of Ontario has regulatory and licensing requirements for many types of businesses.

These include environmental standards, transportation licenses, trade certification, liquor licenses, operating licenses, business practice standards, employment standards and technical licenses.

### **Retail Sales Tax**

The provincial tax, Retail Sales Tax (RST), is a consumption tax based on the retail price of most goods, certain services and certain prices of admission. There are exceptions. The tax rate is 8 percent except for lodging which is 5 percent.

Businesses that provide the services as above must obtain an RST vendor permit and are responsible for collecting the tax and remitting it on a regular basis. The permit is free of charge and may be applied for at the same time that you register your business.

Further information on vendor permits and exempt purchases may be obtained from the following:

Ontario Ministry of Finance North Bay Tax Office Retail Sales Tax 447 McKeown Ave., Suite 102 North Bay, ON P1B 9S9	Telephone:  Fax:	1-800-461-1564 1-705-474-4900 1-705-495-3805
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Ministry of Finance Corporations Tax Branch P. O. Box 622 33 King Street West Oshawa, ON L1H 8H6	Telephone:  Fax: Website:	1-800-263-7965 1-905-433-6500 1-905-433-6998 <a href="http://www.gov.on.ca/FIN">www.gov.on.ca/FIN</a>
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Ministry of Finance Motor Fuels and Tobacco Tax Branch P. O. Box 625 33 King Street West Oshawa, ON L1H 8H6	Telephone: (fuel tax) (tobacco tax) (land transfer) Website:	1-800-263-7965 1-905-433-6389 1-905-433-6393 1-905-433-6360 <a href="http://www.gov.on.ca/FIN">www.gov.on.ca/FIN</a>
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The Ontario Ministry of Finance also administers the Employer Health Tax (EHT), which is paid by all employers paying wages in excess of \$400,000.00 annually. Self-employed individuals in Ontario must pay EHT, but again the first \$400,000.00 is exempt.

You may register for EHT at the same time that you register your business or contact the EHT regional office nearest you:

Ministry of Finance Employer Health Tax 130 South Syndicate Ave., Thunder Bay, ON P7C 1C7	Telephone: 1-800-465-6699 1-807-625-5840 Fax: 1-807-625-5848 Website: www.gov.on.ca/FIN
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### **Labour Regulations**

Standards for employment and occupational health and safety are established and controlled by the Ministry of Labour.

For information regarding occupational health and safety, minimum wage, working hours and act:

Ontario Ministry of Labour 159 Cedar Street Sudbury, ON P3E 6A5	Telephone: 1-800-461-6325 1-705-564-7400 Fax: 1-705-564-7435
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### **Federal Regulations**

Canada Revenue Agency (CRA) is the federal government department responsible for administering Canadian tax. CRA oversee various programs including GST / HST, Canada Pension Plan contributions, Employment Insurance premiums, custom and excise duties and tariffs.

### **Business Number**

The first step in doing business with CRA is to register and receive your Business Number (BN). This is a new numbering system that simplifies and streamlines your interaction with CRA. The BN consists of two parts; the registration number and the account identifier.

## **Workplace Safety**

WSIB is no-fault insurance that protects your business from lawsuits by providing benefits to your workers in cases of injury or illness at work.

Businesses in Ontario that employ workers must register with the Workplace Safety & Insurance Board (WSIB) within 10 days of hiring the first full or part-time employee. Sole proprietors and partners are not automatically covered by WSIB, but can apply for optional insurance. You may also insure your workplace on a voluntary basis if your business activity is not automatically covered. When you register with WSIB, a kit will be forwarded to you explaining an employer's responsibilities and forms for assessment, coverage, incident reporting and appealing a WSIB decision.

You may register at the same time as registering your business or contact WSIB direct at:

Workplace Safety & Insurance Board  
128 McIntyre Street West  
North Bay, ON  
P1B 2Y6  
Telephone: 1-800-461-9521  
Fax: 1-705-472-9801  
Website: [www.wsib.on.ca](http://www.wsib.on.ca)

## **Income Tax**

Income taxation in Canada has become increasingly complex. Tax laws and regulations are constantly changing, making it difficult in many respects for the small business owner to keep current, let alone understand the relevant tax laws. Proper tax planning is critical to the entrepreneur and accurate records must be kept in any type or size of business.

It is recommended that a small business owner consult a professionally qualified accountant from the onset.

We further recommend that the entrepreneur read the Canada Revenue Agency's 'Guide for Canadian Small Businesses' and 'Business and Professional Income' guide, both designed for the self-employed individual. They introduce the business owner to the process of reporting earnings and paying income tax on business profits as well as what expenses you're allowed to deduct.

Make sure you understand the income tax rules as they apply to your business. Individuals pay taxes on their share of the net income of unincorporated businesses when they file their personal income tax return. Corporations must file income tax returns both federally and provincially.

## **Insurance**

Needs for insurance will vary widely with the different types of businesses. Consult your insurance agent to guide you through establishing comprehensive policies. It is recommended that all businesses carry liability insurance to protect assets. Coverage for perpetuation of income and lives of the owners should also be investigated. Consideration should be given to the following:

### **Business and Liability Insurance**

This includes coverage against theft and damages and / or fire to buildings, equipment and documentation, employee theft, and liability through accidents. Liability insurance covers any area in which the business or employees might be held liable for negligence causing injury to customers, employees and the general public.

### **Disability Insurance**

If you are the sole owner of a business, and should suffer an accident, injury or illness, the business income immediately ceases, thus threatening the financial security of both the business and family. Workers Safety and Insurance Board will only pay a portion of earned wages if you are covered and only if the accident or illness is work related. Be safe and protect yourself with a good disability policy that covers all contingencies.

### **Life Insurance**

Invest in some form of term life insurance that protects your family in case of your death. Keep in mind that under current taxation laws, if the business pays the policy, the insurance payout will be taxed. However, if the premiums are paid personally, taxes are not payable at payout.

## **Intellectual Property**

If your business creates or manufactures a specialized product, performs a specialized service or has a distinctive brand name or logo, you should consider protection under federal patent, trademark, industrial design or copyright laws.

Intellectual property (IP) includes patents, copyrights, trademarks, industrial designs and integrated circuit topographies (layouts of microchips). IP ownership may also be useful when approaching financial institutions for business loans. To protect your IP rights in Canada, it is recommended that you establish ownership with the Canadian Intellectual property Office (CIPO).

Canadian Intellectual Property  
Office  
2<sup>nd</sup> Floor  
Place du Portage, Phase 1  
50 Victoria Street  
Hull, QC  
K1A 0C9

Telephone: 1-891-997-1936  
Fax: 1-891-953-7620  
E-Mail: [cipo.contact@ic.gc.ca](mailto:cipo.contact@ic.gc.ca)  
Website: [www.cipo.gc.ca](http://www.cipo.gc.ca)

## **Budgeting Basics For Beginning Businesses**

Use this formula for a fast estimate of your startup expenses. Starting your own business requires more than a good idea. It also requires cash. To determine how much money you'll need, you must first estimate your startup expenses, and then establish an operating budget that projects the monthly cost of running your business.

### **Startup expenses include:**

- Licenses, permits, franchise fees and utility deposits
- Tools, equipment and fixtures expenses -- including installation costs
- Funds for inventory and office supplies
- Decorating and remodeling expenses
- Advertising and promotion costs for grand opening
- Professional fees for legal, accounting, insurance and consulting services

### **Operating expenses include:**

- Salaries for you (the owner/manager) and any employees
- Expenses for telephone, light, heat, office supplies and other materials
- Rent, interest on any business debt, maintenance costs and taxes
- Professional membership dues
- Fees for ongoing advertising, legal, accounting and insurance services as well as for special services such as copying, delivery and secretarial help.

To determine the grand total of what you'll need to start your business, multiply your operating costs by the number of months you think it will take to find customers and get established. Add that figure to your startup costs and then attach a reserve to cover personal expenses such as food, car payments, rent/mortgage and other living expenses for you and your family.

## Choosing a Year-End

The year-end you choose for a business depends on the legal form of the business and the nature of the business.

### **1. Sole Proprietorship or Partnership.**

In the past an unincorporated business could choose any year-end. More often than not a January year-end was picked because it provided the best tax deferral. (Tax planning means first an absolute reduction in taxes and second deferral of taxes). The Liberal government changed the rules in 1995. All new sole proprietorships and partnerships must report their income on a calendar basis. This means using a December year-end for tax reporting purposes. You could have a non-December year-end for accounting purposes; however, the aggravation of having two sets of books (one for management and second for tax purposes) means it rarely makes sense to do so. Therefore, if you are starting a sole proprietorship or partnership, you'll have a December year-end. It will simplify your life.

### **2. Corporation.**

A corporation can have any date as its year-end, but it must use the same date for each year thereafter. Once you pick a year-end you pretty much have to live with it going forward. If you want to change the year-end you have to get permission from Revenue Canada. It is not automatic that they will grant the change in year-end.

In the year of incorporation, you must choose the first year-end. It is any date within 12 months of the incorporation. Most companies have year-ends that fall on the last date of a month.

### **Choosing a year-end: tax factors**

For tax reasons you would choose a July or August year-end because you can achieve tax deferral on paying a bonus out of the corporation in the following calendar year (e.g., bonus expensed in July 1999 year-end in corporation, but personally taxed in 2000 when paid in January 2000).

### **Choosing a year-end: business factors**

For business reasons you would choose a year-end when your inventory levels are at their lowest. You have to do an inventory count at year-end so if the level is at its lowest, the count will be easier. In the case of service companies, inventory count means calculating their work-in-progress (often referred to as WIP). Further, ending inventory factors into the calculation of net income. A lower ending inventory means lower taxable income and you therefore defer taxes.

### **What's inventory?**

For retailers, it is the goods on their shelves. For manufacturers, it is the raw material, partial completed products and finished goods ready for shipment. For service companies like a consultant, it is work-in progress - expenses incurred on jobs that are not completed and therefore not billed.

### **Choosing a year-end: workload factors**

For accounting reasons, most accountants are extremely busy in January to April. If you have a December year-end you will be dealing with a busy accountant. If you deal with an accountant when they are not as busy (e.g., having a July year-end) you'll get better attention, quicker service and possibly better work.

## **The Bottom Line**

Choosing a year-end is an individual choice that will stay with your business throughout its existence. When choosing your year-end remember to think forward to what your business might look like in 5 or 10 years time, and make the best choice for your specific situation based on the factors we discussed.

## **Buying a Business in Canada**

As a buyer, you have the option of purchasing an existing independent business or a franchise. Each has its strengths and weaknesses. To understand which type of business is best for you, you need to understand both the differences between these two business types, and your own strengths and weaknesses.

### **Franchising**

Franchises come with a set of rules that you must follow. The franchisor has taken the time to develop a business template, which is then rolled out from location to location. If you are looking to use your managerial skills, and won't feel cramped if you can't put your own ideas into play, this may be the ideal form of business for you.

Franchising offers many advantages. With a good franchise, the formula has been proven, and the kinks should have been worked out the system. Potential customers will probably be familiar with the name or brand of the franchise. For example, consider a popular coffee shop franchise. You may not have been to an individual franchise before, but you will likely feel confident that the quality of the product will be consistent with other shops. This consistency of product, store design and operations is the key advantage that a franchise offers. As a result a franchise may takes less time to establish a customer base than an independent business, which may in turn lead to bigger profits earlier.

"It's like a ready made business and all you have to do is play by the rules. You have all the experience and support of the franchiser," says Richard Wise a Chartered Business Valuator in Montreal, QC.

Buying a franchise is quite different from buying an independent business, and is beyond the scope of this article. When you buy a franchise, many terms are non-negotiable. In "So You Want to Buy a Franchise" authors Douglas Gray and Norman Friend explain that while there is no standard franchise agreement, the agreements for each franchise can generally be considered non-negotiable, with the exception of items like location, exclusive territory, and opening date. If you are considering buying a franchise, "So You Want to Buy a Franchise" would be an excellent starting reference to pick up.

### **Independent businesses**

Buying an independent business gives you the freedom of setting your own rules. You set the vision of the company, control human resources, and get to choose which supplier you're going to buy from. In an independent business the decisions – and the success – of the business rest on your shoulders. There is room for creativity and innovation, but at the same time, your choices may destabilize the business. Unless you are buying a business with a strong, existing brand, you may not have the same recognition that you would get with a franchise. On the flip side, you won't have to pay franchise fees and royalties.

Some buyers look for failing businesses, which may be up for sale because they have hit upon hard times and their owners can't afford to keep them. These businesses can be a good buy, but you'll want to take a long and hard look at why the business is failing and whether or not you can fix these problems. Wise feels that many businesses can be turned around and in some cases a simple change in management will solve the problems.

**Checklist**

Provided to assist you in the process.

<b>Business Component</b>	<b>Does Not Apply</b>	<b>Applies</b>	<b>Need Further Information</b>	<b>Completed</b>
Business Plan	.	.	.	.
Business Registration	.	.	.	.
Establish Bank Account	.	.	.	.
Town or Municipal Licence	.	.	.	.
Retail Sales Tax	.	.	.	.
Employer Health Tax	.	.	.	.
Labour Regulations	.	.	.	.
Federal Business Number	.	.	.	.
GST	.	.	.	.
Payroll Deductions	.	.	.	.
WSIB	.	.	.	.
Financing	.	.	.	.
Income Tax	.	.	.	.
Insurance	.	.	.	.
Advisors	.	.	.	.
Other Information	.	.	.	.
.	.	.	.	.