STORY ARTS CENTRE PRESENTS

URBAN WORKER PROJECT

SOLE PROPRIETORSHIP VS INCORPORATION

SOLE PROPRIETORSHIP

Advantages

- It's cheap: setting up a sole proprietorship will cost less than $100.
- It's easy: the process for becoming a sole proprietor is hassle-free.
- All profits are yours.
- Potential tax advantages: if your business is not doing well, you can deduct the losses from your income.

Disadvantages

- You are personally liable: your business debts can be claimed against your personal assets
- Possible tax disadvantages: if your company does well, your income taxes owned will increase.
- Selling can be complicated: while you can sell your business's assets, you cannot sell the business registration which can complicate the sale.

INCORPORATION

When you incorporate your business, it is considered its own legal entity, separate from the owner of the business.

Advantages

- You are not personally liable: you are not personally liable for the debts or actions of your business.
- You can transfer ownership: if you decide that you want to sell the business, you can transfer it to someone else.
- Income control: you can determine when you personally receive income, which can be a great tax advantage.
- Perceived stability: incorporated companies are often viewed as more legitimate than non-incorporated ones. Some companies may only do business with incorporated entities, resulting in more business opportunities.

Disadvantages

- Lots of paperwork: along with filing an extra tax return, you'll have to be diligent with other documents including minutes from all corporate meetings, corporate bylaw lists, a file of the register of directors and the share register.
- Extra costs: setting up a corporation is significantly more expensive. Beyond the set-up fees (which can be a few hundred dollars, depending on the province) you'll likely see an increase in accounting costs.

So what should you do? It depends. Consider the goals and priorities of your business. While the simpler option is certainly a sole proprietorship, you risk being personally responsible for debts and actions of your company.

Ultimately, it's important to measure your risks by considering the scope and nature of your business activities.

THIS DOCUMENT IS INTENDED AS A GUIDE ONLY. PLEASE REFER TO THE CANADA REVENUE AGENCY FOR THOROUGH AND UP-TO-DATE INFORMATION.

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