

Information Sheet

Guide to Choosing a Business Structure

Types of Business Structures

There are three main business structures: sole proprietor, partnership and corporation. This information sheet deals only with for-profit corporations, and does not deal with non-for-profit corporations and cooperatives.

Business Structures Defined	Description
Sole Proprietor	A sole proprietor is fully responsible for all debts and obligations related to his or her business. A sole proprietor has unlimited liability.
Partnership	A partnership is an agreement in which two or more persons combine their resources in a business. There are two types of partnerships: general and limited partnership.
General Partnership	All partners share the management of the business and each one is personally liable for all the debts and obligations of the business. Each partner is responsible for and must take on the outcomes of the actions of the other partner(s). Because of the shared liability among the partners, it is advisable to seek legal advice to draft a partnership agreement.
Corporation	A corporation is a legal entity that is separate from its owners, the shareholders. A shareholder of a corporation is not personally liable for the debts, obligations or acts of the corporation, except if the shareholder has provided personal guarantees for the company's debts. As well, if a shareholder has another relationship with the corporation, for example, as a director, then he or she in certain circumstances may be liable for the debts or liabilities of the corporation in that capacity. 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.". It is advisable to seek legal advice when setting up a corporation.

Advantages and Disadvantages of Different Business Structures

Business Structure	Advantages	Disadvantages
Sole Proprietor	<ul style="list-style-type: none">- 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	<ul style="list-style-type: none">- unlimited liability- lack of continuity in business organization in absence of owner- difficulty raising capital
Partnership	<ul style="list-style-type: none">- ease of formation- relatively low start-up costs- additional sources of investment capital- possible tax advantages- limited regulation- broader management base	<ul style="list-style-type: none">- unlimited liability- lack of continuity- divided authority- difficulty raising additional capital- hard to find suitable partners- possible development of conflict between partners
Corporation	<ul style="list-style-type: none">- ownership is transferable- continuous existence- separate legal entity- possible tax advantage- easier to raise capital- limited liability- specialized management	<ul style="list-style-type: none">- 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

Information is taken from the Canadian Business Service Centre website, <http://www.cbo-eco.ca/en/>.

Forms of Business Organizations: <http://goo.gl/W9cmf2>.

Rev: Jan. 19, 2016

Toronto City Hall
100 Queen St. West, Main Floor
416-392-6646

North York Civic Centre
5100 Yonge St., Main Floor
416-395-7434

Scarborough Civic Centre
150 Borough Drive, Main Floor
416-396-7169

toronto.ca/enterprisetoronto

Produced by



Sponsors

