

# **New Corporate Business**

## **Owner Guide**

## **Background:**

There are three different types of business ownership

Proprietorship

Partnership

Corporation or Limited Company

### **Proprietorship**

This form of business ownership is where you are NOT incorporated and run the business as an individual. You keep adequate records of the business and can be registered for GST and do all the same activity of any company, it is just that you as a person are the business.

The reporting of the business goes directly on to your personal tax return and this business must have an operating cycle of a calendar year. You will always have December 31 as your year end cut off date

This type of ownership has its own advantages and disadvantages. It has a simpler record keeping and reporting process. You can take funds out of this type of business and it does not cause you any direct tax issue as you are the business.

The drawback is that whatever the net income of the business is, you have to include on your personal tax return in a particular year and there is no way around this so you can be taxed greater in this type of structure.

As you as a person are the business, there is no shield against you from any liability that may happen within the company. If something happens on a job or some other issue, the problem goes directly at you and that means all your personal holdings are at risk if you have some lawsuit or other liability

## **Partnership**

This type of ownership structure is similar to a proprietorship, but involves two or more people co-owning the business. All record keeping is the same, but at the end of a particular year, the net profit is divided between the partners and they each report their share of the net income for tax purposes.

The business again must have a business cycle that is a calendar year and there is no way around this. Whatever the net profit is from the business you report your share on your personal tax return.

As with a proprietorship there is no shield between any lawsuits or other problems and your own personal assets. Plus, you are responsible for the actions of your partner which can only complicate things more. These forms are used but often careful agreements are drawn up to govern them.

## **Corporation**

This can be called a Corporation, Limited Company, Incorporated, Inc, Ltd., but are all the same so do not get confused. It is all the same thing

This is where you “create” a new entity for tax purposes. It is almost like a person as it has to file its own taxes.

You have a lawyer set this up, and you own the corporation by way of “shares” that you take from the company. The lawyer will keep the records of all this and you are recorded in the Corporate Records or Minute Book as being the shareholder of a specific class of shares.

The corporation has some advantages and disadvantages. The record keeping process is a bit more onerous, but if you follow good business practices it is not that bad.

The good side of things is that this separate legal entity does provide a shield between any problems with the business and yourself. The company is the party that does the work and has the contracts and obligations, not the individual person in most cases. So your personal assets are protected to a greater degree. You can have a fiscal year end that ends at any date in a calendar year which allows for better tax planning and fits into the natural

business cycle a bit better. A corporation allows for the opportunity within reason for income splitting. You can have a spouse, adult children own shares and receive dividends or receive a wage from this company.

A main issue is to come to grips with the fact that although you own the company by way of the shares, everything else belongs to the company. If the company has a successful period and there is a lot of money in the bank, you cannot just plunder it out without triggering a tax issue. This is a primary problem with owners of corporations in that they pay no heed to this and find out later they are in a real mess.

## **Going to the Lawyer**

When you are ready to get your company set up, you have decided who will own it, you then make an appointment with a lawyer that does corporate work. Almost all lawyers can easily do this type of work.

Most law firms will have a standard structure they use for setting up a new company. This will be one that has several classes of shares authorized to be issued and this is useful if ever you need to make changes.

All companies are created as just a number that is assigned from Victoria. If you want to have your company use a specific name, you need to write down three different name choices or variations of the core name and have the law firm search to see if any others have too similar a name and you must alter it some more to ensure it can be used.

As the primary owner you will subscribe to or acquire from the company, the Voting shares. If you issue shares to a spouse or adult child, you will issue Non-Voting shares. These shares will be of a different Class and thus can be treated differently which allows needed flexibility.

You as the primary owner will need to be a Director of the Company and this is a role that is not to be taken lightly. As a Director you have duties and obligations to properly run this company and answer to all the CRA requirements.

The lawyer will retain at their office the Minute Book which is a binder that has all your corporate records and information in it. This will cost about \$350 per year for them to keep it maintained. It is recommended to have this done as they will keep your company up to date

Many people do not realize this, but a corporation is registered in Victoria and each year you must pay a fee to have the company registration stay current. The use of a law firm will ensure this is done. Some people take their Minute Books with them, and then neglect to ensure this filing is done and Victoria will then strike the company off the corporate registry and you will have a great deal of costs and hassles to get it re-instated. Keep your Minute Books at a law office and do not run this risk.

The law firm will set up the company and have you sign all the documents to officially have you take the ownership and stewardship. The law firm will likely receive the Business Number from the CRA and provide this to you.

The lawyer will give you a set of all the incorporation records and your company is fully set up and operational.

## **After You Are Incorporated**

### **Banking:**

As the corporation is a separate legal entity, you will need to set up a new business banking account. Some banks will allow you to change over an account that is in your name or trade name to the corporate name, but some won't. Be prepared to set up a new account.

Setting up a new account you may make note to get the following.

- Checking account
- Deposit book
- Cheques in a binder with stubs
- Debit card

You may also want to have online banking as this is a very common and convenient feature.

Make sure you will get back monthly paper bank statements with the cancelled cheques or at least a microfiche of them.

A company Visa account may also be considered

If you have the need for this, you may ask about a line of credit or overdraft facility just in case. Be aware of all the costs to have this.

## **Business Accounts Registration or Activation**

Officially, if you are starting your company brand new and you did not have any prior proprietorship operating, you do not need to have a GST number until your sales exceed \$30,000.

However, in many cases the business gets it going right away as the companies they work for want one, and if you purchase any large equipment, you will not be able to claim back the GST you paid out unless you are registered.

The law firm will probably have acquired a Business Number which is a nine digit number issued by the CRA.

This is just the core number and is useless on its own. You must activate the various accounts you will need to use

There are three regular types of accounts that you will have with the CRA when you operate a corporation:

Corporate Account

GST Account

Payroll Account

There is only a single Business Number but three different types of accounts, so how can they be distinguished. The use of a Suffix code on the end of the number identifies what account it is.

For example, if your Business Account is 123456789, the following are the codes for each type of account:

Corporate Account	123456789 <b>RC0001</b>
GST Account	123456789 <b>RT0001</b>
Payroll Account	123456789 <b>RP0001</b>

You have to contact CRA in order to activate all of the accounts you plan to use. If you call the number is 1 800 959 5525 and they will run you through a series of questions. Most are routine, but they will ask your filing cycle, whether monthly, quarterly or annual. So must be sure of which one. This is often an area that you go over with the accountant to make sure as you will not know what your year end is

## **Capitalizing the Business**

When you first get the company set up, you will have no funds in the bank account, but will have start up costs.

This will require you to personally lend money to the company for the various start up costs until it starts to make its own money.

As noted in the New Business Guide, you will lend the funds to the company and this will be called a shareholder loan. You are the shareholder and you are making a loan to the company. This account which is tracked within the company records, is your main connection to this business for money you lend to it and money you take back out.

## **Record Keeping**

As a corporation, you are required to maintain proper books and records. This can be an easy process for some, a disaster for others. Determine if you want to spend the time to maintain all the books and records or if you want to get a bookkeeper to do this.

The record keeping is no small task. Many small business owners make a mess of their affairs as decide they can do it themselves and it costs them far more later on to have this corrected rather than doing it right the first time. The

accounting offices can provide this service but you often pay way more than contracting an independent skilled bookkeeper to do this and have the accountant look at things periodically.

The accounting firms often have several contract bookkeepers they deal with and can match you up with one that will work well with you and may know your type of business.

You can keep your books in any format as long as it works for you and is set up to flow smoothly to the year end. There is nothing wrong with a manual set of books. Just because you can purchase an accounting software package does not mean your record keeping is any better. Often excess reliance on a computer program reduces the amount of thought that goes into it and the result is not good.

## **WCB Requirements**

The requirement is very stringent - all corporations are to be registered for WCB in British Columbia.

If you previously were operating a business and had an active WCB account, the WCB will normally let you continue with the same number as long as advised in advance and confirmation of this is done. You can contact them right when you formally start the corporation and they will change the legal name and allow you to continue with the same account number and rate.

If not, you will have to apply for one to have it set up based on the nature of the work that you do. You must be absolutely clear on what you do as if ever a claim and you registered in the wrong category, you may have problems.

If you contract to another company, and as part of your work contract, they will cover you for WCB, you can advise the WCB about this and get a clear directive that you are covered and how to do your filings.

Even if your earnings are covered, if you pay any other types of earnings to spouse or children, you will still need to be registered to report and pay the WCB on those earnings. WCB 1 888 922 2768 if you want to discuss any of the aspects of your requirement to be registered and file.

## **PST Registration**

The requirement to register for PST is only if you sell tangible personal property in BC or rent or lease out equipment without an operator.

PST must be carefully evaluated and if any question, you should contact your accountant or even contact PST Enquiries yourself to be able to explain what you do and hear it back directly.

The PST Contact number is 1 877 388 4440.

As with all government branches, they have excellent websites and are only a telephone call away. They are free and are the source of very good, timely and accurate information. Take advantage of this at all times.

## **Insurance**

When you have a company and provide goods or services to other businesses or the general public, there is always the risk of something bad happening. It may be a disgruntled customer, it may be damages done on a job site or bad advice given or a host of other items - none of which are good.

Thus, having an insurance policy that is designed for the type of business you operate and covers for all reasonable perils, equipment loss or damage is a mandatory aspect of having a new corporation.

You can contact any insurance broker and advise them of what you are doing and if they can provide you with a commercial policy. You will meet with the person in charge of the commercial accounts and go over your business and they will then prepare a policy for you.

The cost of an insurance policy is quite insignificant in the big picture and it provides you will comfort that your business activities and assets are protected.

## **Personal Insurances**

When you start your own corporation, you are in effect working for yourself as you own the company. Thus, unlike any prior jobs that you have had where there was a benefit package, you no longer have anything.

You get sick and cannot work, the business could be in a very bad position as could you personally.

You get injured in a non-work accident, the business could be in a very bad position as could you personally as you will have no income.

It is strongly recommended to consider having some form of insurance for yourself personally to protect against such an event.

### **Disability Insurance**

- sickness
- non-work injury

### **Critical Illness**

- if you have to take time off to contend with a major illness

### **Life Insurance**

- will ensure all debts of business paid for and your family will have some legacy funds

Each person and family profile are different and thus the nature and extent of the coverage can vary also. It is recommended to contact one of the insurance companies and speak to a representative about setting up a plan for this.

Do note, that any premiums you pay, must always be paid personally. Even if the company pays for it, it will be charged to your owners account. The reason being is that if a claim is ever made, and you have paid for it all personally, then the funds are not taxable. If you treat as a business deduction then any funds received under such plans could be considered taxable income.

## **Summary**

If you are choosing to be a corporate business owner, it is incumbent upon you to make all efforts to know and understand the basics of setting up and operating a business.

Excess reliance on others can be both costly in monetary terms and in the proper operation of your business as you have a far more vested interest in its successful operation than anyone.

It is the best time invested if into your own business.

By following this simple guide and using the New Corporation Checklist Guide and Checklist you will at least cover off the basics and be able to assess your own ability on what you want to do and on which aspects you will hire outside services.

At all times though, you are responsible for your business so do keep this in mind. You need to know enough of what is going on and be aware of the obligations you have as the business owner and Director.