Wealth Management

the Navigator

INVESTMENT, TAX AND LIFESTYLE PERSPECTIVES FROM RBC FAMILY OFFICE SERVICES

Features of different business structures

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Generally, a business may be structured and operated in a number of ways; three common ways are: a sole proprietorship, a partnership and a corporation. Professionals, such as doctors, dentists, accountants and lawyers may also be able to operate as a sole proprietorship, a partnership or through a corporation. A professional who chooses to operate through a corporation will generally have to set up a professional corporation, where the services provided are generally restricted to the practice of the profession. The features of each business structure are summarized in the following table.

	Sole proprietorship	Partnership	Corporation	Professional corporation (PC)
What is it?	An unincorporated business owned by one individual and operated under a registered business name or the individual's own name, or both.	An association or relationship between two or more individuals, corporations, trusts or partnerships that join together to carry on a business in common with a view to profit.	A legally established entity that can own assets and incur debt. The corporation is owned by shareholders.	A legally established entity that is regulated by a governing professional body. The corporation is owned by shareholders. It is generally subject to the investigative and regulatory powers of the regulatory body governing the profession.
How is it created?	You can operate under your own name immediately. If you wish to operate under a business name, you may need to register with the province(s) where the business is carried out.	The actions of involved parties that meet the three criteria will indicate the existence of a partnership: 1) the existence of a business, 2) carried on in common by the partners, 3) with a view to profit. It is recommended that there be a partnership agreement.	The act of incorporating creates a corporation. It can be owned by a single shareholder or many shareholders.	The act of incorporating by one or more members of the same profession creates a PC.
How to finance it?	Personal investment of capital or borrow funds personally.	Partners can invest capital or borrow funds.	Shareholders can invest capital. Corporation can issue bonds or shares to investors to obtain more capital. A corporation can also borrow funds in its own name.	Shareholders can invest capital, however, there may be provincial restrictions on who can be a shareholder of the PC. The PC can also borrow funds in its own name.
What's the legal status?	No legal distinction drawn between you, the owner, and the proprietorship.	A business relationship between two or more persons. It is not a separate entity.	A corporation is a legal entity, which possesses the same legal rights, obligations and liabilities as a person, distinct from its shareholders.	A PC is a legal entity, distinct from its shareholders. The PC must be certified by the relevant professional governing body (i.e., obtain a "Certificate of Authorization" licence/permit).

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Who has legal liability?	You have unlimited personal liability for the debts of the business.	• General partners: unlimited liability for the debts of the partnership. Liability is jointly shared between partners. Liability extends to the personal assets of each partner. • Limited partners: liability is limited to the amount invested. A limited partner is not liable for the acts and omissions of other partners.	Liability rests with the corporation and is typically not extended to the personal assets of the shareholders, unless the shareholders provided personal guarantees of the corporation's debts. In certain circumstances, directors or officers may be held personally liable if the corporation engages in grossly negligent or fraudulent actions.	Shareholders enjoy limited liability protection but the professional is jointly and severally liable with the PC for all professional liability claims made against the PC.
Who's the governing body?	No one particular body of law governs this type of structure.	Provincial legislation governs partnerships.	Federal or provincial legislation governs corporations.	Provincial legislation governs PCs. Each professional governing body or association may also have its own rules and regulations.
Does it require a licence to operate?	Depending on the services being provided, you may need applicable licensing from the relevant regulatory body in the jurisdiction in which you operate.	Depending on the services being provided, each partner providing services may need a business licence from the relevant regulatory body in the jurisdiction in which they operate.	Depending on the services being provided, each employee providing services may need applicable licensing from the relevant regulatory body in the jurisdiction in which they operate.	All shareholders and employees providing professional services must be licensed by the relevant professional governing body.
Who controls the business?	Direct personal control.	Partners share control. Partnership agreements can be used to define partners' involvement in management of the partnership.	Shareholders, with voting rights, elect directors that control the business.	Direct personal control if sole shareholder, otherwise, control is shared with other professional shareholders. Shareholder agreements can be used to define shareholder involvement in management of the corporation.

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What's the tax year-end date?	Generally, December 31.	Partnerships with at least one member who is an individual or a PC generally must have a December 31 year-end. Otherwise, can generally choose any tax year-end.	A corporation can generally choose any tax year-end, subject to a few restrictions.	A PC can choose any tax year-end, subject to a few restrictions. A PC which is a member of a partnership must have a tax year ending December 31.
How is it taxed?	Income taxed personally.	Each partner's share of the profit is taxed in the hands of the partner.	Income is first taxed in the corporation. After-tax income may be distributed to shareholders and taxed in their hands.	Income is first taxed in the PC. After-tax income may be distributed to shareholders and taxed in their hands.
Are there potential tax advantages?	If the business realizes losses, the losses can generally be written off against other income. You may be able to personally deduct certain expenses that you incur to earn business income.	If the partnership realizes losses, the losses are allocated to each partner and can generally be written off against the partner's other income.	Tax advantages of a corporation may include tax deferral due to the general corporate tax rate (which is generally lower than personal tax rates) and small business deduction on active business income, income splitting opportunities, ability to claim the lifetime capital gains exemption (LCGE) and the Canadian Entrepreneurs' Incentive (available starting in 2025) on sale of the shares, potential to multiply the LCGE, flexibility in remuneration (salary versus dividends), flexibility in providing employee benefits or retirement savings plans (e.g., individual pension plans).	Tax advantages of a corporation may include tax deferral due to the general corporate tax rate (which is generally lower than personal tax rates) and small business deduction on active business income, income splitting opportunities, ability to claim the lifetime capital gains exemption (LCGE) on sale of the shares, potential to multiply the LCGE, flexibility in remuneration (salary versus dividends), flexibility in providing employee benefits or retirement savings plans (e.g., individual pension plans).

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Are there potential tax disadvantages?	If your business is profitable, the income is taxed at your marginal tax rate, generally, in the year the income is earned. In other words, there is no tax deferral opportunity.	If the partnership is profitable, the profit is allocated to each partner and taxed at individual partner's marginal tax rate in the year the income is allocated. In other words, there is no tax deferral opportunity.	Tax disadvantages may include restricted use of business losses, restricted personal use of business funds, taxes at death, and potential employer health tax obligations.	Tax disadvantages may include restricted use of business losses, restricted personal use of business funds, taxes at death, and potential employer health tax obligations.
What about business continuity?	Likely minimal due to its reliance on a single individual.	Other partners may be able to continue to operate the business.	As a separate legal entity, a corporation can continue to exist even when original shareholders move on.	As a separate legal entity, a corporation can continue to exist even when original shareholders move on. However, keep in mind the restrictions on who can own the shares of a PC. If the PC relied on a single professional, it may not be able to continue as a PC if the professional moves on.

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