

The Entrepreneur

Business set-up can affect tax situation

This column is being run with the cooperation of the Superior North Business Development Centre. The first column ran a few weeks ago after which we encountered some difficulties. But, we're back on track now and the column will be running weekly.

Whether you're a large international corporation or just a tiny sole proprietorship, one aspect that can have a considerable effect on how your business is organized is taxes.

And it all starts with how you set up your business.

One thing, though, that cannot be stressed enough is that tax regulations are being constantly revised. So, before you make any business decisions that may affect your tax position, you should consult with professional advisors to ensure that you are on the right track.

Regardless of whether you are just considering getting into business, or are already established, the question that must be accurately determined is "would my business give me a better return if it were organized differently?"

In other words, if you're a sole proprietorship, might you be better served by forming a corporation, or vice versa.

Of course, it all depends on the particular nature of your business.

For those just considering starting a business, the sole proprietorship is often the most appropriate approach as it's the most basic and simplest form of operation.

In the proprietorship, the income from your business is included in the proprietor's tax return and is taxed at individual rates.

The second form of business is the partnership. Here, there is more than one proprietor and an agreement is drawn up to govern the activities of the business and each partner's share of the rewards and responsibilities of running it.

As far as income tax is concerned, the partnership is a separate entity. Accordingly, the income is divided up based upon the partnership agreement and taxed individually.

Many professionals, such as doctors and lawyers are not allowed under the law to form corporations relating to their practices and rely on professional partnerships as a means to share common costs.

The third method of business organization, and by far the most complicated, is the corporation.

It is a separate legal entity and the income it earns is taxed separately from that of the shareholders.

When it comes to a single pro-



Former Terrace Bay residents, now living in Kelowna, British Columbia, held a barbecue at the home of Lucille and Harold Kodila for Dorothy Koski who was getting ready to leave for a month long holiday in Africa. From left to right are Mary and George Dashkeywitch, Dene Clancy, Peggy Schretlen, Jim Clancy, Dorothy Koski and Lucille and Harold Kodila.

rietorship, there are six basic advantages to consider.

These include low start-up costs, greatest freedom from regulation, the owner holds direct control, minimal working capital requirements, tax advantages to small owner, and all profits accrue to the owner.

However, there are some disadvantages inherent in single proprietorships.

These include unlimited liability, lack of continuity, the difficulties of raising capital, and, if your business is reasonably successful, you can probably expect

to pay higher income taxes.

Also, sole proprietors are often disadvantaged as to the forms of employee compensation plans which are available and their cost.

In the next column, we'll look at the advantages and disadvantages of partnerships and corporations.

For more information about the Superior North Business Development Centre and the services it provides, contact Bob MacIver at the SNBDC office at Simcoe Plaza, Terrace Bay, P0T 2W0 or telephone 825-9688.



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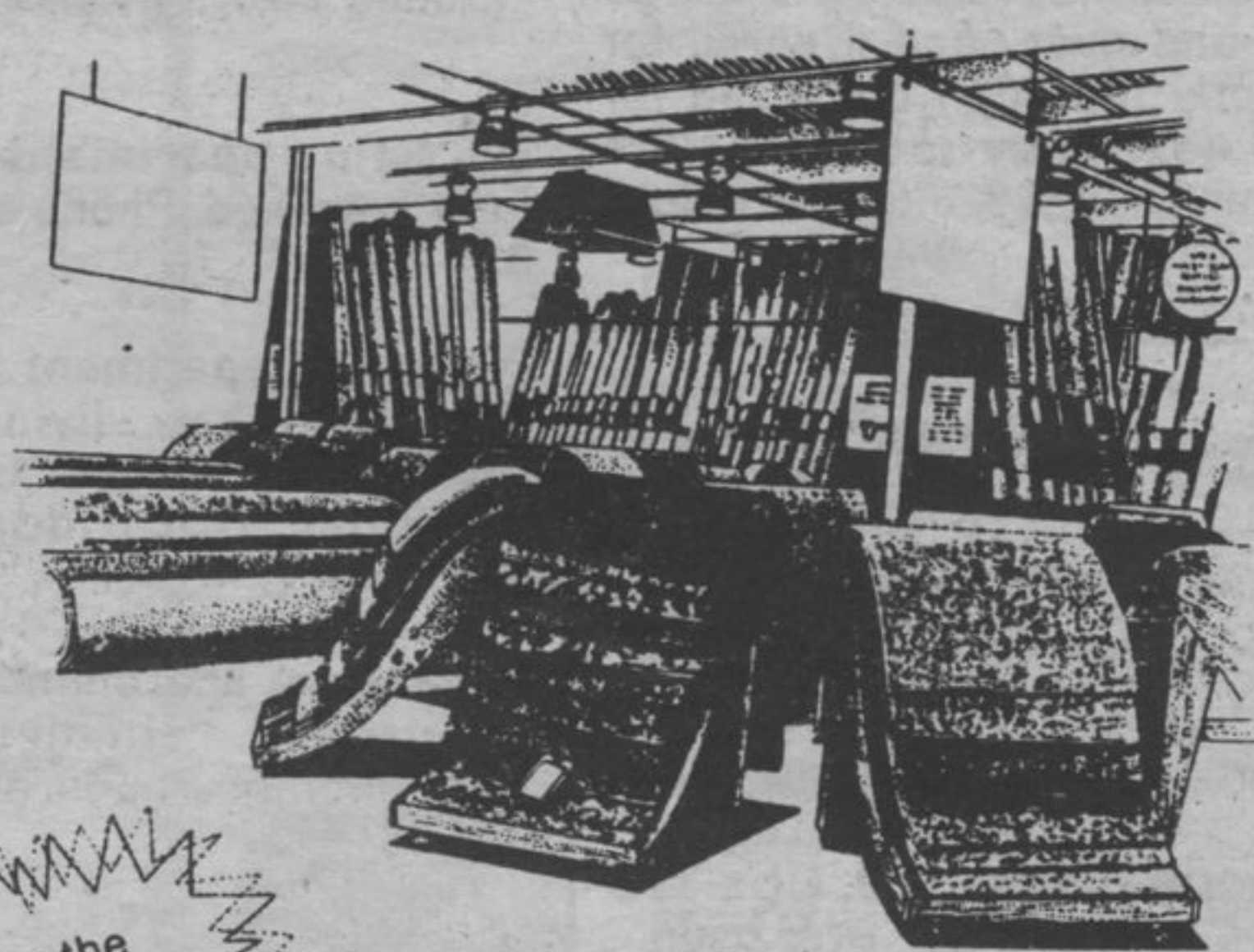
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