



INCORPORATION

OVERVIEW AND FACTS

What is a Corporation?

A corporation is a legal structure which creates a business as a completely separate legal entity from its owners/directors.

It is recognized with one of the following designations:

- Limited (Ltd. or Ltee.)
- Incorporation (Inc.)
- Corporation (Corp.)

Business bank accounts and records must be maintained and kept separate from personal accounts and assets.

Advantages of incorporating:

- Limited Liability - Generally limited to individual's personal investment in the business.
- Continuous Existence - Ownership is transferable
- Separate Legal Entity
- Specialized management
- Possible tax advantages
- More financing options - such as selling shares to generate capital.

Disadvantages of incorporating:

- High costs - to establish a corporation and additional costs to maintaining.
- Shareholders may be held legally responsible in certain circumstances
- Closely regulated by the Government
- Extensive record keeping and more complex taxation
- Increased formalities as certain documents must be filed and maintained.

If you decide to incorporate you will have to choose between federal and provincial incorporation.

Type of Corporation	Advantages	Disadvantages
Provincial Corporation Applies to corporations intending to operate in one province only.	<ul style="list-style-type: none">• Name selection is self-policing• Name only needs to be available under Ontario laws• Faster incorporation turnaround time• No government fee for Form 1 filings under the Corporations Information Act	<ul style="list-style-type: none">• Higher government incorporation fee• May be difficult to use corporate name when expanding into other provinces
Federal Corporation Applies to corporations intending to operate extensively in more than one province.	<ul style="list-style-type: none">• Name decision by government examiners based on availability across Canada.• Enhanced name protection• Increased global recognition of federal charter• Ability to operate in every province• Lower government incorporation fee• Filing Articles of Incorporation and other required documents online is accessible and convenient• Location flexibility	<ul style="list-style-type: none">• Finding an available name is more difficult• Name decision made by government examiners• Longer processing time (1-2 days)• Government fees associated with annual filings

Choosing a Corporate Name or Numbered Company

Corporate Name (i.e. Microsoft Inc.)

By incorporating a business name you obtain legal ownership.

Note: A Master Business License is not required when incorporating a specific name.

Numbered Company (i.e. 123456 Ontario Ltd.)

If you registered as a numbered company and you wish to use an "operating as" name, you must register that name under the corporation with Service Ontario. This is called the Master Business License (\$60 fee).

Trade Name

For businesses that plan to conduct business under a different name than the incorporated name. A Master Business License is required to register the trade name under the corporation umbrella.

For more information on Master Business Licenses refer to The Business Centre's Quick Facts Booklet.

Claiming your Corporation's Income

For details on how to file corporate taxes, visit the Canada Revenue agency website to obtain the guide:

Guide: T4012 - T2 Corporation Income Tax Guide:

<http://www.cra-arc.gc.ca/E/pub/tg/t4012/README.html>

For information on Service Providers and filing articles of incorporation for a provincial incorporation visit serviceontario.ca

For information on the Federal incorporation process, including the required forms, visit corporationscanada.ic.gc.ca

Corporate Management and Ownership Breakdown

The owner(s) of the corporation are its shareholders. Shareholders elect or appoint the directors to direct and make corporate policies for the management of the corporation. The directors elect or appoint the officers of the corporation such as president, secretary and treasurer. The officers can be hired or fired by the directors at any time. In small businesses the same people are frequently shareholders, directors, and officers.

Corporate Records

Once you have received your certificate of incorporation, you need to start keeping a corporate minute book. All corporations are required by law to keep certain corporate records including but not limited to:

- A copy of the Articles of Incorporation
- All corporate by-laws
- Minutes of Shareholder meetings
- Minutes of Directors' meetings
- Directors, Securities, and Share Transfer Register
- A copy of any forms filled with the government
- A copy of any unanimous shareholder agreement

Although it is not required, it is recommended that a professional be used to incorporate as it can be a complicated procedure. Before you start your business you can be advised of important legal issues and tax implications relating to corporate structure, shareholder agreements, etc.

If you are looking for clarification on any of the information from this handbook we recommend that you seek professional advice from our partners at Grant Thornton (705-472-6500) and Wallace Klein Partners in Law - LLP (705-474-2920).

