

ROBINSON LOTT & BROHMAN LLP
OWNER-MANAGED BUSINESS START-UP GUIDE



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This guide has been prepared to highlight some of the basic considerations involved in starting and operating a business in Ontario. This guide is not a substitute for professional accounting and legal advice and should be used as a reference source and checklist only.

FORMS OF BUSINESS ORGANIZATIONS

Prior to startup, the form of legal entity must be chosen. The form selected will determine the personal liability for business debts and the way you are affected by income tax rules and regulations.

Forms of business organization are detailed below:

SOLE PROPRIETORSHIP

- Owned by one individual
- Sole proprietor is liable for debts of the business
- No distinction is made between the assets of the individual and the business if the business becomes insolvent
- The income or loss of a sole proprietorship is combined with the other earnings of an individual for income tax purposes
- Income tax is paid on the income of the proprietorship and not on drawings taken out of the business
- No tax deferral as tax reporting is done on a calendar year-end basis

PARTNERSHIP

- Owned by two or more people
- Partners are liable for debts of the business and if one partner is insolvent, the other may be held liable for all debts
- The income may be allocated in any proportion as agreed upon by the partnership agreement and is combined with the other earnings of the individual for income tax purposes
- The rights and responsibilities of partners are quite often detailed in a partnership agreement to avoid disagreements
- No tax deferral as tax reporting is done on a calendar year-end

LIMITED PARTNERSHIP

- A form of organization to limit liability to limited partners. There must be at least one general partner as described above. The limited partners are liable only for their contribution of capital. These limited partners take no part in the management of the business.
- A limited partnership is often used to raise large amounts of cash for real estate developments.
- No tax deferral as tax reporting is done on a calendar year-end basis. In addition, there are restrictions on claiming losses for tax purposes.

CORPORATION

A corporation is a separate legal entity which exists under the authority of federal and provincial law. As such, a lawyer will be an invaluable resource for the incorporation of your business. A corporation has substantially all of the legal rights of an individual and is responsible for its own debts. It must also file income tax returns and pay taxes on income it derives from its operations. A corporation has a perpetual life and can outlive the shareholders. The ownership of a corporation is easily transferable and easily facilitates shareholder succession.

Generally, the owners or shareholders of a corporation are protected from the liabilities of the business. However, when a corporation is small, creditors often require personal guarantees of the principal owners before credit can be extended. In addition, directors of a corporation are liable for employee source deduction remittances and vacation pay in the event the corporation cannot satisfy these liabilities. The legal protection afforded the owners of a corporation can far outweigh the additional expense of starting and administering a corporation.

Corporations must file annual income tax returns with the federal government and with the provinces in which they do business. In many instances, the corporation is taxed at a lower rate than the applicable personal income tax rate. Tax deferrals can be substantial at higher levels of income. For existing partnerships or proprietorships, it is possible to transfer the assets into a corporation on a tax-deferred basis, thus recognizing more favorable tax rates on income earned inside a corporation.

GOVERNMENT COMPLIANCE AND REPORTING

REGISTRATION OF A NAME:

A sole proprietorship is not required to be registered if the business is carried on under the owner's name. If the business uses a name other than the owner's or adds "and Company" (or other words), the Business Names Act requires you to register the business name you have chosen with the Ministry of Consumer and Commercial Relations, Companies Branch before you start using the business name. The fee for registration is \$70 and is valid for 5 years. You are responsible for ensuring the name is not already in use, and the fee for this search is \$10. Your lawyer will help you to properly register your business name. Registration forms are available at your local Land Registry Office. Articles of incorporation may be delivered to the Land Registry Office in Sault Ste Marie to register the name of a corporation. A name search must also be performed. For more information call 705-253-8887.

You can also register online by visiting the Government Information Center at 62 Queen Avenue, Blind River Ontario, or call them at 705-356-2226 for more information.

BUSINESS NUMBER

A business number with Canada Revenue Agency will be needed for:

**Corporate Income Tax
Import/Export Taxes
Payroll Deductions and
GST/HST**

When registering you will need to provide the following information:

name of business;

- articles of incorporation;
- business location, as well as mailing address
- legal structure of the business (sole proprietorship, partnership or corporation);
- fiscal year-end and the major business activity;
- an estimate of annual revenues;
- if you are a sole-proprietor, your social insurance number;
- if you are a corporation, or partnership, a list of the directors/partners, their contact numbers and social insurance numbers

- one of the directors/partners must sign the RC1(Business registration request) and supply Canada Revenue Agency with an RC59 (Consent form) if your accountant is registering for you.

To register on-line, see <http://www.cra-arc.gc.ca> business registration on-line.

MUNICIPAL LICENCE

To obtain a business license in Blind River visit the Town of Blind River municipal office or call 705-356-2251. Business licenses are \$100.00 for residents and \$250.00 for non-residents.

RETAIL SALES TAX

Businesses that sell taxable goods, provide taxable services, or charge admission to a place of amusement must obtain a vendor permit and collect and remit on a regular basis. There is no fee for this permit. Call 1-800-268-8852 for further information.

GOODS AND SERVICES TAX

Every business or organization engaged in a commercial activity with annual revenues of more than \$30,000 is required to be registered. Be sure to register early in order to claim input tax credits on start up expenses. You will be registered for GST once you obtain a Business Number. See page 10 for more information.

PAYROLL DEDUCTIONS

Every business that hires employees must deduct income tax, Canada Pension Plan and employment insurance premiums, and remit these deductions on a monthly basis. You can register when you get your business number. See page 14 for additional information for payroll deductions.

EMPLOYER HEALTH TAX

Employer Health Tax is paid by all employers paying wages to employees who report for work at a permanent workplace in Ontario. Businesses with payrolls under \$400,000 are exempt from this tax but must still be registered. To register, call 1-800-263-7965.

WORKPLACE SAFETY AND INSURANCE BOARD (formerly Workers' Compensation Board)

Most employers in Ontario are required to register with the Workplace Safety and Insurance Board within 30 days of hiring their first employee. To register, call 1-800-387-8638.

SOURCES OF FINANCING

Small Business Loans Program

The Small Business Loans Program, under the Small Business Loans Act, can assist in obtaining term loans of up to \$250,000 to help finance fixed asset purchases. Application forms can be obtained from any local participating chartered bank, trust or loan company.

Business Development Bank of Canada Term Loans

BDC provides small businesses with term loans for a variety of commercially viable projects, including expansion, plant overhauls, the purchase of existing businesses and the acquisition of fixed assets. These loans are amortized over a long period of time and repayment is structured according to a client's ability to repay. For more information, contact 705-941-3030.

Micro Business Program

This program provides training, counselling and financing to support early growth businesses with less than five employees and which have annual sales of less than \$500,000. Loans of up to \$25,000 are available to new businesses; loans of up to \$50,000 are available to existing businesses with potential for growth. The loans can be used for working capital, fixed assets or start-up costs. For more information contact the Business Development Bank of Canada at 705-941-3030.

Ontario Community Futures

This program provides funds for rural businesses leading to diversification of the local economy. It provides small business repayable loans of up to \$125,000 made on commercial terms. They are approved by the local board of directors when financing cannot be arranged with traditional financial institutions. For more information contact the East Algoma Community Futures Development Corporation at 705-356-1152.

Venture Loans

A Canadian company incorporated under a federal or provincial charter with strong growth potential may be eligible for "quasi-equity" financing of between \$100,000 and \$1,000,000 for expansion and market development projects, without relinquishing control or diluting ownership. For more information, contact 1-888-463-6232.

Patient Capital

This program provides the long-term financing that innovative and knowledge-based businesses need to market their products or services, without diluting ownership. It provides financing of between \$50,000 and \$250,000. Loans are amortized over 6 – 8 years. In addition, borrowers receive follow up counselling from the Business Development Bank of Canada. For more information, contact 1-888-463-6232.

Industry Specific Financing

Due to the extensive amount of financing available, only the most general finance options have been discussed above. Contact your Robinson Lott & Brohman LLP advisor for specific industry financing. More information is available for the following industries: aerospace, agriculture/food, communication, construction, culture/cultural industries, environment, fishery, forestry, manufacturing, medical, mining/petroleum, service industry, tourism/leisure, transportation, and wholesale/retail sectors.

SPECIALIZED PROGRAMS

Self – Employment Assistance

This program provides qualified employment insurance claimants with income support, training, and technical assistance to help them become self-employed. A personal investment in the business equal to the lessor of 25% of the fifty-two week income support total of \$4,000 is required. For more information, contact your local Human Resources Centre. In Blind River call 356-2263.

Young Entrepreneur Financing Program

This program is aimed at providing start-up financing for entrepreneurs between the ages of 18 and 34 who have a solid foundation for building a new business. Term financing of up to \$25,000, and 50 hours of tailor-made business management support help ensure entrepreneurs with commercially-viable business proposals and excellent potential get their businesses off the ground. For more information, contact 1-888-463-6232.

The Young Entrepreneurs Program

This program provides loans of up to \$7,500 for youth aged 18 to 29 who are interested in starting and operating their own business in Ontario. The loans are guaranteed by the Ontario government and are co-sponsored by the Royal Bank. For more information call 1-800-567-2345.

Student Ventures Program

This program provides loans of up to \$3,000 to students between the ages of 15 and 29 who wish to own and operate a summer business. For more information, contact the Ministry of Economic Development Trade and Tourism at 1-800-265-2428.

GOODS AND SERVICES TAX (GST) AND HARMONIZED SALES TAX (HST)

The Goods and Services tax (GST) is a 7% tax on the supply of most goods and services in Canada. A supply means the provision of property or services in any manner, including a sale, transfer, barter, exchange, license, rental, gift or disposition. The Harmonized Sales Tax (HST) replaces the retail sales tax and the GST in: Newfoundland and Labrador, Nova Scotia and New Brunswick.

As a new business owner, you must determine if your business should register for the GST. You must register if your total (gross) worldwide taxable revenue, including the taxable revenues of all your associates, is more than \$30,000 in the immediate preceding year. While you do not have to register if your taxable revenue is \$30,000 or less (except for taxi operators), you may do so voluntarily. As a registrant, you must charge GST or HST on the goods and services you provide (taxable at 7% or 15%, respectively). You can claim input tax credits to recover the GST/HST paid or owing on purchases and expenses incurred through commercial activities.

TAXABLE, TAX-EXEMPT OR ZERO-RATED SUPPLIES?

It is essential to correctly determine the tax status of various sources of revenue earned by your organization. This will determine whether GST/HST needs to be charged to your customers and whether or not GST paid on related expenditures is eligible for input tax credits. Misclassification can be very expensive as the Canada Customs and Revenue Agency can assess your business for GST owing, plus interest and penalties as applicable. Remember, it may be difficult to recover the tax from your customers after the fact.

If your business is taxable or zero-rated, GST/HST is charged at the appropriate rate (7%, 15% or 0%) and input tax credits are claimed accordingly. If your business is tax exempt, it does not charge GST/HST, nor can it claim input tax credits. Your Robinson Lott & Brohman LLP advisor can help you determine the correct tax status of your operations.

DOCUMENTATION

It is imperative that you keep accurate, detailed records of your business transactions. This will be important should the Canada Customs and Revenue Agency decide to audit your business. Be sure to provide your customers with the appropriate GST information and review your suppliers' invoices to ensure they are providing you with the same. For sales under \$30, your invoice must include the vendor's name, date of invoice and the total paid. For sales greater than \$30, you must have the aforementioned information and the vendor's business number; the amount of GST; and the tax status of each item. For all

sales greater than \$150, you must also provide the purchaser's name, a description of each item and the terms of payment.

SIMPLIFIED METHOD

You can use this method if you are registered for GST/HST and your annualized taxable sales of goods and services are \$500,000 or less in your immediately preceding fiscal year. With the simplified method, you have to track the total amount of your taxable purchases for which you are entitled to claim input tax credits. To calculate your input tax credits, multiply your total taxable purchases for the reporting period, including any provincial sales tax, tips, and penalty and interest charges on late payments by a factor of 7/107 for GST purchases and 15/115 for HST purchases.

QUICK METHOD

Unless you are an accountant, bookkeeper, financial consultant, or a business with greater than \$200,000 annualized taxable supplies, you may elect to use this method. With the quick method, you collect the 7% GST on taxable supplies to your customers in the usual way. To calculate the GST to be remitted, multiply the amount of these supplies (including the GST) by the quick method remittance rate of either 2.5% or 5% depending on your business. If you are using the quick method at the beginning of a fiscal year, you are entitled to a 1% rate reduction on your first \$30,000 of revenue from the sale of goods and services taxable at 7% in a fiscal year. The lower remittance rate means that you cannot claim input tax credits on your purchases. The input tax credits arising from capital purchases are permitted and should be claimed separately.

REPORTING PERIODS

When calculating your taxable sales to determine your reporting period, do not include sales made outside Canada, zero-rated goods and services or taxable sales of capital real property or goodwill. If your annual taxable sales and revenue is \$500,000 or less, you will be an annual filer. You can elect to change your reporting period to quarterly or monthly if you expect refunds on a regular basis. If your annual taxable sales and revenues are between \$500,000 and \$6 Million, your filing period will be quarterly unless you elect a monthly filing period. If your revenues are greater than \$6 Million, you must report on a monthly basis. You should ensure that your reporting period coincides with the fiscal year end of your business.

Failure to file returns can result in penalties, which are the greater of: 5% of the unremitted tax, or \$250. Interest will also be charged at a prescribed rate for late remittances. If you are claiming a refund on your return, the Canada Customs and Revenue Agency will pay interest starting 21 days after the return is filed.

WHICH IS BEST FOR MY BUSINESS?

With a myriad of options, it can be very confusing to determine the tax status of your goods and services, the best method of calculating your remittance and the frequency of your reporting. Let your Robinson Lott and Brohman LLP advisor help you determine the options to best suit your business needs.

OBLIGATIONS TO EMPLOYEES

As a business owner, you will discover that you can't do it all by yourself. The hiring of people to help your business succeed changes your status to an "employer". This leads to a series of governmental regulations for dealing with employees, including how you report employee earnings to the government. As an employer you must deduct income tax, Canada pension plan (CPP) contributions, and employment insurance (EI) premiums from amounts you pay to your employees. You must then remit these deductions along with your share of CPP and EI contributions. You must also report each employee's income and deductions on the appropriate information return on or before the end of February of the subsequent year.

SELF-EMPLOYED OR EMPLOYEE?

The Canada Customs and Revenue Agency in its Employers' Guide to Payroll Deductions book states: "an employer-employee relationship exists if you are in a position to control and direct the person or people who perform the services".= Although a written contract may indicate that an individual is self-employed, the Canada Customs and Revenue Agency may not accept this position if there is evidence of an employer-employee relationship. If there are any doubts, you can apply for a ruling from the Canada Customs and Revenue Agency.

HOW TO REGISTER

You can register for an employer remittance number at the same time you apply for a business number. If you have a business number, but are not yet registered for payroll, you can do so by telephoning 1-800-461-0618 and providing them with the following information: company name, address, phone number, incorporation date (if applicable), business number (if applicable); proprietor's or partners' social insurance number (if applicable); type of business; date the business operations commenced; bank name and address; number of employees; and whether the business operates seasonally or year-round. The Canada Customs and Revenue Agency will supply you with a payroll deduction book, and employer registration form (PD20E) and a supply of employees' personal tax deduction returns (TD1E).

CANADA PENSION PLAN (CPP)

You must withhold CPP contributions from wages you pay to your employees if they are: between 18 and 70 years of age; have pensionable employment during the year; and do not receive CPP or Quebec Pension Plan retirement or disability pension. The calculation for 2002 is: $(\text{Gross wages} - \$3,500) \times 4.7\%$ to an annual maximum of \$1,673.20. There are also tables provided by the Canada Customs and Revenue Agency that provide you with the correct deduction per pay period.

As an employer, you must match the employees' contributions on a dollar-for-dollar basis.

EMPLOYMENT INSURANCE (EI)

You must withhold EI premiums from each dollar of insurable earnings. The calculation for 2002 is: (Insurable Earnings x 2.2%) to a maximum annual contribution of \$858.00. There are also tables provided by the Canada Customs and Revenue Agency that provide you with the correct deduction per pay period. As an employer, you must remit 1.4 times each employees' premium. For shareholders and related parties, there are exemptions to the deduction of EI premiums. For more information, contact your Robinson Lott & Brohman LLP advisor.

INCOME TAX

When you hire an employee, they should complete personal tax credit forms for both the Federal and Provincial governments. This will enable you to withhold an appropriate amount of income tax each pay period. As with EI and CPP, the Canada Customs and Revenue Agency provides tables to determine the required amount of income tax deductions.

REMITTING SOURCE DEDUCTIONS

Businesses with less than \$15,000 of monthly source deductions must remit their payments by the 15th of the month following the month of deduction. Payments may be made to the Canada Customs and Revenue Agency directly or through a Canadian financial institution. Remittances must be paid twice a month if your average monthly deductions are between \$15,000 and \$50,000. For those businesses with deductions greater than \$50,000 per month, remittances must be made four times a month. If you fail to withhold the correct amount of deductions or fail to remit these deductions, you will be subject to penalties of up to 20% of the amount you should have deducted or remitted. Subsequent offenses will be subject to much harsher penalties.

EMPLOYER HEALTH TAX

Employer Health Tax is required by all employers paying wages to employees who report for work at a permanent workplace in Ontario. Businesses with payrolls under \$400,000 are exempt from this tax, but must still be registered. To register, call 1-800-263-7965.

WORKPLACE SAFETY AND INSURANCE BOARD (formerly Workers' Compensation)

Most employers in Ontario are required to register with the Workplace Safety and

Insurance Board within 30 days of hiring their first employee. Premiums are based on the industry history and vary by the type of business operations. To register, call 1-800- 387-8638.

EMPLOYMENT STANDARDS

As an employer, it is your responsibility to familiarize yourself with the Employment Standards Act of Ontario. Some of the topics include: hours of work, statutory holidays, minimum wage, overtime pay, equal pay for equal work, benefit plans, parental leave, termination of employment, severance pay and agricultural workers. Copies of this booklet are available from Ministry of Labour at 1-800-268-8013 ext. 6-7731.

FINAL NOTES

Before you hire employees, discuss your situation with your Robinson Lott & Brohman LLP advisor. There are many instances where deductions are not required and programs are available to help minimize the amount of remittances required.

FINANCIAL REPORTING REQUIRMENTS

Depending on the form of organization you have chosen for your business, you may be limited to the date of your year-end. New proprietorships and partnerships must have December 31st year-ends. Corporations can select a year-end not more than 53 weeks after the date of incorporation. This can provide for a deferral of tax. A year-end is usually the last day of a month, and is often selected to coincide with seasonal levels of activity. It is often easiest to have year-end during the “quiet” season, when inventory levels are low. Once a year-end is selected, financial statements must be prepared and would include a balance sheet and a statement of earnings. We can prepare financial statements with four different levels of involvement and communication to the reader as follows:

ONE PAGE STATEMENT OF EARNINGS

We use a one-page statement of earnings to summarize farming, professional, business or rental income. This statement may often be produced on the Canada Customs and Revenue Agency prescribed forms and is used for personal income tax reporting. In addition to a statement of income, a capital cost allowance schedule is generated to calculate deductions based on the purchase cost of capital items such as an automobile or computer. This statement is the minimum that is required, and is suitable only if there are no external financing arrangements and/or your operations are small.

NOTICE TO READER

This type of financial statement includes a statement of earnings, a balance sheet and a report page describing to users the professional services that have been provided. These statements offer little assurance to outsider users, since they are not prepared in accordance with generally accepted accounting principles. These statements are useful in situations where there is no external financing. They provide the business with a set of financial statements with little cost. The reason for the lower cost is that an accountant does very little substantive or compliance work to generate documentation to support the information presented in the financial statements.

REVIEW ENGAGEMENT REPORT

This type of financial statement consists of a balance sheet, statement of earnings, statement of changes in financial position, notes to the financial statements and a report page documenting the professional services which have been provided. These financial statements must be prepared in accordance with generally accepted accounting principles. Sufficient review procedures including enquiry, analytical procedures, and discussion must be performed. The cost of a review engagement is greater due to the higher standards that must be met. These statements are suitable for external financing purposes and are often a requirement of bank financing.

AUDIT ENGAGEMENT REPORT

This is the highest level of assurance that can be provided by a licensed public accountant. This involves the expression of an opinion on the financial statements based on the audit. An auditor must adhere to generally accepted auditing standards that involve obtaining sufficient and appropriate audit evidence to support the amounts and disclosures in the financial statements. The statements must be prepared in accordance with generally accepted accounting principles. An audit is required by many non-profit organizations and by Ontario incorporated companies with revenues in excess of five million dollars and assets in excess of two and a half million dollars.

WHY GOOD RECORDS ARE IMPORTANT!

- identify sources and amounts of your income;
- identify types and amounts of expenses;
- identify areas of tax savings;
- prevent many problems you might encounter if the Canada Customs and Revenue Agency audits your income tax or GST returns;
- keep you better informed about the financial position of your business; and

- assist in getting loans from banks and other creditors

Records must be permanent and be kept for a minimum of 6 years from the date you file a tax return. Be sure to keep all invoices, receipts, vouchers, cancelled cheques and bank statements to support your income and expense claims. You must report business income (other than farming and fishing income) on an accrual basis. This means that you must record income and expenses in the fiscal year they were incurred, regardless of when they were paid.

RUNNING A BUSINESS FROM YOUR HOME

You can deduct expenses for the business use of a work space in your home if the work space is either: your principal place of business; or you use the space only to earn your business income and you use it on a regular and ongoing basis to meet your clients or customers. Be sure to use a reasonable basis such as the area of the work space divided by the total area of your home. You can deduct a portion of:

- maintenance costs, such as heating, home insurance, electricity, water and cleaning materials
- property taxes or rent
- mortgage interest
- capital cost allowance
- telephone

CLAIMING MOTOR VEHICLE EXPENSES ON A PERSONALLY OWNED VEHICLE

You can deduct motor vehicle expenses when the amounts are reasonable and you have receipts to support your claim. The Canada Customs and Revenue Agency will require a business purposes test. Be sure to keep a record of the total kilometers driven as well as the total amount of kilometers driven to earn business income. Document the odometer readings of all vehicles at the beginning and end of each year.

Expenses you can claim include: fuel and oil, repairs and maintenance, license and registration fees, capital cost allowance, interest you pay on a loan used to buy the vehicle, capital cost allowance, and leasing costs.

TELEPHONE NUMBERS

Business Development Bank of Canada	1-888-463-6232
Canada – Ontario Business Call Centre	1-800-567-2345
Ministry of Consumer & Commercial Relations	1-800-361-3223
The Canada Customs and Revenue Agency Business Registration	1-800-959-5525
Province of Ontario Retail Sales Tax Vendor Permit	1-800-268-8852
Blind River	
Business Development Corporation	1-705-356-5715
East Algoma CFDC	1-888-227-3569
Chamber of Commerce	1-800-563-8719
Town Of Blind River	1-705-356-2251
Ontario Works	1-705-356-2263
Employer Health Tax	1-800-263-7965
Workplace Safety & Insurance Board Employer registration	1-800-387-8638
Ministry of Economic Development Trade & Tourism	1-800-265-2428
Ministry of Labour	1-800-531-5551