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The 3 Most Common Types of Business Entities in Ontario: Sole Proprietorships, Partnerships, and Corporations

Partnerships

Partnerships are a common form of business. A partnership is automatically formed when two or more individuals or corporations carry on a business with a view to profit. The *Partnerships Act* (Ontario) governs partnerships in Ontario and unless a formal partnership agreement is entered into among the partners, the *Partnerships Act* determines the rights and obligations of each partner.

A partnership itself is not a taxable entity. First, the income or loss of the business carried on by the partnership is determined at the partnership level and then allocated to the partners, according to his or her entitlement under a partnership agreement or the *Partnerships Act*. That income or loss is divided among the partners, and each partner's share of that income or loss is included in computing his or her income for tax purposes.

Characteristics

The partners in a partnership are the sole owners and cannot be employees. While all of the benefits of the partnership accrue to the partners, all of the obligations of the partnership are the partners' personally. As with a sole proprietorship, each partner is personally responsible for the obligations undertaken in contracts entered into by the partners, but unlike a sole proprietorship, all partners are responsible for the obligations regardless of which partner actually commits the partnership to the obligations. In addition, each partner is responsible for the tortuous acts of self or employees, and all income from the business is calculated at the partnership level and then is taxed in the hands of the partners personally.

General Partnership

In a general partnership, all partners share the management of the business and each is personally liable for all the debts and obligations of the business. This means that each partner is responsible for the actions of his or her partners and must assume the consequences of the actions of the other partner(s).

Limited Partnership

In a limited partnership, some partners are general partners who control and manage the business and may be entitled to a greater share of the profits, while other partners are limited and contribute only capital. Limited partners take no part in control or management and are liable for debts to a specified extent only. A limited partnership must be registered under the *Limited Partnerships Act* (Ontario).

Advantages

▪ Tax is calculated at the partnership level but is allocated and paid at the personal level

▪ There is a roll out in property on tax deferred basis

▪ It is easy to admit new partners

▪ No government issued document is required, other than the requirements of the *Business Names Act* and the *Limited Partnerships Act* (if applicable

Disadvantages

▪ No limited liability

▪ It is difficult to attract investors

▪ A partner's estate is liable for debts

▪ Other partners can contract with third parties and leave their partners jointly and severally liable

▪ The cost of having a partnership agreement prepared