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

Sole Proprietorships

A sole proprietorship is the simplest form of business organization. It arises when someone starts to carry on a business in the person's own name. Operating a sole proprietorship is not only the simplest way of carrying on business, it is also the least expensive way of starting a business as no separate legal entity is created, and there is only one owner.

Characteristics

- The business owner (called a sole proprietor) is the sole owner of the business
- The sole proprietor cannot employ him/herself
- All benefits accrue to the sole proprietor
- The sole proprietor derives a residual benefit from the business (he/she gets whatever is left over)
- **There is no distinction between the individual carrying on the business and the business itself**

Advantages

- Low start up cost
- The sole proprietor is in direct control of the business
- Flow through of profit or loss to the owner
- Few corporate regulations other than *Business Name Act*

Disadvantages

- Unlimited liability – meaning that the sole proprietor's personal assets can be seized by a third party in a successful lawsuit against the sole proprietor
- The magnitude of the liability risk increases as the business increases
- You cannot bring on anyone as a partner
- It is difficult to attract investors (it is more difficult to raise money for the business)

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Legal Obligations

The same legal obligations that apply to all new businesses apply to sole proprietorships upon commencement of business as well (e.g. licences under *Municipal Act*, *Securities Act*, *Registered Real Estate Brokers Act*, etc.). Further, all obligations are the sole proprietor's personally, meaning that, among other things:

- the sole proprietor is solely responsible for all obligations contained in contracts he or she has entered into on behalf of the sole proprietorship;
- the sole proprietor is solely responsible for tortious acts of him or herself or employees; and
- all income from the business is taxed to the sole proprietor personally.

Business Names and the Requirement to Register under the *Business Names Act*

If a sole proprietor carries on business under a name other than his or her own name, he or she must register the business name under the *Business Names Act* (Ontario). A business name registration under the *Business Names Act* (Ontario) is valid for five (5) years. **The responsibility to renew the business name before the expiry date rests with the business owner - the Ontario government will not remind the business owner that the business name needs to be renewed.**

Example: John Doe decides to open a dry walling business in Hearst, Ontario. If he carries on business as "John Doe" he does not have to register under the *Business Names Act*. BUT, if he carries on his business as "John Doe Dry Walling" he must register the business name as he is carrying on business in a name other than his own.

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