



Starting Your Business

**Everything you ever wanted to know
about how to start your business**

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Best Selling Author**

About the author



Kim LaBreche, CPA, CA and best-selling author has worked with thousands of individuals, entrepreneurs and executors throughout her career in accounting and finance. Kim is the owner and managing partner of Saklas & Co. Chartered Accountants, a public accounting firm located in South Surrey, British Columbia, Canada.

Kim is passionate about making a difference in the lives of her clients and conducts “business with heart and soul.” Her “Make It Happen” approach ensure that things get done efficiently, and her attention to detail in the delivery of her services is appreciated by those who work with her.

Kim has assembled her “D.R.E.A.M” team of professionals and supports her clients in areas of personal tax, corporate accounting, business succession, and complex tax optimization strategies utilizing trusts. Kim and her team work hard to assist business owners in maximizing their profits and minimizing their taxes. Her firm partners with entrepreneurs to help them navigate the complex world of accounting and tax, so they are free to focus their energy on what matters most to them. The firm’s success is directly attributed to a commitment of providing quality service in a timely fashion.

If you are interested in working in partnership with a team of professionals who sincerely care about tyou and your accounting and tax needs, Saklas & Co. Chartered Accountants would love to hear from you!

Please visit our website at: www.saklasaccounting.com or reach us by phone at: 604-531-2292. Kim LaBreche and Saklas & Co Chartered Accountants can also be found on Facebook, Twitter and LinkedIn. Start following them today!

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Making the choice - proprietorship, partnership or incorporation

From a legal point of view, there are three common types of businesses:

- sole proprietorship
- partnership
- corporation

Each has different and important implications for liability, taxation and succession.

Advantages and Disadvantages of Proprietorship

This is the simplest way to set up a business. A sole proprietor is fully responsible for all debts and obligations related to his or her business.

A creditor with a claim against a sole proprietor would normally have a right against all of his or her assets, whether business or personal. This is known as unlimited liability.

In a proprietorship, one person performs all the functions required for the successful operation of the business.

The proprietor secures the capital, establishes and operates the business, assumes all risks, accepts all profits and losses, and pays all taxes. The proprietor is self-employed.

Advantages:

- Low start-up costs
- Greatest freedom from regulation
- Owner in direct control of decision making
- Minimal working capital required
- Tax advantages to owner
- All profits to owner

Disadvantages:

- Unlimited liability
- Lack of continuity in business organization in absence of owner
- Difficulty in raising capital

Advantages and Disadvantages of Partnership

A partnership is an agreement in which two or more persons combine their resources in a business with a view to making a profit.

In order to establish the terms of the partnership and to protect partners in the event of a disagreement or dissolution of a partnership, a partnership agreement should be drawn up. Partners share in the profits according to the terms of the agreement.

In a General Partnership, two or more owners share the management of a business, and each is personally liable for all the debts and obligations of the business. A

second type of partnership is a Limited Partnership which involves limited partners who combine only capital.

They are not involved in managing the business and cannot be liable for more than the amount of capital they have contributed. This is known as limited liability.

Advantages:

- Ease of formation
- Low start-up costs
- Additional sources of investment capital
- Possible tax advantages
- Limited regulation
- Broader management base

Disadvantages:

- Unlimited liability
- Divided authority
- Difficulty in raising additional capital
- Hard to find suitable partners
- Possible development of conflict between partners
- Partners can legally bind each other without prior approval
- Lack of continuity

Advantages and Disadvantages of Incorporating

A corporation, also known as a Limited Company, is a legal entity, which is separate and distinct from its members (shareholders). Each shareholder has limited liability.

A creditor with a claim against the assets of the company would normally have no rights against its shareholders, although in certain circumstances shareholders may be held liable.

This type of business can be incorporated at either the federal or provincial level. Ownership interests in a corporation are usually easily changed. Shares may be transferred without affecting the corporation's existence or continued operation.

Advantages

- Limited liability
- Possible tax advantage (if you qualify for a small business tax rate)
- Ownership is transferable
- Continuous existence
- Separate legal entity
- Easier to raise capital

Disadvantages

- Closely regulated
- Most expensive form to organize
- Extensive record keeping necessary
- Shareholders may be held legally responsible in certain circumstances
- Personal guarantees undermine limited liability advantage

Registering a Company

Registering a proprietorship or partnership

The Provincial Government regulates proprietorships and partnerships. If you choose to carry on a business under a name other than your own, you must register.

A limited partnership formed outside of the province may carry on business in B.C. if registered under the Partnership Act. Third parties often require registration for use of a company name. Examples include opening a bank account or registering a motor vehicle.

To register a proprietorship or a partnership you will need to complete a Name Approval Request Form along with a Declaration for Partnership and Business Name Form.

Complete the Name Approval Request Form first and mail it to the Registrar of Companies in Victoria.

When this form is returned to you with one of your choices reserved, complete the Declaration for Business Name Form and submit it within six days of the Name Reservation Date.

Name Approval and Reservation Fee: \$30.00

Declaration for Partnership and Business Name Fee: \$30.00

The approval process prevents the use of names that are so similar as to confuse or mislead people, and provides a record that allows the public to determine which individuals are behind the name.

Registering a Corporation

You have the option to incorporate at a provincial level or at a federal level. If a company intends to carry on its activities solely in one province, provincial incorporation may be preferable.

If the company wishes to expand its activities outside of its provincial jurisdiction at a later date, it must obtain an extra-provincial license from every other Province in which it wishes to open an office or obtain a presence.

Incorporating a Company in British Columbia

Incorporating can be a very involved process and it is recommended that you seek the advice and services of a lawyer.

Companies are incorporated in British Columbia according to the provisions of the Company Act by filing the necessary paperwork and paying the prescribed fees, one or more individuals can form a company.

The first step in incorporation is the approval of the name using the same Name Approval Request Form as required for a proprietor or partner.

Printed incorporation forms are not available from the office of the Registrar of Companies. Lawyers provide the complete set of documentation as part of their service in incorporating companies.

The following documents are required:

- Memorandum (Form 1) –
 - This must be drawn up in the prescribed form and signed by every member of the company.

- It must show the name of the company, the authorized capital, and the number of each class of shares taken by the first shareholders (subscribers).
 - Any restrictions on the business or powers of the company must also be shown.
 - The name, residential address and occupation of each subscriber must be included.
- Articles
 - The Articles set out the rules for the conduct of the company.
 - Notice of Offices (Form 3)
 - This must be completed in the prescribed form to indicate the civic address of the register office as well as the address of the records office which the company is required to maintain.
 - The subscribers listed in the Memorandum are the first directors of the company. Subsequent changes to this list of directors should be made on Forms 10 and 11.

Current Fees:

Name Approval Request: \$30

Basic Fee for Incorporation: \$350

Certification of Memorandum and Articles: \$25

Contact:

Registrar of Companies

2nd Floor-940 Blanshard Street

Victoria, BC V8W 3E6

Vancouver phone: 1-877-526-1526

Taxes

Provincial Sales Tax (Social Service Tax Act)

The Consumer Taxation Branch administers this Act. The Consumer Taxation Branch registers businesses that collect tax on behalf of the province; conducts field audits and inspections of these businesses' tax collection records; and carries out office audits and compliance programs.

You must register with the Consumer Taxation Branch and collect social service tax (retail sales tax) on your taxable sales and leases, if you:

- selling goods at retail;
- leasing goods as a lessor;
- providing legal services;
- providing taxable services (e.g. repairs to goods);
- providing telecommunication services.

The Consumer Taxation Branch will issue you a Certificate of Registration and provide information on your responsibilities.

Primary Contact:

Ministry of Finance

Consumer Taxation Branch

PO Box 9417 Stn Prov Govt

Victoria, BC V8W 9V1

1-877-388-4440

Income Tax (Federal)

The Taxation branch of Canada Customs and Revenue Agency administers this Act. If you conduct business as a proprietorship or a partnership, report your share of gross and net profits (or losses) for the business' fiscal period on your individual tax return (T1).

For an incorporated company, file a corporation tax return (T2) within six months of the end of the corporation's fiscal period.

Please refer to Section 4: Summary of Business Deductions for a listing of expense eligible for deduction against business income.

You can deduct expenses including any goods and services tax (GST) you incur unless you are a GST registrant. If you are a registrant, the GST paid is an input tax credit.

Primary Contact:

Canada Revenue Agency

1166 West Pender St.

Vancouver, BC V6E 3H8

1-800-959-5525

www.cra.gc.ca

Goods and Services Tax

You must register for the GST if you are a person, business or organization operating in Canada with worldwide annual revenues from taxable supplies of goods and services over \$30,000.00.

If your annual GST-taxable sales and revenues are under \$30,000, you are not required to register, but may register voluntarily as long as you are carrying on a commercial activity.

When you register for the GST, you will be assigned a Business Number (BN).

Business Number

When you open one or more of Canada Customs and Revenue Agency's four major business accounts: corporate income tax, import/export, payroll deductions (i.e. Employer Number) and the goods and services tax (GST) - you will receive a Business Number (BN).

Summary of business deductions

To avoid overpaying taxes, you must be aware of the deductions available to taxpayers and your affairs should be structured in the most tax advantageous manner available.

The following is a summary of typical expenses incurred by most businesses. For expenses to be deductible from income for tax purposes:

1. the expense must be incurred for the purpose of earning business income
2. the expense must be “reasonable” in circumstance
3. your business must have a reasonable expectation of profit.

Direct expenses:

- Advertising

You can deduct costs for advertising in newspapers, radio, flyers, etc.

- Bank service charges

It is a good idea to open up a separate account for your business. This makes it easier to keep your business and personal expenses separate.

- Capital assets

These are items that typically cost more than \$200 and are of a lasting nature. Examples are furniture, computers, software and automobiles. Rather than being expensed completely in the year of purchase, these items are expensed (or amortized) over a number of years.

- Fees, dues and memberships

Payments to trade or commercial associations or meeting fees are deductible.

- Interest

Interest on money borrowed to finance inventory purchases, operating expenses, leasing of equipment is deductible. Have you financed your business with your Visa or line of credit? This is deductible.

- Meals and Entertainment

50% of the expenses are deductible for income tax. Keep your receipts and note whom you took out and what was discussed. Record 100% of the costs and I will adjust the total to 50% for tax purposes.

- Professional fees

Accounting, legal and business consultant's fees are all deductible.

- Professional development

Any work related courses are deductible. This covers both courses of a general nature such as courses in marketing, computers and management, as well as courses specifically related to your business.

- Promotion

Promotion items include catalogues, tapes and information sheets given to customers to entice them to purchase your product.

- Purchases

Purchases include the cost of the items (inventory) you buy to resell. Inventory costs should include freight, exchange and duties paid. A count of your inventory must be made at each year end.

- Samples

Samples are products that you promote by giving away to customers.

- Telephone charges

Airtime charges on cellular phones, long distance charges on your home phone, telephone connection charges for business line, call alert or answering services are all deductible. The cost of your home phone line is not deductible.

- Travel, conventions and workshops

You are allowed two conventions per year, which include training courses to improve your skills. All expenses related to taking the course such as travel, accommodation, food, etc. are deductible. Food is 50% deductible.

Indirect expenses:

Business use of home:

Repairs and Maintenance

(related to office only)

House insurance

Business use of automobile:

Fuel & oil

Automobile insurance

Repairs and Maintenance

Utilities

Leasing costs

Mortgage interest

Interest on automobile loan

Property taxes

Depreciation on automobile

Rent

License and registration fees

You can deduct a percentage of the total amount for indirect expenses that reasonably relate to your business income.

For your home office the percentage would be the square footage in your home that is used as an office divided by the total square footage.

For your automobile it would be the kilometers driven in your personal automobile for business divided by the total kilometers driven.

An auto log should be kept to record your business kilometers.

2014 Personal income tax rates – regular income

Approximate marginal rates - actual rates depend on applicable surtaxes

\$11,138 to \$43,953: 20%

\$43,954 - \$87,907: 30%

\$87,908 – 136,270: 36%

\$136,271 and above: 43.7%

Maintaining adequate records

There is a legal requirement to keep records to determine tax owed, particularly in the following area:

- Cancelled cheques
- Invoices for services rendered
- Salary and wages
- Payment of expenses

Depending on your size we can determine whether you should use a manual ledger like a synoptic or computerized accounting software, such as QuickBooks).

Keeping good records can benefit you in managing your business.

It can ...

- Show trends developing over time. These trends can help plan for cash and resource (manpower, supplies) requirements.
- Identify developing trouble spots when compared to prior periods or what you have budgeted – this allows you time to take corrective action before it costs you.
- Keep track of all income and from what source
- Remind you to identify all deductible expenses and input tax credits if GST registered.

- Provide proof of where you obtained your numbers in case of audit from:
 - CCRA who can audit your tax returns or GST returns
 - Provincial Government who can audit your PST returns
 - or Worker's Compensation who can audit your payroll
- Be required when seeking financing for loans or line of credits from suppliers
- Save money when using a professional accountant.
- Tell you if you are making money!

Becoming an Employer

The following information is intended to act as guidelines for employers in British Columbia. The general responsibilities of employers as well as the legislation employers should be familiar with are included.

Payroll Deduction Requirements

You are generally considered to be an employer if: you pay a salary, wages (including advances), bonuses, vacation pay, or tips to your employees you provide certain benefits such as board and lodging to your employees.

An employer-employee relationship exists if you are in a position to control and direct the person or people who perform the services.

As an employer, you have to ensure that you have a Business Number.

Remittances of employee and employer portions of Canada Pension Plan (CPP) contributions and Unemployment Insurance (UI) premiums should be submitted to CCRA on a pre-determined basis.

Employment Standards

This Act regulates relations between employers and non-unionized employees.

Employers are required to comply with the province's minimum wage standards and working conditions, such as hours of work, annual vacations, general holidays, maternity/parental leave, and termination of employment.

Under this Act, a Child Employment Permit is required if the employee is under 15 years of age.

Primary Contact:

Employment Standards Branch

A207, 20159 – 88 Avenue

Langley, BC V1M 0A4

604-513-4622

Labour Relations Code

The Labour Relations Code regulates relations between employers and unionized employees.

Primary Contact:

Labour Relations Board

Suite 600 – Oceanic Plaza

1066 West Hastings Street

Vancouver, BC V6E 3X1

604-660-1300

Human Rights Act

This Act forbids discrimination in a number of employment-related areas including employment advertisements, hiring practices and wages.

Employers are prohibited from discriminating against employees or prospective employees on the grounds of race, colour, ancestry, place of origin, political belief, religion, marital status, family status, physical or mental disability, sex sexual orientation, age, or a prior unrelated conviction of such person.

Primary Contact:

BC Human Tribunal

1170 – 605 Robson Street

Vancouver, BC V6B 5J3

604-775-2000 or toll free in BC 1-888-440-8844

Workers Compensation Act

WCB provides wage loss compensation, disability pensions and rehabilitation services to workers for work injuries and occupational diseases.

It also regulates occupational safety and health conditions in the workplace.

Under the Act, employers (businesses) are required to provide for the safety and health of their workers, pay Workers' Compensation Board assessments, and comply fully with the rules, regulations and standards in place for the reporting of accidents and injuries to the WCB.

In the case of a corporation, all shareholders or officers who are actively engaged in company business are regarded as employees under the Workers Compensation Act.

Optional personal coverage is available for sole proprietors and partnerships from the Workers' Compensation Board.

Any business which contracts out any part(s) of its business is responsible for ensuring the payment of the WCB assessments by the other contractors and sub-trades.

The prime contractor is advised to clearly establish that the sub-contractor carries his/her own coverage (i.e. has registered with the WCB) and record that WCB registration number before the start of the contract.

When a subcontractor is not registered with the WCB and the contract under which he/she is employed is essentially one of providing labour, the subcontractor and anyone he/she may employ in order to adequately perform the contract, are generally considered to be employees of the prime contractor.

For your protection, a subcontractor's coverage should be clearly established prior to commencement of a contract.

Primary Contact

Workers' Compensation Board

Main Building

6951 Westminster Highway

Richmond, BC V6B 5L5

604-231-8888 or 1-888-967-5377

www.worksafebc.com

Start Up Checklist

1. Registering your Business

You do not need to register your business if you operate it in your own personal name as a sole proprietor. If you are going to operate under a business name as a sole proprietorship, a partnership or a limited company, register your business with the provincial Registrar of Companies.

2. Obtaining a Business License

Municipalities normally require that your business premises be licensed to conduct business within its municipal boundaries in accordance with the bylaws.

3. Provincial Sales Tax (Social Service Tax)

You must register and collect social service tax on your taxable sales and leases. The Consumer Taxation Branch will issue you a Certificate of Registration and provide information on your responsibilities.

4. Federal Goods and Services Tax (GST)

If your annual revenue from the sales of taxable goods and services will exceed \$30,000, you are required to register for GST. Once you have registered, you will be assigned a Business Number.

If your annual revenue from the sales of taxable goods and services is not expected to exceed \$30,000, you are not required to register. If you do not register, you will not charge GST to your customers but neither will you be able to receive a refund for the GST paid on your business purchases.

6. Business Number

When you open one or more of Revenue Canada's four major business accounts: corporate income tax, import/export, payroll deductions and the goods and services tax (GST) - you will receive a Business Number (BN). The BN is a numbering system that identifies you and the various accounts you maintain.

7. Workers' Compensation Board (WCB)

Most business operations in British Columbia are required to have compensation coverage - about 80 per cent of all employers. Overall responsibility for complying with the Workers Compensation Act and WCB Regulations and for paying assessments rests with the employers, as the controllers of the workplace.

8. Labour Requirements

If you are hiring employees or subcontracting for labour, you may want to know requirements for minimum wage, statutory holidays and other employer/employee rights.

9. Business Records

If you are operating a business or have a self-employment income, set up an orderly record and accounting system as required under the appropriate laws.