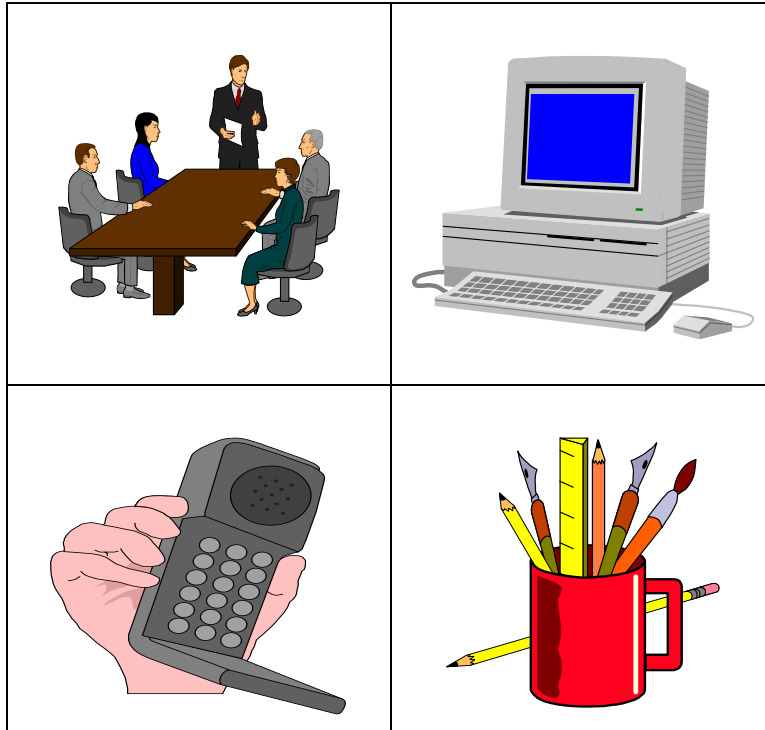


A GUIDE TO STARTING YOUR OWN BUSINESS



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STARTING YOUR OWN BUSINESS

Table of Contents

Introduction

PART A – WAYS OF CARRYING ON A SMALL BUSINESS

Sole Proprietorships.....

Factors to consider if self-employed.....

Partnerships

Joint Ventures... ..

Corporations

Factors to consider when incorporating.....

PART B - START-UP ISSUES AND ONGOING OPERATIONS

Partnership Agreements.....

Shareholder Agreements... ..

Incorporating your business.....

Registering your Business

Employment Standards.....

Insurance.....

Intellectual Property

Checklist for starting your new business

INTRODUCTION

WHY WOULD YOU WANT TO START YOUR OWN BUSINESS?

A business is an activity that you conduct for profit or with a reasonable expectation of profit. Every business in BC is carried on using some form of one of the three basic business structures: Sole Proprietorships, Partnerships and Corporations.

It is important when considering the start-up of a new business, that you consider all aspects of the business, not just the areas that you are familiar with. There are many considerations which may not be exciting, but which are extremely important to the success and long term prosperity of the business.

There are many reasons for wanting your own business, including financial independence. You may want to be your own boss, you may not enjoy the hours of work or the deadlines imposed on you, you may be tired of the job market situation and the fact that job loss is imminent, or you may simply be looking for a change of pace. Whatever the reason may be, it is important to ensure that you earn a comfortable return on your investment, and that you enjoy the personal satisfaction of self-employment. If you truly believe in your business and put faith and dedication towards its growth, you will not only be successful, but personally fulfilled.

This booklet will provide you with an overview of many of the considerations applicable to starting a business in BC, and will hopefully give you a jump-start towards making your dream become a reality.

PART A

WAYS OF CARRYING ON A

SMALL BUSINESS

SOLE PROPRIETORSHIPS

The vast majority of business people begin as sole proprietors, because it's cheap, easy and fast. With a sole proprietorship, there's no need to draft a partnership agreement or go to the trouble and expense of registering a corporation. All it usually entails is getting a local business license and perhaps registering a business name.

Most businesses are sole proprietorships primarily because of their size, profit potential and limited capital requirements.

People who are self-employed generally have wider scope for tax planning than do employees. Any taxpayer can carry on business. If you decide to put a name to your business, that is just you carrying on business under that name. You have not created a new entity. You are simply the proprietor of a business and you have sole responsibility for making decisions, receiving all the profits, claiming all losses and assuming all risks of the business.

You enjoy the greatest regulatory freedom because your business is subject to the general laws dealing with persons and properties.

Advantages of a sole proprietorship:

- Simplest method of doing business – ease of getting started
- Low cost of formation
- Minimal government regulations
- No income tax or other filings required for the business as separate from the proprietor
- Business losses may be offset against other personal income and other years' earnings to reduce personal income taxes.
- Individual control over operations
- All profits to the owner
- Ease of change to an incorporated business

Disadvantages of a sole proprietorship:

- A sole proprietorship is possible only when a business is owned by one person
- The net income of the proprietorship is included in the proprietor's personal income tax return, and taxed at the proprietor's personal tax rate
- There is a greater difficulty in raising capital
- The owner of a sole proprietorship is personally responsible for all business debts
- The life span of the business is limited to the lifetime of the proprietor
- No opportunity for income tax deferral or ability to pay dividends
- No access to government tax credits and incentives
- Small business deduction and \$ 500K capital gains exemption not available
- Limited resources and opportunity
- Limited incentives to attract employees

FACTORS TO CONSIDER IF SELF-EMPLOYED

If you make the choice to be self-employed, and set up a proprietorship, you must consider many factors, some of which are:

- You must use a calendar year for reporting income (December 31)
- As a general rule, business income for tax purposes is based on generally accepted accounting principles (GAAP). Among other things, this means operating on the accrual basis (i.e. include A/R as revenue, deduct A/P as expenses)
- Employment Insurance is available only to those who are employed. If you carry on business for yourself, you are neither required nor permitted to pay EI premiums
- Canada Pension Plan contributions are split equally between employees and their employers. If you are self-employed, you are required to pay the “employer’s share” to make up what is not being paid for you, as well as your own share (calculated on personal tax return)
- You must arrange to be a consultant/ independent contractor and not an employee. Be familiar with the necessary criteria so CCRA won’t deem you to be an employee
- If your business is profitable, consider acquiring depreciable assets before the year-end since assets are depreciable at only 50% of their rate in the year of acquisition
- If you have losses in the first few years, consider claiming less CCA than the maximum allowable
- Keep track of, and deduct, the proportion of your automobile expenses that represent your business use of the vehicle, based on km driven (keep an auto log)
- If you rely on modes of travel other than an automobile, deduct public transit fares, taxis and other business travel costs
- Document and claim your business meals and entertainment expenses (only 50% deductible for tax purposes)
- If you have an office in your home, claim a portion of your ongoing home expenses as business expenses (i.e. rent or mortgage interest/hydro/insurance/property taxes/utilities etc.)
- Use your loss carryovers to maximum advantage
- Income split with family members
- You can only claim a business loss against other income if your business has a “reasonable expectation of profit”. (i.e., years of continuous losses may be subject to questions by CCRA)
- You should have a separate bank account through which to process your business transactions
- Maintain WCB coverage - personal optional protection if sole proprietor or industry rates if you have employees
- Register for Provincial Sales Tax if goods are being sold, or consumable goods purchased from outside the province
- Maintain adequate Insurance coverage
- Register for GST- is mandatory if revenue reaches \$ 30,000. Consider all three reporting methods
- If you are starting a business while you remain employed, you must maintain detailed records to show that you have a reasonable expectation of profit from the business and that you are not merely engaged in a hobby

PARTNERSHIPS

General Partnership ***Limited Partnership*** ***Limited Liability Partnership***

A partnership is an association or relationship between two or more individuals, corporations, trusts, or partnerships who join together to carry on a trade or business. The essence of a partnership is that there is a sharing of profits as opposed to a sharing of gross returns. In this regard, the following points should be considered:

- It is fundamental to the existence of a partnership that the parties are carrying on a business
- Only activities carried on with a view to profit may form the basis of a partnership
- There must be an intention on behalf of the parties to give rise to mutual rights and obligations
- There should be a written agreement setting out the relationship between the parties

Each partner contributes money, labor, property, or skills to the partnership. The partners need not be equal partners; they may own whatever percentage reflects their investment and contribution to the business. In return, each partner is entitled to a share of the profits or losses in the business.

A partnership is considered a “flow through entity” and therefore does not pay tax. The partners report their share of the income or loss on a personal, corporate, or trust income tax return, whether they have taken any of the profits out of the partnership.

Partnerships with more than five partners are required to file “information returns” (T5013) with Revenue Canada, reporting partnership income, but these are not tax returns.

Effective 1995, most partnerships are required to report income on a December 31 year-end basis.

In general, a partnership has more legal risk than a proprietorship because a partner may also be liable for another partners’ actions. Furthermore, when an individual contributes assets to a partnership, he or she retains no claim on specific items, but merely acquires an equity interest in all assets of the partnership.

Even though you can start a partnership right away, it is recommended that you prepare a written partnership agreement establishing, among other things, each partner’s share of profits or losses, day-to-day duties and what happens if one partner dies or retires. Life insurance for the principal partner should also be considered.

A partnership generally does not pay a “salary” to a partner. Even if you, as a partner, receive something called a “salary”, it is really partnership drawings (withdrawal of profits or capital from the partnership). You are not taxed on your partnership drawings, but on your share of the partnership’s income, which may be very different.

The partnership itself should be registered for GST. However, like employees, partners who are not registered for GST purposes and who have unreimbursed expenses such as automobile expenses that are deductible for income tax purposes can usually claim a GST rebate for those expenses when they file their personal income tax return.

GENERAL PARTNERSHIP

Under the relevant legislation, no special legal steps are needed to set up a general partnership. As soon as two or more partners carry on business together with the intent of making a profit, they are considered a partnership. It is therefore important to protect yourself and make clear your intent by having a partnership agreement before you begin doing business.

When you are a member of a partnership you own a “partnership interest”, which has an adjusted cost base for capital gains calculation purposes. Your adjusted cost base is your contributions, plus all partnership profits, minus all partnership losses and your withdrawals. If you sell your interest in the partnership the adjusted cost base will determine whether you have a capital gain or capital loss.

Advantages of a general partnership:

- You don't need to take any formal legal steps before starting
- If the partnership suffers losses, you can normally claim your share of those losses against your other sources of income. Capital gains or losses incurred by a partnership are allocated to the individual partners at the end of the partnership taxation year
- Expenses are minimal in setting up a partnership apart from registering your partnership name and obtaining legal advice in preparing a partnership agreement
- You can hire employees
- The profits of a partnership, as agreed to, are divided amongst the partners, with the exception of the property which belongs to the partnership.
- In a partnership the income earned is attributable to the partners and taxed at their personal income tax rate.
- There is a pooling of financial resources and talents
- There is increased ability to obtain capital
- Increased potential for growth

Disadvantages of a general partnership:

- All partners are legally responsible for contracts that are entered into by other partners on behalf of the partnership
- All partners are personally responsible for the debts and obligations of the partnership-unlimited liability
- Before dissolving the partnership the partnership debts must be paid out
- There is divided authority and less control for each partner
- Partners cannot be employed in a partnership, but can take draws
- The partnership is not subject to tax; however, the partners are
- Dissolution of a partnership is not always easy

LIMITED PARTNERSHIP (LP)

Under law a limited partnership has to be registered under the Provincial registry and must have at least one general partner, basically for liability purposes. However, the partnership is not required to have any limited partners. A general partner (usually the operator) is liable for the debt and obligations of the partnership. A limited partner cannot be sued for the partnership's debts and is usually limited in liability to the amount of their investment (at-risk amount). Limited partnerships are most commonly used for investments.

There are a number of different types of limited partners:

A silent partner takes no active part in the management of the business. This type of partnership appeals to persons who wish to invest strictly on a risk of funds basis.

A secret partner takes an active role in the management of the business but is not known to the public.

A dormant partner is a combination of the silent and secret partners in that he does not take an active or public part in the management of the business.

The nominal partner is a person who lends his name to the partnership but is not actually a partner. He does not take part in the management of the business but is paid a fee for the use of his name.

Advantages of a limited partnership:

- Your liability is limited, as a limited partner, based on your contribution to the partnership
- The limited partner has the option to be involved in a business enterprise as a passive investor
- The income earned by a limited partnership is attributable to the partner in accordance with the partnership agreement and taxed at their personal tax rate

Disadvantages of a limited partnership:

- More complicated, time-consuming and expensive in maintaining and setting up
- To retain your limited liability status, you must remain as a passive investor and are not allowed to provide services directly to the limited partnership
- If you establish your limited partnership in one province, your limited liability may not hold in other provinces that the partnership carries on business
- There is the risk of being administratively dissolved if the limited partnership is not renewed within a five-year time frame.
- There is centralized management, as only general partners have decision-making authority
- It is more difficult to change ownership

LIMITED LIABILITY PARTNERSHIP (LLP)

This type of partnership is different from the Limited Partnership in that its purpose is to limit the liability of the partners in a partnership who were not responsible for the liability. In other words, it is the partner responsible for the liability that is exposed to the creditors. The "joint and several" liability characteristics of a general partnership does not exist in an LLP.

JOINT VENTURES

Joint ventures are a very specialized type of arrangement, where two or more individuals or entities join together in co-ownership for a specific economic activity. The Canada Customs and Revenue Agency describes a joint venture as an arrangement whereby two or more persons work together in a limited and defined business undertaking, which does not constitute a partnership, a trust or a corporation, the expenses and revenues of which will be distributed in mutually agreed portions.

The requirement that the expenses be distributed in mutually agreed portions is frequently satisfied by each of the participants in the joint venture agreeing to reimburse the participant who incurs the joint venture expense for a specified percentage of the expense.

The participants in a joint venture normally have a joint interest in the product of the joint venture. Therefore, the participants frequently authorize one participant to sell all of the joint venture product and to distribute the sales revenue to the other participants based on their interests in the joint venture product as determined by the agreement.

If a business relationship is to be structured as a joint venture, it should incorporate as many of the following criteria as possible:

- It should be confined to a single project or have a limited duration
- The agreement should state that the parties do not intend to create a partnership and do not owe each other the fiduciary duties implied by a partnership
- The agreement should permit assignment of a venturer's interest without the consent of the others
- Each venturer should be precluded from acting as agent for the others

A distinctive characteristic common to all joint ventures is that two or more venturers are bound by a contractual arrangement, which establishes that the venturers have joint control over the joint venture, regardless of the difference that may exist in their ownership interest. None of the individual venturers is in a position to exercise unilateral control over the joint venture. Decisions in all areas essential to the accomplishment of the joint venture require consent of the venturers in such a manner as defined in the terms and conditions of the contractual arrangement.

Joint ventures are taxed as a partnership. Also, like traditional partnerships, joint venture agreements should be legally drawn up to avoid future problems and disputes. Joint ventures occur more in real estate developments than in other fields of business activity.

CORPORATIONS

A corporation is a completely separate legal entity from the shareholders based on the following principles:

1. A corporation may legally own property, transact business, enter into contracts, sue and be sued, and engage in other business activities
2. A corporation shields its owners from personal responsibility for business debts, unless the owners voluntarily assume responsibility. (exception can be outstanding wages, payroll deductions, GST)
3. A corporation has an unlimited life span, since shares can be sold or transferred to others
4. A Corporation must act through individuals
5. Ownership is represented by Shareholders who may also be employees
6. Profits are distributed by dividends, which are taxed in the hands of the shareholders
7. It is a separate taxable entity and must file income tax returns and pay taxes

If you have an incorporated business, the corporation's profits are not yours simply to take. You as a director (even if you are the sole director), act in a different capacity from yourself as a shareholder of the corporation. Legally, as a shareholder your only right is to elect the board of directors, who then cause the corporation to take specific actions.

A corporation is established by filling out an article of incorporation, and filing it with the appropriate provincial, territorial, or federal authorities. A provincially incorporated company is a legal entity only in the province in which it is incorporated. Its shareholders are not protected by limited liability if it does business outside of its home province. In a federally incorporated company its shareholders are protected by limited liability everywhere in Canada.

The owners of a corporation are called shareholders. They hold stock certificates for their amount of ownership in the corporation. A shareholder agreement is usually drawn up which sets out the rights and obligations of the shareholders that go beyond the basic ownership of shares. Different rights can be assigned to different classes of shares, providing flexibility for investors.

Being both an employee and shareholder of the corporation, your remuneration may be a combination of salaries, management fees, and dividends.

Since a corporation has a separate legal existence, it has to pay tax on its income, and therefore must file its own income tax return (T2). Tax is due 90 days after year-end, and the tax return is due within six months of the end of the taxation year even if the corporation doesn't owe taxes. A corporation pays its taxes in monthly installments, with the final payment due three months after the end of the fiscal year. The corporation is seen as a separate entity from the owner, therefore tax losses remain in the company and may not be used personally by the owner.

Advantages of a corporation:

- Control of how you structure your company's authorized capital -to allow for different ways of participating in your business
- Limited liability of its shareholders - Generally, the liability of a shareholder of a company is limited to his or her contribution to the capital of the company. There are however exceptions to this as a result of various statutes in which corporate directors may become personally liable for matters such as unpaid wages or unremitted GST. Also, banks often ask small business owners for personal guarantees before they'll provide financing
- Fiscal year flexibility - An incorporated business can choose a non-calendar fiscal year, which may work better for the business cycle. Also, if the year-end is in the second half of the calendar year, the payment of a bonus six months after the year-end would make it taxable in the next calendar year. Thus you can have a significant tax deferral
- Income Splitting - Your corporation can employ your family members as long as they are actively working and the amount paid is reasonable for the work performed. Also, if your spouse and children are shareholders in the corporation, the dividends they receive may be taxed in their hands
- Access to the small business deduction and manufacturing and processing credit - You can take advantage of the special low tax rate for the first \$200,000 of active business income of a "Canadian controlled private corporation" (CCPC) and for income from manufacturing and processing
- Access to various provincial and federal tax credits and incentives for specialized industries- such as R & D companies, film productions and many others
- Personal tax benefits if corporation is successful and shares increase in value- If your corporation is a qualifying small business, there is a \$500,000 capital gains exemption available to shelter your gain when the shares of the corporation are sold or transferred
- Insurance and Pension Plans – You can create a registered pension plan for yourself and your employees. There are also other types of benefits such as group term life insurance plans and group sickness or accident insurance plans
- Estate Planning – A major advantage from an estate planning perspective is that a corporation can continue in existence beyond the life of its creator
- Leveling of Income – Through control of salary and dividends, it is possible to achieve a constant level of personal income thus avoiding high and low income fluctuations
- Ability to obtain capital – by the sale of shares or other securities

Disadvantages of a corporation:

- Substantial legal and administrative costs of setting up and maintaining the corporation – Such costs include the initial expenses of preparing the legal documents, as well as ongoing costs associated with filing forms such as tax returns, holding directors meetings, maintaining corporate records, etc.
- Limited use of losses – Once you incorporate you will no longer be able to deduct business and capital losses against your other sources of income included on your personal tax return. However, business losses of the corporation for a given year may be carried three years back and forward seven years to offset other income of the corporation.
- Capital taxes – A special tax payable when the capital used in Canada by the corporation exceeds \$10 million.
- Accounting records – You will need to keep separate books for the corporation and prepare financial statements at year-end.
- Separate legal entity requires separate income tax returns

FACTORS TO CONSIDER WHEN INCORPORATING

Before incorporating, you should consider your personal cash flow needs, the personal and corporate tax rates in your province and the status of your business.

You can select any twelve-month period for your fiscal year end. Choosing a month in the second half of the calendar year can provide tax deferral for salaries and bonuses.

Decide whether you should incorporate Provincially or Federally

Make sure to keep the corporation a “small business corporation” at all times. This will preserve, respectively, your ability to claim allowable business investment losses in respect of any loss on the corporation’s shares, and the \$500,000 capital gains exemption on any gain.

Consider crystallizing your capital gains exemption. Crystallizing means triggering a capital gain on your shares while continuing to own the corporation.

When selling your business consider whether to sell the assets or the shares of the corporation. Generally, the seller prefers to sell the shares, if it is a “qualified small business corporation”. The buyer generally prefers to buy the assets as he can then depreciate them. An election can be made so that no GST is applicable on the sale of assets, but PST is applicable in most cases.

Since the corporation is legally a separate “person”, you must follow specific methods to get your hands on the corporations income. Some of the ways to do this are as follows:

- Dividend-distribution of a corporation’s profits to its shareholders. Dividends are not deductible to the corporation, but are taxed on the personal tax return of the shareholder
- Salary or management fees. Amount paid is deductible to the corporation and taxable to the shareholder as employment income
- Repay shareholder loans or arrange to have the corporation pay interest on the loans
- Maximize capital dividend payments – If the corporation has realized any capital gain, make sure to pay out capital dividends as these are tax free to shareholders
- Repayment of shareholders capital – Any amount that is less than the paid up capital (PUC) may be paid out to the shareholder as a repayment of capital
- Make a loan to a shareholder as long as bona fide arrangements are made for repayment within a reasonable time and the loan is for purposes allowed by CCRA e.g. To buy a house, auto or shares

If you are operating as an incorporated business, you may not describe yourself as a proprietorship or partnership, and vice-versa. Any incorrect communications (i.e. correspondence, advertising, contracts) may lead to a loss of protection from liabilities.

Evaluate the tax consequences of salary and dividend income, to come up with the optimum salary/dividend mix. Income split with family members.

Consider a tax-free transfer of personal assets into the Corporation (Section 85 rollover)

Consider setting up a holding corporation

PART B

START-UP ISSUES AND ONGOING OPERATIONS

PARTNERSHIP AGREEMENTS

Partnership refers to the relationship between two or more persons who carry on business together with a view to making a profit

One of the main reasons new venture teams often fail is due to ill-advised partnerships. A partner should be chosen with as much care as you would choose an ideal spouse. An unhappy partnership can dissolve your business much faster than you can dissolve the partnership.

There are two forms of partnerships that are used to carry on a business in Canada – General and Limited. The principals, otherwise known as partners, should jointly prepare a written partnership agreement setting out the terms of the partnership. It is strongly recommended that you and your partners enter into an agreement before beginning business. A partnership agreement will provide some of the following:

- ◆ Provide concrete evidence of the existence of a partnership arrangement
- ◆ Detail the rights and responsibilities of each partner
- ◆ Outline the amount and nature of their respective capital contributions to the business
- ◆ Detail the division of the business' profits and losses
- ◆ Describe the management responsibilities of each partner involved in the operation of the business
- ◆ Summarize provisions for termination, retirement, disability, or death of a partner
- ◆ Provide the means for dissolving or liquidating the partnership
- ◆ Allow amendments of the legislative default rules governing partnerships

It is important that you obtain competent legal advice when preparing to enter into a partnership arrangement to ensure that you get exactly what you bargained for. If there is no agreement, the rights and obligations of the partners are governed by partnership legislation and the common law.

If you are considering any type of partnership arrangement, be extremely careful. In reality, partners should fulfil at least one of two major needs for you:

- ◆ needed money; or
- ◆ needed skills.

SHAREHOLDERS AGREEMENTS

There is no one standard shareholders' agreement. Subject to the provision that the discretion of directors of BC companies may not be limited, shareholder agreements can cover whatever topics the parties wish. Since companies are governed by majority rule, shareholder agreements are especially valuable to minority shareholders, whose interests might otherwise differ from those of the majority.

Since companies can incorporate provincially or federally, it is important to note that some provisions of the shareholder agreement will differ depending on the jurisdiction of incorporation.

Some of the more common provisions of shareholder agreements cover the following issues:

- Orderly termination of the relationship between the shareholders
- Provide dispute resolution mechanisms to deal with dissension among shareholders
- Agreement as to who the directors and/or officers will be
- Agreement to vote the shares in a particular way on certain issues
- What will happen if the shares are awarded to a key shareholder's spouse on separation or divorce
- Require that major changes to the company be undertaken only with the consent of a specified percentage of the shareholders
- Require or permit shareholders to assist with financing the business
- Set out restrictions on the transfer of shares to outside parties
- Require the company to employ one of the shareholders

Tax considerations play an important part in the planning for shareholder agreements. For example, the tax treatment of life insurance payments, availability of the \$ 500K capital gains exemption, the valuation of shares, and many other issues must be considered.

INCORPORATING YOUR BUSINESS

All Companies can be classified as “Non-Reporting” or “Reporting” (previously referred to as “Private” or “Public”). A Non-Reporting company would be classified as the average, small, family-owned company. A Reporting company would be classified as the larger company whose shares are traded on the stock exchange.

Prior to incorporating, you must decide whether you wish to incorporate under federal or provincial statutes. The main advantages of incorporating federally are that the corporation is empowered to carry on business in all provinces providing it becomes registered in each province in which it carries on business. The company can also use the same name in each province even though another company is already using a similar name.

The major disadvantage to incorporating federally is the initial high cost and the amount of paperwork needed to be completed yearly. For these reasons alone, most private companies that are owned and operated by a small family group or group of business associates choose to incorporate in one province and then register in successive provinces as they expand.

The following is a general, step by step list of some of the procedures necessary to incorporate a non-reporting company in British Columbia:

- (a) Get a copy of the Act (British Columbia Company Act)
- (b) Choose a Name and have it reserved
- (c) Prepare the Memorandum - a memorandum is your company’s “constitution”
- (d) Prepare the Articles – your articles are the rules and regulations that govern the conduct of the company members and directors
- (e) Draft the Notice of Registered and Records Office – The Company Act requires that all businesses incorporated within BC have two offices within the province. The Registered Office where legal documents may be served upon the company, and the Records Office where registers and documents must be kept ready for inspection.
- (f) Procedures for Filing Documents

Once the incorporation has been completed the following procedures should also be followed:

- (a) Purchase Minute Book, Company Seal, and Share Certificates
- (b) Banking Arrangements
- (c) Post-Incorporation Organization
- (d) Use of the Company Name – ensure that proper logos are on company letterhead etc.

EMPLOYMENT STANDARDS

Many small businesses hire employees. An employee is someone who does work for you under a contract of service. A contract of service is defined, in part, by:

- The employer's right to set the hours of work for the employee
- The employee's use of the tools, equipment, and premises of the employee;
- The employee's right to receive a salary or wage for his or her work, as opposed to a share in its profits; and
- The employee being subject to the employer's control in such matters as the duties that must be performed, the times at which they must be performed, and how they must be performed.

The Employment Standards and Human Rights Legislation is important to you as a small business owner and employer because it sets certain minimum legal standards for things such as wages, hours of work, vacation pay, overtime, and termination. It also applies to every employment contract (whether oral or written) into which you enter, regardless of whether or not you and your employees agree that it does.

In addition, the federal and provincial human rights legislation also exists. It prohibits discrimination against an employee or potential employee on the basis of race, ancestry, place of origin, colour, ethnic origin, citizenship, creed, sex, age, record of offences, etc.

You, as a small business owner, should know your rights and obligations when hiring an employee. The hiring process is the most crucial stage in any employer/employee relationship. Consider the following issues when hiring your employees:

- Advertising for an Employee
- The Application and Interview Process
- Preliminary Considerations in Hiring an Employee – Immigration, minimum age, minimum wage, hours of work
- The Offer

Both employer and employee have obligations to each other during the period of employment.

1. The Employer's Obligation to its Employees:

- a) Common Law- safety, payment, fairness, etc.
- b) Legislation- meals and breaks, overtime, WCB, EI, CPP etc.
- c) Contract

2. The Employee's Obligations to the Employer:

- a) Common Law –good faith, honesty, competition, theft, fiduciary duty etc.
- b) Contract

Your rights and obligations when firing employees:

- ◆ Termination without Cause
- ◆ Termination for Cause
- ◆ Wrongful Dismissal
- ◆ Temporary Layoff

Independent Contractors

An independent Contractor is not subject to the same obligations as an employee. Therefore, at law, an independent contractor is typically distinguished from an employee by the following:

- ◆ An independent contractor has the right to set his or her own hours of work, including any vacation time, subject to any agreement you may have with him or her.
- ◆ An independent contractor uses his or her own tools, equipment, and (often) premises in providing his or her services.
- ◆ Because of his or her independent status, you cannot restrict an independent contractor from providing his or her services to other businesses.
- ◆ An independent contractor is subject to his or her own control over how the services are to be performed

INSURANCE

Assessing your insurance needs involves knowing both the risks to which your business may be exposed and the losses your business could face if something goes wrong.

Some types of business insurance are required by law. In some instances, the insurance is administered by a government agency or authority, such as WCB. Other insurance is optional.

The types of insurance available are virtually limitless. Here are a few examples:

- ◆ ***Property Insurance*** –protects your business against loss or damage to specific items of business property. That property could include buildings, equipment, machines, tools and inventory. It can also include property belonging to others. The insurance could cover specific events such as fire or “all risks” to include loss or damage caused by explosions, vandalism, and theft.
- ◆ ***Business Interruption Insurance*** – protects your business against any indirect losses or damages it may suffer through events that temporarily prevent you from carrying on business as usual. For example, if a major piece of equipment is destroyed by fire, the cost of replacing that equipment will probably be covered by your property insurance, but the losses incurred by not being able to carry on business will not be covered unless you have business interruption insurance.
- ◆ ***General Liability Insurance*** – is a must. It will cover you for any legal liability you may have to others if something goes wrong. It extends to financial losses, bodily injury, and property damage. For example, by failing to shovel your walk, you may accidentally injure someone who visits your business premises.
- ◆ ***Key-Person Insurance*** – compensates you for the loss of anyone who is indispensable to your business.
- ◆ ***Directors and Officers Liability Insurance*** – purchased to protect the people serving in those positions.
- ◆ ***Product Liability Insurance*** – will cover you if your products or services cause harm or loss to anyone purchasing them. Particularly important for small manufacturing businesses.
- ◆ ***Automobile Liability Insurance*** – should be obtained for any vehicles that either belong to your business or are used in your business, even if only occasionally.
- ◆ ***Environmental Liability Insurance*** – for business dealing with hazardous wastes.
- ◆ ***Credit Insurance*** – will cover you if a major creditor does not pay his or her account.

INTELLECTUAL PROPERTY

Your business assets may include items of intellectual property, such as trademarks, patents, and copyrights.

Trademark – is a mark used to both identify your goods or services to the general public and distinguish your goods or services from similar goods and services offered by others.

A trademark can be a word, a series of initial or numbers, a slogan, a logo, a name, a shape, or any combination of these.

Patent – is a right to make, use, and sell an invention in Canada. The right is granted by the federal Patent Act and belongs exclusively to the owner of the patent, known as the patentee.

Copyright - extends to any original literary, dramatic, musical, or artistic work and gives you, as the owner of the copyright, the exclusive right to produce, reproduce, or publish that work (or any part of it).

There are various other types of intellectual property protected by law. These are as follows:

- Industrial Design
- Integrated Circuit Topographies
- New Varieties of Plants
- Trade Secrets

Intellectual property is often one of your most valuable business assets. Think of McDonald's golden arches, Lego blocks, or KFC's "secret recipe of herbs and spices." All these are immediately recognizable by consumers. Be sure that you seek and obtain qualified legal advice in trying to protect your intellectual property.

MARKET RESEARCH

The first step in getting your business going is Market Research. The most common mistake made by entrepreneurs in the planning stage is investing time and money before conducting a proper market analysis. It is crucial to know: Who are your customers? What product or services are they willing to pay for? How much are they willing to pay? What about your competition? Where are they located and what are their strengths and weaknesses? Market research allows you to solve or avoid problems in the planning, rather than the start-up or operating stage. The market environment must be properly analyzed before the idea of starting a business is pursued.

ANALYZE YOUR MARKET

The first step in performing market research is to define and analyze your market. Some of the areas to consider are:

Customer Base	Age, gender, education, income, occupation, ethnic origin, customer preferences
Existing Products	Availability, quality, price, service, selection, reliability
Industry Trends	Economic conditions, industry standards, technological changes
Competition	Who, what, where, why, and when

THE “FOUR P’S”

If you determine that a market exists for your product or service, you must design a promotion strategy to get your customer’s attention. Use the “Four P’s” as a guide to aid you, they are:

Product	What is my product or service?
Price	What price will I charge for my product or service?
Promotion	How will I promote my product or service?
Place	How will I distribute my product or service?

Performing market research and designing a marketing strategy is an important part of starting your business. Once you have analyzed your market and have determined a marketing strategy, a business plan should be prepared.

PREPARING A BUSINESS PLAN

The purpose of a business plan is to objectively summarize your business needs and to create its direction. The Business Plan is a written summary of what you hope to accomplish and how you intend to organize your resources to meet your objectives. It is a tool to guide you for operating your business and measuring progress during the process. It can help you in assessing the risks and needs demanded by your potential business venture. It also provides a framework for analyzing the different segments of your business so that their effects, individually and as a whole, can be monitored and adjusted.

WHY PREPARE A BUSINESS PLAN?

- It encourages realism
- It helps you identify your customers, your market area, your pricing strategy and the competitive environment under which you must operate to succeed
- By writing your objectives down on paper, your overall ability to manage the business will improve. You will be able to concentrate your efforts on implementing the objectives of the business. You will also have time to ensure that if problems do occur they are handled appropriately and effectively
- The Business Plan identifies the amount of financing or outside investment required and when it is needed
- First appearances are important. A well organized business plan is the key to helping the lender or investor assess your financial proposal and to assess you as a business manager
- Updating your plan will save you time and money in the long run and may even save your business. Resort now to make planning a part of your management style

WHO ARE THE USERS OF THE BUSINESS PLAN?

You and your management team will be the main users of the business plan. Outside users will likely include creditors (i.e., suppliers, leasing companies, bank) and individuals who wish to invest in your business. For a new company, the business plan is especially essential in helping creditors or investors assess whether or not to become involved with your business. For an existing company, the business plan will help them decide whether or not to continue providing support. A properly written business plan will not only add credibility to your company, but will also reduce uncertainties about its future outlook.

BUSINESS PLAN FORMAT

The business plan can be split up into three main categories:

Part I	Introductory Summary
Part II	Business Concept

Part III Financial Plan

PART I - INTRODUCTORY SUMMARY

The summary page is extremely important, as it must capture the immediate attention of the potential investors or lenders. Make sure it sells your idea so the reader will retain interest and continue reading. The points listed below should be considered:

- Report Cover - Name of business, report title, period covered
- Table of Contents
- Company name, contact person, resume for each owner
- Personal net worth statement for each owner
- Ownership structure (copy of incorporation document, list of shareholders, share structure)
- Paragraph about company (nature of business, market area, operating hours and days, target date to start operation)
- Credit terms and discounts, collection policy, methods of distribution
- Securities offered to investors, business loan sought
- Highlights of Business Plan (your project, competitive advantage and “bottom line”)

PART II - BUSINESS CONCEPT

Identifies your market potential within your industry and outlines your action plan for the coming year. The stated business goals should be compatible with your personal goals, your own management ability and family considerations.

The business concept should cover the following areas:

A. Description of the Industry

- Industry outlook and growth potential
- Markets and customers
- Competitive companies
- National and economic trends

B. Description of the Business Venture

- Products or services
- Product protection/exclusive rights
- Target market
- Competitive advantage of your business concept
- Business location and size
- Staff and equipment needed
- Brief history (principals involved, development work done)

C. Business Goals

- Mission statement - primary goals and the means by which the company intends to reach them.
- Long term goals (return on investment, business net worth, sale of business)

D. Marketing Plan

- Sales strategy (commissioned staff, sales objectives, target customers, sales tools)
- Success indicators (marketing, pricing, cost control, customer service, product quality)
- Distribution (direct to public, wholesale, retail, multiple outlets)
- Pricing (cost mark-ups, margins, break-even)
- Promotion (media advertising, appropriate publicity to reach target market)
- Annual advertising plan (include all in-house promotions, signage and donations)
- Guarantees
- Tracking methods

E. Sales Forecast

- Assumptions
- Monthly forecast for coming year
- Annual forecast for following two to four years

F. Production Plan (Manufacturing)

- Brief description of production process
- Physical plant requirements
- Machinery and equipment
- Raw materials
- Inventory requirements
- Suppliers
- Personnel required
- Cost of facilities, equipment and materials
- Insurance requirements and cost
- Capital estimates

G. Production Plan (Retail or Service)

- Purchasing plans
- Inventory system
- Space requirements (storage facilities)
- Staff and equipment required

H. Structure of Business Organization

- Legal form (proprietorship, partnership, corporation)
- Share distribution (list of principal shareholders)
- List of contracts and agreements in force (management contract, shareholder or partnership agreement, franchiser service agreement, service contract)
- Directors and officers (names, addresses and role in company)
- Background of key management personnel
- Contract professionals/consultants
- Organization chart
- Duties and responsibilities of key personnel

I. Risk Assessment

- Competitors' reaction
- What if? Lists of critical internal factors
- Dealing with risks (contingency plan to handle the most significant risks)

J. Action Plan

- Steps to accomplish this year's goals
- Checkpoints for measuring results

PART III - FINANCIAL PLAN

The financial plan outlines the level of present financing and identifies the financing sought, contains pro-forma (projected) financial statements and is your guide to business survival and profitability.

The financial plan would include some of the following:

A. Financial Statements:

- Previous years' balance sheets and income statements
- Location of financial records and backup
- Assumptions to the financial statements

The objective of these financial statements is to provide the lender with information regarding the status of the business. Lenders will be looking for:

- The business' resources, obligations, and owner equity
- Changes in these resources, obligations and owner equity
- Over all economic performance and potential of the business.

B. Financial Forecasts for a New Business

- Opening balance sheet
- Projected income statements (detailed operating forecast for next year of operation and a less detailed forecast for following two years; use sales forecast as a starting point)
- Cash flow forecast (budget of cash inflow and outflow on a monthly basis for next year)

C. Financing and Capitalization

- Term loan applied for and purpose
- Operating loan applied for (i.e., Line of Credit)
- Owner's equity (your level of commitment to the business)
- Offer to purchase agreements
- Shareholder meetings
- Bankers reporting requirements

D. Present Financing (if applicable)

- Term loans outstanding
- Current operating line of credit

E. References

- Name of present lending institution
- Lawyer's name
- Accountant's name

SUPPLEMENTARY DOCUMENTATION

The following documents may be requested by your banker or a potential investor:

- Personal net worth statement
- Letters of intent (potential orders, customer commitments, letters of support)
- List of inventory
- List of leasehold improvements
- List of fixed assets
- Price lists
- Description of insurance coverage
- Accounts receivable summary
- Accounts payable summary
- Copies of legal agreements
- Appraisals

CASH FLOW FORECAST

A cash flow forecast reflects the timing of when you expect to receive your cash receipts and when you expect to pay your bills. A cash flow forecast is not an estimate of your sales and expenses; rather it is an estimate of when the money associated with sales will be received and when the money involved in paying for operating expenses will be dispersed.

Why do a Cash Flow Forecast?

Putting the cash flow forecast on paper will give you the following:

- A format for planning the most effective use of your cash
- A schedule of anticipated cash receipts
- A schedule of priorities for the payment of accounts
- A measure of the significance of unexpected changes in circumstances, i.e. reduction of sales, strikes, tight money situations, etc.
- A list, on paper, of all the bill paying details
- An estimate of the amount of money you need to borrow in order to finance your day-to-day operations.
- An outline to show you and the lender that you have sufficient cash to make loan payments if you are planning to borrow money on a term basis.

Cash flow forecasting should be a continuous activity although it must be completely redone at least once a year for you to have a more up to date picture of additional cash requirements. Most lines of credit are renewed annually. The cash flow forecast will assist you in making an effective presentation to your lender.

A cash flow forecast assists in financial planning, inventory purchases and formulating credit and collection policies. It also serves as an early indicator when expenditures are getting out of line. It is one of the most important tools an owner/manager has to control their business.

FINANCING YOUR SMALL BUSINESS

There may be several reasons why your small business may require financing. It could be due to a lack of money to:

- Start the type of business you wish to operate
- Continue to run your business in a successful manner
- Purchase equipment or property
- Expand your business or take it in a new direction

There are several different types of financing available for an owner to choose from.

EQUITY FINANCING

“Equity” refers to your right of ownership in your business. In equity financing, a contribution of money or property (i.e., a capital contribution) is made to your business – either by you or someone else – in exchange for a right of ownership. The financier becomes an investor in your business.

There are several sources of equity financing available to your small business. These are as follows:

Yourself	Friends and Family
Other businesspeople	Institutions
Government	

Equity Financing has several advantages. It adds to the value of your business (by increasing its capital); creates a larger capital base against which you can borrow even more capital; and, depending on the arrangement you choose does not necessarily require you to relinquish control over your business. More importantly, equity financing does not have to be repaid the way a loan would have to be.

DEBT FINANCING

Debt financing means “borrowing” money to meet your capital needs. The cost of borrowing involves repaying the amount you borrowed plus additional amount over a pre-determined period. Debt financing creates a creditor-debtor or lender-borrower relationship between the financier and your business.

The sources of debt financing for your business are the same as those of equity financing.

Yourself
Other businesspeople
Government

Friends and Family
Institutions

There are two types of loans available to small businesses: the operating (or working capital) loan and the term loan.

Operating Loan – There are four types of operating loans available to your small business.

- Revolving line of credit
- Non-revolving line of credit
- Inventory loan
- Accounts receivable loan

Term Loan – When obtaining a term loan, several things will be required:

- Documents Establishing the Loan Terms – a commitment letter or loan agreement sets out the terms of the loan as evidence that the loan has actually been made. The owner then will be asked to sign a “Promissory Note”.

A promissory note is defined in the federal Bills of Exchange Act as “an unconditional promise in writing made by one person to another person, signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money to, or to the order of, a specified person or bearer.”

A loan can be either secured or unsecured. There are several ways in which the loan can be secured:

(a) Security over Personal Property

- A general security agreement will be needed
- Debenture
- Assignment of accounts receivable
- Bank Act security over inventory
- Conditional sales contracts
- Pledge of shares

(b) Security over Real Property

- Mortgage of land
- Assignment of lease
- Debenture

(c) Security from Third Parties

- Guarantee
- Letter of credit

(d) Miscellaneous Security

- Insurance
- Control of your business
- Inter-creditor agreement
- Purchase money security interest

Financing your small business through loans has its advantages. You don't lose any of the equity in your business. As a consequence, lenders can't share in the future success of your business. Your only obligation is to pay back the loan and any interest. Nonetheless, by taking a loan you are putting your business in debt. Among other things, that means paying interest, likely subjecting your business assets to a security interest (which could be used to offset any losses created by the failure of your business to repay the loan), and putting your personal assets at risk if you need to provide a guarantee.

The Government can be a source of both debt and equity financing at both the federal and provincial levels.

Determining what type of financing would be right for your business should be based on what is best suited to your particular needs and the following factors should be considered:

- *What those needs are*
- *The type of business arrangement you want*
- *What is available to you*

ACCOUNTING AND BOOKKEEPING

Accounting is critical, since it provides information about your business' progress and helps to guide you in your day-to-day decision making. Good financial records are also necessary since they may be relied upon by others, such as creditors, potential purchasers or investors, and tax authorities.

Maintaining your Accounting System

Quality financial information does not necessarily involve sophisticated bookkeeping or accounting systems. The general criteria for a good set of books are that they provide the information you need and that they be understandable and manageable. As your business grows, you may wish to upgrade and expand your accounting system to accommodate your growing need for information.

Manual versus Computerized Accounting Systems

The decision to use a manual or a computerized accounting system depends on several factors. The main reasons for using a manual system, such as a hand-written journal, are that it is simple to prepare and easy to understand. Where your business has few transactions, you do not require up-to-date financial information, you have full control of the business, and there are no other significant users of your financial information, then a manual system may be desirable.

The computer is used in accounting for several reasons. The computer can perform repetitious and routine tasks more quickly and with fewer errors than a manual system. It is also flexible, being able to produce documents and reports (i.e., invoices, purchase orders, payroll checks, and mailing lists) with minimal programming. The system can be easily upgraded as the business grows.

The Internal and the External Accountant

In many instances, business owners perform the accounting function themselves, but sometimes find that overtime it may become less of a priority compared to other business matters that require more attention. As a result, financial records are neglected, and information may no longer be relevant. If you decide to perform the accounting function on your own, carefully examine the costs and benefits before undertaking the task. You may find that hiring full or part-time staff is more suited to your business.

You may also require the services of an external professional accountant for several reasons:

- | | |
|-----------------|---|
| Start-up | You may require assistance during the start-up phase of the business, including advice on the business plan, form of organization, tax planning, and cash flow forecasting and projections |
| Time | You may find that you do not have time to learn or perform the accounting function. Internal accounting staff often have other duties and may not be as focused or as knowledgeable as an external accountant |
| Controls | You may require assistance in the development and implementation of internal controls |

Assurance	You or your investors may require a level of assurance that the financial records and statements are accurate
Users	Creditors and investors may wish to examine financial statements to support their financing or investment decisions
Taxes	You may require assistance in tax planning and the preparation of personal and corporate income tax returns

Further considerations in choosing an external accountant include the accountant's dependability, knowledge, and trustworthiness. Again, it is important for the owner to compare the benefits and costs of utilizing the professional accountant's services. Most external accountants have professional designation such as C.G.A. If you are unsure about the qualifications or reputation of a particular accountant, contact his or her society for more information.

MISCELLANEOUS CONSIDERATIONS

BANK ACCOUNTS

Every new business should open its own bank account to separate business from personal transactions.

To maintain good control, periodic reviews of cash balances, including a monthly bank reconciliation must be performed. All check stubs, cancelled checks and bank statements should be kept in a safe place, and all transactions going through the bank account must have supporting documentation available. The monthly transactions and documents should be reviewed by the business owner or their accountant.

SELECTION OF A YEAR END

The selection of a year-end is a not a trivial matter. Although, proprietorships and most partnerships must have a December 31 year-end, corporations can select a fiscal year end at the end of any month. Once the year-end is selected, it may be changed only if permitted by Revenue Canada Taxation and if the reason for the change is based on certain business or economic reasons.

From a tax perspective, there are certain benefits to be realized by choosing a proper year-end. For unincorporated businesses, a year-end does not necessarily have to coincide with the personal taxation year; this can provide a significant tax deferral on self-employed income. For corporations, certain tax planning can be undertaken pertaining to the structuring of bonuses to reduce corporate taxes and provide individual tax deferrals.

Other business decisions affect the selection of the year end; for example, a company would not want to select a year end during its busy season, since a year end may necessitates inventory taking as well as extra efforts of both managerial and administrative staff to prepare and finalize the accounting and closing of the books for the year.

You can achieve limited deferral through the payment of salaries and bonuses. The corporation can obtain a deduction in the year the salaries and bonuses accrue as long as these amounts are actually paid within 180 days of the corporation's year-end. If the corporation year end is after July, the corporation can deduct it in it's year, and the individual can have it paid in the following year and include it in their personal T1 for that year (i.e. July year end business expenses can be paid in January the following year, individual doesn't have to pay until the following April).

It is a good idea, however, to withhold tax on the bonuses in order to avoid the individual having to pay a large bill when they are _____ tax return.

Insurance is another area that tends to be overlooked, as there are no immediate benefits to be obtained until something goes wrong. Although most business insurance is not required by law, it is necessary since it provides monetary protection for the time, cost, and effort you have expended to build your business. To protect their interests, certain third party business contracts and bank covenants may also require insurance on assets and key personnel.

Types of insurance to consider for your business include fire and extended, office overhead, loss of profits, contingent business interruption, partners' fidelity, loss of records, and professional liability. Given the complexity of these different plans, it is a good idea to consult with an insurance agent.

TAX CONSIDERATIONS

Income taxation is a complicated area that requires consultation with a **professional** accountant. The professional can assist in the preparation of both corporate and personal tax returns and advise you on tax planning opportunities. There are several ways for you to strategically defer tax through planning:

- Income splitting/attribution
- Salary/dividend decisions and “tax-free” dividends
- Incorporation of professionals
- Establishing trusts
- Tax-Free rollover of assets into corporations
- RRSP and other pension planning
- Use of tax shelters
- Use of the lifetime capital gains exemption

SOURCES OF FINANCING

The first step in financing your business is to assess your initial cash position. Initial financing is required to fund start-up costs, the first payroll, and the initial stock of inventory and supplies. Initial financing can be obtained from the following familiar sources:

- Personal savings
- Friends and relatives
- Bank loans
- Personal line-of-credit
- Sale of personal assets

More sophisticated sources of financing include:

- Leasing Contracts
- Sale-Leaseback Agreements
- Government Assistance
- Venture Capital Companies

LOCATION AND PREMISES

The location of your business depends on the type of business you wish to start and on the results of your market research. Generally, retailers rely on high traffic volume, while manufacturers require a suburban setting with industrial facilities. Other considerations include proximity and exposure to your client base, the location of your competition, and your budget for premises.

INFORMATION SOURCES

The following organizations can provide more information on starting your business.

Canada BC Business Information Center

601 West Cordova Street
Vancouver, British Columbia
V6B 1G1
(604) 775-5525
Website: www.smallbusinessbc.ca

Provides assistance in export planning, developing marketing strategies, and entering foreign markets for BC products and services.

Canada Customs and Revenue Agency (Business Numbers)

Contact for GST, Payroll and Business Tax

1166 West Pender Street
Vancouver, British Columbia
V6E 3H8
(604) 689-5411 or (800) 959-5525
Website: www.cra-arc.gc.ca

Revenue Canada - Customs and Excise Tax Branch

333 Dunsmuir Street
Vancouver, British Columbia
V6B 5R4
(604) 666-0545
Website: www.cbsa.gc.ca

Consumer Taxation Branch (PST)

Suite 800, 360 Georgia Street
Vancouver, British Columbia
V6B 6B2
(604) 660-4500
Website: www.rev.gov.bc.ca

Workers' Compensation Board

6951 Westminster Highway
Richmond, British Columbia
V7C 1C6
(604) 273-2266
Website: www.worksafebc.com

Better Business Bureau

All information provided is of a general nature and is not intended to address the circumstances of any particular individual or entity. No one should act upon such information without appropriate professional advice after a thorough examination of the facts of the particular situation.

404 - 788 Beatty Street
Vancouver, British Columbia
V6B 2M1

(604) 682-2711

Receives complaints and issues reports on businesses, offers arbitration and mediation with member businesses, alerts consumers to scams. Member businesses agree to comply with the Bureau's code of ethics.

Business Service Center

PO Box 11610
900 - 650 West Georgia Street
Vancouver, British Columbia
V6B 5H8

(604) 775-5525

Provides reference information, counseling, and reports to members of the business community.

City of Vancouver - Economic Development Office

721 - 601 West Broadway
Vancouver, British Columbia
V5Z 4G2

(604) 873-7212

Provides information, advice, and assistance to entrepreneurs, promotes local and international investment in the Vancouver area.

Discovery Innovation Center

400 - 601 West Cordova Street
Vancouver, British Columbia
V6B 1G1

(604) 684-0647

Provides confidential service to innovators, entrepreneurs, and companies wishing to explore and develop the commercial potential of their innovations. Offers personal assistance through counseling sessions, telephone follow-up, self-help booklets, and referrals within its contact network.

Federal Business Development Bank (FBDB)

505 Burrard Street
Vancouver, British Columbia
V7X 1V3

(604) 666-7850

Provides a variety of financial consulting services (some for nominal fees) for business start-ups, expansions, business plans, feasibility studies, evaluations, marketing, and troubled businesses.

Greater Vancouver Regional District - Strategic Planning Department

4330 Kingsway
Burnaby, British Columbia
V5H 4G8

(604) 432-6387

Produces a number of publications including an economic bulletin, *Greater Vancouver Key Facts*, and a business investment guidebook, *Vancouver Perspectives*.

Legal Referral Service

10th Floor - 845 Cambie Street
Vancouver, British Columbia
V6B 5T3

(604) 687-3221

Designed to encourage callers to seek legal advice before problems become complicated and expensive, the service refers individuals and businesses to lawyers practicing in the particular areas of law.

CHECKLIST FOR STARTING YOUR OWN BUSINESS

GENERAL CONSIDERATIONS

1. Decide on a legal form of organization:
 - (a) Proprietorship/Corporation/Partnership

2. Decide on your business name _____

3. Reserve and register your name _____

4. If applicable, register your logo or slogan _____

5. Register your business –Federal and Provincial requirements:
 - (a) Goods and services tax (GST)
 - (b) Federal excise tax
 - (c) Customs duties
 - (d) Provincial sales tax (PST)_____

6. Obtain business licenses and applicable permits:
 - (a) Federal licenses and permits
 - (b) Provincial licenses and permits
 - (c) Municipal licenses and permits_____

7. Conduct market research and analysis _____

8. Draft your business plan _____

9. Prepare a cash flow forecast _____

10. Obtain initial financing:
 - (a) equity financing
 - (b) debt financing -consider operating or term loan
-consider types of security
 - (c) government incentives or grants_____

11. Choose business location and negotiate premises:
 - (a) consider municipal taxes
 - (b) consider building requirements/permits_____

12. Set up your office: purchase office equipment _____

13. Set up an accounting system _____

14. Obtain adequate personal and business insurance _____

15. Open a separate checking account _____

16. Initiate advertising/promotional plan _____

17. If hiring employees:
 - (a) consider whether employee or subcontractor
 - (b) register with WCB authorities
 - (c) comply with Employment Standards and Human Rights
legislation
 - (d) register with CCRA for payroll-remit EI, CPP,IT_____

INDIVIDUAL TAX CONSIDERATIONS

1. Consider transfer of personal assets to a Corporation –tax free basis. _____
2. If leaving a full-time job, maximize RRSP contributions if lower income expected. _____
3. Report self-employed income/deduct losses on personal tax return. _____

CORPORATE CONSIDERATIONS

1. Obtain legal advice on incorporation:
 - (a) Consider reporting vs. non-reporting corporation _____
2. Upon incorporation, select/reserve/register business name _____
3. Lawyer to advise about:
 - (a) articles of incorporation _____
 - (b) issuance of share capital _____
 - (c) share rights and restrictions _____
 - (d) names of officers and directors _____
 - (e) filing annual report/annual meetings _____
4. Maintain accounting records _____
5. Prepare corporate tax return at year end _____
6. Determine eligibility for corporate tax installments _____
7. Consider roll-over of personal assets into Corporation:
 - (a) Prepare section 85 election _____
 - (b) Consider if PST applicable _____
8. Consider a buy-sell agreement _____

PARTNERSHIP CONSIDERATIONS

1. Draft partnership agreement _____
2. Consult with lawyer about rights and obligations _____

PROTECTION OF PROPERTY

1. Consult with a lawyer about:
 - (a) patent protection
 - (b) trademark protection
 - (e) copyright protection
 - (f) Industrial designs

2. Ensure that personal and business insurance needs are met.

MISCELLANEOUS CONSIDERATIONS

1. Consider packaging and labeling regulations
2. Consider metric system compliance
3. Consider product standards
