



ABORIGINAL BUSINESS AND COMMUNITY DEVELOPMENT

Incorporating a Business

abdc.bc.ca



About the Aboriginal Business and Community Development Centre



Aboriginal Business and Community Development Centre is involved in business, community and economic development.

This would include but is not limited to assistance with market research, business plan development, financial forecasting, small business loan acquisition, community economic development, economic development training and conference coordination.

Agenda



- 1. Introductions**
- 2. Organization of a business**
- 3. Should you incorporate your business**
- 4. How to incorporate your business**
- 5. The role of a lawyer in incorporating your business**
- 6. The role of an accountant in incorporating your business**
- 7. Finance and banking considerations**
- 8. How to read your incorporated company's financial statements**
- 9. Taxation**
- 10. Acknowledgements**

INTRODUCTIONS



ORGANIZATION OF A BUSINESS



Organization of a Business



1. Choosing a Business Structure

- **3 objectives:**
 - Limited Liability
 - Optimal Tax Position
 - Control of all major decisions

Organization of a Business



2. Sole Proprietorship

If a person carries on business by himself or herself, the business is called a sole proprietorship

- **Pros**

- Inexpensive to Set Up
- Only the Proprietor has the ability to bind the business
- The Proprietor can write off losses directly against personal income and achieve close to an optimal tax position

- **Cons**

- There is no limited liability
- Only the Proprietor Can Write off losses
- Only the Proprietor is in Growth Position

Organization of a Business



3. Partnership

- **If two or more people have decided to go into business together, they may choose a partnership for a variety of reasons.**
 - they may be legally unable to incorporate
 - the organization of the partnership can be simple and inexpensive
 - good idea to have a written partnership agreement
- **Pros**
 - All Partners Share in the Management of the Company
 - Partnership may provide tax advantages, because business losses can be deducted against other personal income
- **Cons**
 - The liability it imposes on the Partners
 - Each Partner is personally responsible for the personal losses of the partnership and may also be personally responsible for the losses of the business, and may also be responsible for the wrongful acts of his or her fellow partners (and employees) if those acts are committed with the partnership business

Organization of a Business



4. Limited Partnership

- The parties may decide to form a limited partnership to carry on a business. Limited Partnerships, like corporations are creatures of statute and do not come into being until the statutory requirements have been fulfilled.
- In British Columbia these requirements are found in the Partnership Act
- 2 kinds of partners: General and Limited

Disadvantages

- Third parties, such as lenders, are reluctant sometimes to deal with limited partnerships
- Limited Partners have no management control while general partners have no limited liability (unless they incorporate)
- Limited Partners who get involved in operations may be deemed to be general partners
- Arguably the Partnership Act does not have protections for limited partners equivalent to the legislated protections of minority shareholders.

Organization of a Business



5. The Corporation

- A corporation is created by fulfilling the formal requirements of a federal or provincial statute.
- The result of incorporation is the creation of distinct legal entity.
- This means the corporation can sue and be sued in its own name, enter into contracts as can a natural person, including contracts with its own shareholders, and hold property in its own name
- A corporation is an “artificial being, invisible, intangible and existing only in contemplation of law”, a separate legal entity from its members (shareholders) its liabilities being its own and generally not those of its members.
- A corporation can be more expensive to set up and maintain than other types of business organizations.

Organization of a Business



Pros	Cons
1. Immortality	1. Expense
2. Limited Liability	2. Ongoing maintenance
3. Transferability of Shares	3. Tax filings, financial statements and Bookkeeping costs
4. Separate Legal Entity	
5. Capital	
6. Tax Advantages	
7. Rights and Remedies of Shareholders	



6. Jurisdiction of Incorporation

- In Canada, two types of jurisdictions have authority to incorporate: federal and provincial
- Parliament is competent by s.91 (2) of the Constitution Act, 1867 (“trade and commerce” power), to create corporate entities. Parliament also has power to incorporate by royal prerogative. Section 92(11) of the Constitution Act, 1867 provides that each province shall have the right to incorporate companies “with provincial objects.”

Organization of a Business



7. Choice of Jurisdiction

Consider the local, national, or international/cross-border nature of the business.

- **Federal:**

- Federal company has the capacity to carry out its purposes throughout Canada as of right. It does not have to worry about name changes if it wants to do business in a province where there is a corporation with a similar name.
- In most Provinces, a federal company carrying on business there must register as an extra provincial company. This is an additional expense, particularly if it is carrying on business only in one province.

- **Provincial:**

- A Provincial company can carry on business within its own province as of right, but to carry on business in any other jurisdiction, it must receive the right by registering (or otherwise becoming qualified) as an extraprovincial company in that jurisdiction. Such registration can be refused by the other jurisdiction.
- A Provincial company is restricted to provincial objects, in the sense of its business being within provincial legislative jurisdiction (not in the geographical sense).



8. Federal Corporations

- There are many federal statutes that permit incorporation of companies, but the main one for general incorporation, suitable for almost all purposes, is the Canada Business Corporations Act, R.S.C. 1985, c.C-44.
- Special Acts of Parliament: railways, telegraphs, telephones, insurance companies, trust companies, loan companies, and banks
- National Energy Board Act – pipelines
- Bank Act
- Pension Funds Societies Act
- Other: Board of Trade Act



9. Provincial Corporations

- The Business Corporations Act, S.B.C. 2002, c.57
- Society Act provides for incorporation of societies which are national, charitable, scientific, educational, social and other similar purposes, and which may not carry on any trade, industry or business of profession for profit or gain.
- Special Acts of Legislative Assembly – school boards, drainage and sewage disposal boards, park boards, religious orders, professional bodies, schools, unions, universities and colleges
- Financial Institutions Act – credit unions, trust companies, and insurance companies regulation in British Columbia.
- Cooperative Association Act
- Railway Act

SHOULD YOU INCORPORATE YOUR BUSINESS



Should I incorporate my business



Questions to ask:

- **Why am I incorporating my business?**
 - **Do the benefits outweigh the costs?**
 - **Do I have the appropriate resources in place to meet my future business goals?**
 - **Is the flexibility of an incorporated company important to your business?**
 - **Will my corporation be considered to be a Personal Services Business by the Canada Revenue Agency?**
-

Why am I incorporating my business?



- **What opportunities are available that do not exist as a proprietorship**
 - **Are my customers requiring me to be incorporated?**
 - **Will new contracts become available to me as an incorporated company?**
 - **Are you confident that incorporating your business will secure additional revenue?**
-

Do the benefits outweigh the costs



- **Incorporating a business and maintaining an incorporated entity can be costly – what additional revenue will I secure as an incorporated entity that will justify the increased cost?**
- **Will the additional revenue be sustained for long enough to cover the initial setup of the company?**

Do I have the appropriate resources in place to meet my future business goals?



If I am incorporating to secure additional contracts or revenue, does the business have adequate resources to meet the requirements of the increased activity?

How will the company meet the increased demands:

- Financing
- Staffing
- Administration

Is the flexibility of an incorporated company important to your business?



An incorporated corporate structure can take many forms which can be more flexible than a proprietorship

When incorporating your business do you need to incorporate multiple stakeholders?

- Business partners?
 - Investors?
 - Other shareholders?
-

HOW TO INCORPORATE YOUR BUSINESS



Incorporation Procedures



- 1. One of the preliminary decisions for a company is what to name it. In British Columbia, there are particular name reservation requirements.**
- 2. In order to be “incorporated”, a company must also prepare, execute and file, with the Registrar of Companies, particular incorporation documents – a memorandum, articles, and notice of offices.**
- 3. Once the company has complies with the preliminary registration requirements it must follow certain organizational procedures.**

Guidelines for Approval of Names



- 1. The Registrar of Companies must pre-approve a company's use of a company name.**
- 2. If the proposed name of the company is the same name as the Band or aboriginal community, the registrar will require a Band Council Resolution to authorize using the name. When using aboriginal names, the registrar may also require a translation.**

Guidelines for Approval of Names



1. Reservation of Name

- The registrar of companies may reserve a name for incorporation of a company under the Business Corporations Act (i.e. an intended company), register a change of name of a company, or register an extraprovincial company name for a period of 56 days from the date of reservation.
- The applicant must fill out all requested information on the Name Approval Request Form.
- The applicant should submit a list of three names, in order of preference, to avoid repeated requests for single names.

Guidelines for Approval of Names



2. Form of Name

- Generally, names should have a distinctive element followed by a descriptive element and ending with the corporate designation.
- The distinctive element enables the public to distinguish one company from another so that the services or wares offered by each are distinguishable. This requirement is satisfied if initials, personal name or a geographic location is used.
- The descriptive component requirement ensures that each company name indicates the nature of the business of the company. The descriptive element may be specific such as “ABC Muffler Service Ltd.” or may be fairly general such as “ABC Investments Ltd.”.
- A company, other than a specially limited company must have as the last word of its corporate name a corporate designation, that is, “Limited”, “Incorporated”, or “Corporation”, or the abbreviation “Ltd.”, “Inc.” or “Corp.”
- Only one of the words “Limited”, “Incorporated”, “Corporation” for its abbreviation may be used.
- A “number” name can be assigned to a company if requested. The number used is the distinctive element in the name. In this case a name reservation is not necessary, and the incorporation application states that instead of the name under which the company is to be incorporated the name will be created by adding “B.C. Ltd.” after the incorporation number of the Company. The registrar will assign a “number” name, which will be the next available certificate of incorporation number, for example “0654321 B.C. Ltd.”.

Guidelines for Approval of Names



3. Registrars discretion as to Names

- the name must not resemble the name of an existing British Columbia company;
- the name of any other corporation registered in British Columbia;
- a name already reserved with the registrar under s. 22 of the Act; or
- the name of an extraprovincial company registered under the Act, to the extent that, in the opinion of the registrar, it is likely to confuse or mislead.

4. Name approval procedure

- The registry staff checks the requested names against the corporate name register to determine if there is an identical name or similar names that in the opinion of the registrar would be likely to confuse or mislead. If there is no name on the register that is similar to the name requested, then further tests (that is, inclusion of the three required elements) are applied before approval of the name.

Guidelines for Approval of Names



5. Name not to suggest government connection

- The word “Government” in a name is not acceptable. Other words that may imply connection with, or approval by, levels of government require consent of the government. Examples of such words are “provincial”, “ministry”, “bureau”, “branch”, “service”, “agency”, “department” or “board” in connection with government. There are general words in the name which may suggest governmental approval, such as “authorized”, “bonded”, “commission”, “certified”, “institute”, “warrant” and “council”. Any such words should be deleted from the name.

6. Name Not to Suggest Connection with Crown or Royal Family

- The name of a company must not suggest or imply a connection with the Crown or any living member of the Royal Family, without first obtaining written consent from the appropriate authority. Words such as "Crown", "Royal", "King", "Queen" and the names of living members of the Royal Family are usually rejected, unless it can be shown that by reason of long bona fide usage the words do not suggest or imply connection with the Royal Family or Crown. Titles of Royal Family members such as "Prince of Wales" are also subject to the same prohibition.

Guidelines for Approval of Names



7. Name not to be Objectionable on Public Grounds

- If, in the opinion of the registrar, a name is objectionable on public grounds, it will not be approved.
- A name will not be approved if it includes:
 - A vulgar expression, obscene words or racial, physical or sexual slurs
 - Any reference to a public figure in the name, which could cause embarrassment, would not be approved. However, a name is usually approved when the person involved consents in writing and the name only affects him or her and not the public generally.
 - The name of a political party or leader is also prohibited without consent.

Guidelines for Approval of Names



8. Well Known or Established Names

- There are some words that are so well known that it would be against policy to grant them in a name, for example, Exxon, Xerox and Coke. The Corporate Registry does not maintain records of trade names and trademarks and therefore must rely on public knowledge of well-known trade-marks when making a decision on the approval of a name.

9. Identical or Similar Names Not Available

- One of the most common reasons for rejecting a name is that it is identical, or very similar to the name of an existing company.

Formation of a Company



1. Incorporation Agreement

- An incorporation agreement is a short agreement in which the incorporators agree to take shares of the company. The agreement must include the full name of each incorporator and the number of shares of each class and series of shares being taken by that incorporator. Also the agreement must be signed and dated by each incorporator. The incorporation agreement is held in the company's records office, not filed with the registrar.
- In most cases, the incorporator will have to sign both the incorporation agreement and the articles before incorporation. Consequently, these are often combined.

Formation of a Company



2. Incorporation Application

- The *Business Corporations Act* requires that certain information be included in the incorporation application, including: the completing party statement; the full names and mailing addresses of the incorporators; the name of the company; and a notice of articles that reflects the information that will apply to the company upon its incorporation.

3. Notice of Articles

- The articles of a British Columbia corporation are held in the records office.



4. Articles

- Section 12(2) of the Business Corporations Act sets out the minimum requirements for the articles of a company. These requirements include rules for conduct of a company, every restriction, if any, on the business that may be carried on or the powers that may be exercised by the company; the special rights and restrictions that are attached to each class or series of shares of the company, and the name and incorporation number of the company. If the company intends to use any translation of its name outside Canada, then that translation must also be included in the articles (s. 12(2)(c)(iii)).
- Once incorporation is effected, the notice of articles and the articles are considered binding contracts among the shareholders and the company



What are Shares?

- A share represents a contractual relationship between the shareholders and the company on the terms set out in the articles and notice of articles.
- A share represents a proportionate interest in the net value of a company (that is, the value that would remain after all the company's liabilities to outside creditors were fully paid).
- In addition, a share carries with it a bundle of contractual rights emanating from the provisions of the articles and notice of articles of the company, in addition to the statutory rights provided in the relevant incorporation statutes.
- When we say certain rights are contractual, it follows that the shareholder may sue the corporation, or any other person who breaches these rights, for breach of contract.
- It is therefore important to understand the meaning of the various special rights and restrictions that are often attached or removed from share rights.

Kinds and Classes of Shares



- The authorized share structure is a bank of shares: it is the maximum number of shares the company may issue and which it has available for distribution. The number of shares in each class may be a specific maximum, or may be specified to be unlimited. Share capital can be subdivided into many types of shares so that special share rights can be allocated to particular shareholders.
- Each class of shares, however, must consist of shares of the same kind . The authorized share structure of a company must be described in the company's notice of articles, which details the name of each class or series of shares, the maximum number of shares of each class or series that the company is authorized to issue (or include a statement that there is no maximum number) (s. 53).
- In addition, the notice of articles must indicate whether the shares have any par value (s.53(c)) and whether there are any special rights and restrictions attached to them (s.11(h)) (but not what the special rights or restrictions .

Kinds and Classes of Shares



- A company must have at least one class of shares and those shares must be either “with par value” or “without par value”.
- If a company has more than one class of shares, some classes can have shares with par value and others can have shares without par value.
- The minimum price for which par value shares may be allotted is their par value. The par value need not be expressed in Canadian currency.
- Section 64(2) dictates that no share can be issued until it is fully paid, however, s.65 contains certain exceptions where shares will be deemed to be fully paid.

Kinds and Classes of Shares



- There is a distinction between **“common” shares** (or ordinary shares) and **“shares with special rights or restrictions”** (often called **“preference shares”** or **“preferred shares”**).
- The expressions “preference shares” and “preferred shares” are not formally used in the Business Corporations Act and there is no requirement that they be used. The common or ordinary shares can themselves be in various classes. If they are non-voting, they should be designated as such.
- The “special rights and restrictions” that attach to different classes of shares, may include provisions such as:
 - whether shares of a particular class hold a preference over those of other classes regarding payment of dividends;
 - whether the dividends are participating;
 - whether dividends are cumulative or non-cumulative; and
 - whether they are redeemable at the option of the company or holder (in the latter event, they are called “retractable”).

Kinds and Classes of Shares



- Further provisions include:
 - whether the shares of a particular class are convertible to other shares;
 - whether they are voting, voting only in some circumstances, or non-voting ; and
 - whether they are entitled to preferred status on a winding-up of the company.
- The same special rights and restrictions can be attached to shares of more than one class or series.

THE ROLE OF A LAWYER IN INCORPORATING YOUR BUSINESS



Role of a Lawyer



- **A good lawyer can advise you on your legal obligations possible personal exposure to liabilities.**
- **One problem with people starting up is that they do not know what questions to ask. For example:**
 - how are your shares held?
 - Have you considered family participation?
 - What about trusts?
 - There is a tendency to not think about questions like "How can I minimize the amount of tax I have to pay if I sell my company for a million dollars?"
- **Sure, we tend to think that would be a nice problem to have. But, now is the time to give it some thought - before the million dollar gain!**

Role of a Lawyer



- **A lawyer can assist you with setting up the corporate structure properly from the outset which will save you time and money compared to if you completed it yourself only to discover problems with your company articles and share structure or ancillary documents.**
- **Incorporated entities must file more paperwork, such as an annual return, one-time articles of incorporation and notifications of share sales, moves or changes of directors.**

Role of a Lawyer



- **As your company grows it is great to have a lawyer who is part of your team of trusted advisors to provide advice and guidance on all corporate and commercial matters.**
- **Overall, the process should not be too difficult or time-consuming. However, you want to make sure that you are choosing the best options for your company and maximize the advantages offered under British Columbia laws/regulations.**
- **The money that you spend on the lawyer now is well worth the peace of mind that you're doing it right, not to mention the "insurance" of malpractice liability if it's not done right and you discover something wrong down the road.**
- **In addition, your lawyer may discuss other important issues for you to consider such as shareholders agreements that will help protect and establish the rules of the relationship with your other shareholders as your company grows**

THE ROLE OF AN ACCOUNTANT IN INCORPORATING YOUR BUSINESS



Role of an accountant when incorporating a company



- Tax planning/filings
- Share structure
- Instructions to lawyer
- Setup accounting systems/software
- Accounting advice
- Organizing books and records

Tax planning/filings



- **Accountant can advise on tax planning opportunities when incorporating a new business:**
 - Personal business assets can be transferred into the business on a tax deferred basis
 - Income splitting opportunities
 - Indian Act exemptions for wages paid
- **Accountant can assist newly incorporated company to develop a process to meet the requirement for compliance filings such as:**
 - Corporate tax
 - Payroll
 - GST
 - PST
 - WCB
- **Assist in assessing Personal Services Business risks**

Share Structure



Clients should seek advise on an appropriate share structure which will suit the business needs.

An appropriate share structure:

- **Is most efficient to setup at the inception of a newly incorporated company**
- **Can help ensure profits of the company can be distributed in a tax efficient manner**
- **Will assist the business in any future tax planning projects**

Instructions to lawyer



- **Your accountant can provide concise instructions to your lawyer facilitating the incorporation process and ensuring that all of your tax planning and business needs are met**
- **These instructions can expedite the incorporation process**
- **Legal council and accountants often work in collaboration when incorporating a new business for clients.**

Setup accounting systems/software



Accountants assist in developing:

- **Chart of accounts needed to track business activities**
- **Selection of appropriate accountings software:**
 - Sage simply accounting
 - Quickbooks
 - Adagio
 - Cloud computing
 - Etc.
- **Can provide training with respect to the recommended software to get you started**

Accounting advice



Prior to incorporating your business you may wish to have your accountant review the following information and provide insight from an accounting perspective:

- **Business Plan**
- **Review Cash flow projections**
- **Capacity planning**
- **Product costing**
- **Other general business issues**

Organizing Books and Records



Books and Records

- **You have to keep all sales and purchase invoices and other records related to your business operations for six years from the end of the year to which they relate.**
 - **There are benefits for you when you keep complete and organized records:**
 - When you earn income from many places, good records help you identify the source of the income
 - Keeping good records will remind you of expenses you can deduct when it is time to do your corporation's tax return. Good records will keep you better informed about the past and present financial position of your business
 - Good records can help you budget, spot trends in your business, and assist you to get loans from banks and other lenders
 - Good records can prevent problems you may run into if we audit your income tax returns.
-

FINANCE AND BANKING



Sources of financing



1. **Shareholder Funding**
2. **External Debt Financing**
3. **Government Assistance**

Shareholder Funding



What is it?

- Injection of cash
- Use personal capital (home equity)
- Contribution of personal assets to the business

Advantages

- Low cost to the business
- No credit approval process (easy to access)

Disadvantages

- Personal assets are put at risk of loss
- Personal finances/cash flow may be adversely impacted

External Funding Loans



What is it?

- Operating loans
- Term loans
- Usually issued by a financial institution

Advantages

- Loan issued in the name of the business therefore personal liability may be limited
- Can finance startup period

Disadvantages

- Financial institution may require security (it may be personal)
- There may be financial covenants which the company will need to meet to stay in good standing
- Credit process required which may be difficult for a new business

Government Assistance (examples)



Canada Small Business Financing Program

- Makes it easier for small businesses to obtain loans from financial institutions as the risk is shared between Industry Canada and the lenders

Scientific Research & Experimental Development (SR&ED)

- Largest single source of government support for R&D in Canada

Industrial Research Assistance Program (IRAP)

- Provide technology assistance to small and medium sized enterprises to help build innovation

Interactive Digital Media Tax Credits (IDMTC)

- Supports development of Canadian digital media

Sustainable Development Technology Canada

- Non-profit foundation that finances and supports the development of clean technologies

Natural Science and Engineering Research Council of Canada

- encourages Canadian companies to participate and invest in postsecondary research projects

Banking



- **An incorporated company is a separate legal entity and it will require it's own bank account and cheques**
- **Consider obtaining a corporate credit card to facilitate the tracking of business vs. personal expenses**

HOW TO READ YOUR INCORPORATED COMPANY'S FINANCIAL STATEMENTS



How to read your financial statements



- **Types of financial statements**
- **Financial statement components**
- **Analysis**

Types of Financial Reports



Audit report

- Positive assurance – reasonability
- Generally accepted audit and accounting standards
- Substantive testing, gaining understanding of processes
- Most expensive

Review engagement report

- Negative assurance – plausibility
- Generally accepted accounting standards
- Analytical review, discussions

Notice to reader (NTR)

- Doesn't have to be independent
- No verification but cannot be knowingly wrong

Financial Statement Components



- **Balance sheet**
- **Income statement**
- **Retained earnings**
- **Cash flow statement**
- **Notes to the financial statements**

Balance Sheet



- **Assets**
- **Liabilities**
- **Shareholders' equity**
- **Snapshot at a given point in time (fiscal year end)**

Balance Sheet – Assets



What the organization owns or is owed

Typical assets

- Cash
- Investments
- Accounts receivable
- Prepaid expenses
- Inventory
- Capital assets

Current assets are those that are expected to be converted to cash or used in less than 1 year, and long term assets are those that will be converted to cash or used in more than 1 year.

Balance Sheet – Liabilities



What the organization owes to others

Typical liabilities

- **Accounts payable and accrued liabilities**
- **Income tax payable**
- **Deferred revenue**
- **Debt (current and long-term portion)**

Current liabilities are those that are payable in less than 1 year, and long term liabilities are those that will be paid in more than 1 year.

Balance Sheet – Net assets



Assets – liabilities = Shareholders' equity

Typical components of shareholders equity

- **Share capital**
- **Retained earnings**
- **Dividends**
- **Refundable dividend tax on hand (RDTOH)**

Balance Sheet – What to look for



Significant year over year changes

- Decreases in cash or investment balances
- Increase in accounts receivable – collectability issues?
- Increase in accounts payable – are we paying our debts in time?
- Capital assets – have purchased or disposed of capital assets?

Ratios

- Will our current assets cover our current liabilities within the upcoming year?

Retained earnings

- Surplus vs. deficit?
- True surplus funds – unrestricted and internally restricted in a positive position
- Surplus position allows funds to be used for short-term working capital needs

Income Statement



- Also known as profit and loss statement
- Statement shows the amount of revenues earned and the expenses incurred over a period of time – typically one year period
- The difference between the revenues and expenses is the profit or loss for the period – “bottom line”
- Earnings per share
- Internal vs. external statements

Income Statement – Revenues



Typical types of revenues

- Sale of goods or services
- Professional fees
- Program revenues
- Investment income
- Donations

Typical net revenue deductions

- Returns
- Discounts

Income Statement – Expenses



Typical types of expenses

- Cost of sales
- Salaries and benefits
- Program expenses
- Office and administration
- Research
- Marketing
- Amortization
- Interest
- Income tax

Income Statement – What to look for



Comparisons to prior year

Comparisons to budget

Net results of specific products or services

Revenues

- How diversified is the funding?
- If majority of funding is coming from the one product or service – when do contracts expire or goods become obsolete?

Expenses

- Gross margin – sales compared to direct costs
- Largest expense is usually salaries and benefits
- Non-cash expenses – amortization
- Rent – what are the monthly costs and how long is the lease

Earnings per share

- Income / number of shares

Statement of Retained Earnings



- **Statement provides more detail of the shareholders equity balances that appear on the balance sheet**
- **Dividends paid by class of shares**
- **Comparisons to prior year**

Statement of Cash Flows



Shows the organizations sources and uses of cash throughout the year

Eliminates non-cash transactions such as amortization and changes in non-cash operating working capital to show true cash flows

Broken down into 3 activities:

- **Operating**
 - Important that cash flows from operations are positive
- **Investing**
 - Typically see changes in investments and purchases of capital assets
- **Financing**
 - Typically see changes in long-term debt

Overall, is the organization generating or using cash

Notes to the Financial Statements



Found at the end of the financial statements

Provide additional information to reader regarding accounting policies and details of items included on the previous statements

Typical notes in financial statements:

- **Accounting polices**
 - Inventory
 - Revenue recognition
 - Income taxes
- **Capital assets**
- **Long-term debt**
- **Commitments**
- **Stock options or share based payments**

Notes to the Financial Statements – What to look for



Commitments

- What future payments have been committed?
- Will the organization have enough resources to satisfy future commitments?

Contingencies

- Is the result of a future transaction going to have a significant impact on the organization?

Related party transactions

- Are related parties benefiting or acting inappropriately in dealing with the organization?

Going concern

- Is the organization expected to continue as a going concern?

Economic dependence

- Is the organization dependent on one specific customer?

Ratios and Calculations



Liquidity

- Working capital
- Current ratio
- Turnover (receivables, inventory, payables)
- Days' sales

Solvency

- Debt to equity
- Times interest earned

Profitability

- Contribution or profit margin
- Earnings per share
- Return on equity or assets

Overall items to look for when reviewing an organization's financial information



- How timely is the preparation of the financial reporting?
- Are budgets prepared and reviewed to actual?
- Was an audit or review performed?
- Are cash flows from operations positive?
- Is debt being used to fund operations?
- Is there a surplus?
- Has surplus cash been invested to create the best returns possible?
- How much is being spent on fundraising and administration?
- Unusual items?

TAXATION





Objectives of Optimal Tax Planning

- To minimize income taxes payable and maximize after-tax take home pay for the family unit as a whole
- It's not what you make, it's what you keep...

Taxation



The deductibility of certain expenses against business income will essentially be the same in either an incorporated or unincorporated business

Three general rules of thumb regarding expense deductibility:

- 1. The expense must be incurred for the purpose of earning business income; and**
 - 2. The expense must be considered reasonable in the circumstances; and**
 - 3. The expense must not be specifically disallowed by the Income Tax Act (ITA)**
-

Taxation – Business Expenses



Business Expenses

- As a rule, you can deduct any reasonable current expense you paid or will have to pay to earn business income. Some examples of business expenses include: advertising; business start-up costs; delivery; freight; fuel costs; insurance; interest; legal; accounting; maintenance; motor vehicle expenses; office expenses; rent; salaries; wages; telephone; utilities; business travel.

Capital Cost Allowance (CCA)

- Expenditures of a capital nature are not deductible in computing income for tax purposes in the year the expenditures are made. Instead, capital expenditures are deducted annually over several years, which are referred to as capital cost allowances.
-

Taxation – Common Examples of Business Expenses



- Accounting and legal fees
 - Advertising and promotion
 - Meals and entertainment (50%)
 - Annual license fees and professional dues
 - Bank charges
 - Interest on office loans and lease payments
 - Maintenance and repairs of office and equipment
 - Professional development
 - Office expenses (i.e. supplies, postage, stationary, telephone, answering service, etc.)
 - Salaries and employment benefits
 - Travel expenses
 - Rent, heat, light, power and water
 - Insurance for property/building in business (but not personal insurance/disability premiums)
-

Taxation – Effect of Incorporation



Taxed at two levels

- Corporation pays tax on its net income
- Shareholder pays personal tax on the income from the corporation
 - Salary
 - Management fees
 - Dividends
 - Interest

Corporations generally pay less tax than individuals on “active business income” up to \$500,000

- Combined corporate and personal taxes may be less than earning income and paying tax directly
 - Income left in the corporation will benefit from a tax deferral
-

Effect of Incorporation - Example



Income Earned Personally – in excess of \$100K

Taxable income earned personally		\$200,000
(44%)	Personal tax A	<u>88,000</u>
Net income after tax	B	<u>\$112,000</u>

Active Income Earned Through Corporation – after \$100K wage

Taxable income earned by corporation		\$200,000
(13.5%)	Corporate tax C	<u>27,000</u>
Income retained in corporation		<u>\$173,000</u>

Dividend to Shareholder		\$173,000
(35%)	Personal tax	<u>60,550</u>
Net income after tax	D	<u>\$112,450</u>

Tax deferral with corporation (A – C) \$ 61,000

Tax cost with corporation (B – D) Neutral



Bringing Assets Into Your Corporation

- After you have incorporated your business you may want to transfer assets into the corporation. For tax purposes you will need to file a special election.
 - Assets of business are transferred in exchange for shares and debt
-

Taxation – Filing Requirements for Corporations



Filing Requirements for Corporations

- All Canadian resident corporations have to file a T2 return for every year, even if there is not tax payable. Your corporation's T2 tax return must be filed within six months after the corporation's fiscal year-end.
 - Corporations are required to pay monthly tax installments based on the lesser of a combination of the prior two years' taxes payable, the previous year's taxes payable or the current year's estimated taxes.
 - No tax installments are required in the first fiscal year.
 - Penalties and interest will apply if taxes owed and filed late or paid late.
-

Taxation – Pitfalls to Avoid



Failing to proactively set money aside for future tax installments is a critical mistake!

- Interest and penalties on insufficient or missed payments can be onerous

Don't spend "tax money" that isn't yours:

- Keep track of GST/HST income separate from regular business income
- Keep payroll taxes/employee withholdings separate from business expenses and remit to CRA based on remitting requirements

CRA considers GST/HST and payroll withholdings as accounts held "in trust" and will provide no leniency on application of penalties etc if not remitted in accordance with current tax rules

Don't be categorized as a Personal Services Business

- **Personal Service Businesses have restricted expense claims and pay income taxes up to 3 times a qualifying small business corporation**
-

Taxation - Indirect Taxes, Remittances and Filings



Good and Services Tax (GST) Filings:

- Most businesses in British Columbia are required to pay the GST on their purchases, including expenditures on supplies, equipment and services incurred in the development and research for start-up technology companies.
 - Businesses like yours are required to collect GST on any taxable sales, and pay the GST on most purchases that you make to operate your business. As a start-up company, you have the ability to claim an input tax credit (refund) to recover 100% of all GST paid during the year (subject to certain limited exceptions), including significant amounts spent on the purchase of property and any other expenditures on which GST was paid.
 - In order to recover the GST that was paid, you must register for GST and file GST returns.
 - Before you can register for a GST account, you need to obtain a Business Number from the Canada Revenue Agency (CRA). You can set up a Business Number and GST account by using the CRA's online service at www.businessregistration.gc.ca or by completing a Form RC1.
-

Taxation – Indirect Taxes, Remittances and Filings (continued)



BC Provincial Sales Tax (PST):

- **On April 1, 2013, British Columbia returned to a PST system. The PST is a form of retail sales tax that applies to goods and certain services purchased for personal or business purposes. PST will apply to:**
 - Tangible personal property (TPP), subject to various exemptions
 - Services in relation to TPP, subject to various exclusions/ exemptions
 - Software, subject to various exclusions/exemptions
 - Telecommunication services including internet services and specified digital media content such as music and movies
 - Legal services rendered in BC or in relation to matters in BC
 - Accommodation
 - Passenger vehicles short term rentals (additional tax)
 - Energy products (additional levy)

Taxation – Indirect Taxes, Remittances and Filings (continued)



BC Provincial Sales Tax (PST):

- **The PST rates, vary depending on the nature of items purchased:**
 - 7% general rate
 - 8%-10% rates on passenger vehicles with price of \$55,000 or more
 - 12% on private recreational vehicle, boat or aircraft purchases.
 - As a start-up business owner, you should consider whether you need to obtain a new PST registration number. Generally a PST number is only required where the business will be selling tangible personal property or providing taxable services in B.C.
- **PST will most likely not apply to contract services which your company provides**

Taxation - Payroll Taxes, Remittances and Filings



CPP/EI Remittances and T4 Filing

- As a business, you are required by the Canada Revenue Agency to withhold and remit employee CPP contributions, EI premiums, and income tax deducted from your employees' wages, along with your share of CPP contributions and EI premiums. CPP, EI and income tax withholdings must be collected by the employer and remitted to the government at various times throughout the year.
 - In addition, each company must prepare, submit and distribute T4 slips on an annual basis. Any income paid to yourself or your employees must be reported, including normal employment income, commissions, taxable benefits (including auto reimbursements), bonuses, or any other monies that are paid.
 - Each calendar year, a T4 slip must be completed for all individuals who received income from your company during the year if:
 - The remuneration was more than \$500
 - CPP contributions, EI premiums, or income tax were deducted from the remuneration
 - **Penalties and interest apply for failure to remit on a timely basis**
-

Taxation – Special Considerations for Aboriginal businesses



CORPORATIONS

Corporations are separate entities and have no protection from taxes under the Indian Act. As a result:

- A corporation will be subject to income tax and must file separate income tax returns
- A corporation must pay Goods and Services Tax and must register and charge GST on its charges to customers.
- If the Corporation does not remit to the government the GST required to be collected then the government may hold the individual directors (usually shareholders) personally liable for these amounts
- A corporation must pay provincial sales tax on purchases when PST applied
- Shareholders must pay personal taxes on money they take out of a corporation

Taxation – Special Considerations for Aboriginal businesses



EMPLOYEES

- **Employer (Corporation) must withhold and remit applicable CPP, EI and Income Tax Withholdings for Employees**
- **Individual directors (usually shareholders) may be personally liable if the Corporation does not withhold and remit required payroll deductions**
- **Status Indian Employees**
 - **General rule is that these employees will be subject to income taxes on wages earned UNLESS:**
 - Employee is physically performing duties at an on reserve location OR,
 - Employee and Employer (Corporation) are both resident on reserve
 - **Rules in this area are extremely complex and professional advice must be obtained from someone familiar with First Nation taxation if you do not withhold taxes on employee wages**

ACKNOWLEDGEMENTS





Thank you to KPMG LLP for their assistance with respect to the accounting and tax sections of this presentation. If you have any further questions with respect to accounting and tax for your business please contact KPMG's Prince George office at:

**Corey Naphtali, CPA, CA
Partner, KPMG Enterprise**

**KPMG LLP
400 - 177 Victoria Street
Prince George, BC V2L 5R8
Direct: 250 614 4067
Main: 250 563 7151
Toll Free: 1 800 665 5595**

**cnaphtali@kpmg.ca
ca.linkedin.com/in/coreynaphtali**

**KPMG Enterprise. Your private company adviser.
Visit www.kpmg.ca/enterprise**

Heather Sadler Jenkins LLP



Thank you to Heather Sadler Jenkins LLP for their assistance with respect to the legal sections of this presentation.

If you have any further questions with respect to legal matters for your business please contact HSJ's Prince George office at:

Gaurav Parmar, B.B.A., M.B.A., J.D.
Partner
Heather Sadler Jenkins LLP, Lawyers
204-1302 Seventh Avenue
Prince George, B.C., V2L 3P1
Tel. 250 / 565-8000
Fax 250 / 565-8001

<http://www.hsjlawyers.com>

Assistant: Wendy Bergeron;
Terri Pfliger, Conveyancing; &
Jamie Pfliger; Corporate





WESTERN ECONOMIC DIVERSIFICATION

Funding for this presentation had been provided by
Western Economic Diversification Canada

QUESTIONS





ABORIGINAL BUSINESS AND COMMUNITY DEVELOPMENT

Incorporating a Business

abdc.bc.ca

Contact Us



Executive Director
executivedirector@abdc.bc.ca

Reception
admin@abdc.bc.ca

Finance
finance@abdc.bc.ca

Business Development & Special Projects
ksmith@abdc.bc.ca

Financial Literacy Coordinator
financialliteracy@abdc.bc.ca

CONTACT

555 George Street
Prince George, BC V2L 1R8

Phone: (250) 562 6325

Fax: (250) 562 6326

Email: abdc@abdc.bc.ca



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Confidentiality Warning: This message and any attachments are intended only for the use of the intended recipient(s), are confidential, and may be privileged. If you are not the intended recipient, you are hereby notified that any review, retransmission, conversion to hard copy, copying, circulation or other use of this message and any attachments is strictly prohibited. If you are not the intended recipient, please notify the sender immediately by return e-mail, and delete this message and any attachments from your system.