

15 Business Structures

Resource Kit for Nova Scotia Farmers

At least once in the life of a business owners will be faced with deciding which business structure is right for the business. In fact many businesses are faced with the issue more than once. Whether you are looking at business structures from the context of a start-up or reorganization there are a number of questions you need to address.

- What is the nature of the business operation? Is there an expectation of growth or expansion in the future?
- Who will be involved in the business and what will be their role or responsibilities?
- What assets are available or needed to operate the business? If financing is needed, how will it be obtained?
- Will the assets be owned by individuals or the business itself?
- What other personal assets do the participants have? Are they willing to use these in the business?
- How will income be shared among participants?
- What are the long range plans for retirement and passing the business on to the next generation?

An agricultural or agri-food business can be structured in many different ways. Before choosing a structure you must understand the various legal, management, tax and financial issues of each structure. There are no set rules and the selection of the best suited structure will depend on the unique circumstances of each farm unit.

The business structure can enhance the business' potential for success. The structure of a business tells whether owners are interested in growth, returns, control or other issues.

The basic business structures include:

- Proprietorship
- Partnership
- Corporation
- Co-operative
- New generation Co-operative

When starting or investing in a business it is important to ensure that the structure chosen for the business accurately reflects the goals of the business and helps to create the climate for success. It is fundamental that in determining the proper business structure you consider the following issues:

- Personal Liability (is it possible for the investor to lose more than they invested)
- Liquidity and Marketability (how quickly and easily can one get their money out)
- Tax Strategies (the ability to reduce or defer taxes)
- Business Risk (does the structure improve the chances of success)

Summary

It is easy to see from the summary chart that there are pros and cons to each structure and it depends on the business' and owners' goals as to which is the correct structure. It is very important to remember that selection of the structure should work to improve the chances for success.

Starting a business as a sole proprietorship provides a business owner with the fewest restrictions and more flexibility in decision making. A partnership is similar to a proprietorship with the added benefit of bringing additional strengths and skills to the business through its partners. When someone creates a corporation, they are in fact creating a separate legal entity that can be thought of as an "artificial person". Corporations are governed by the rules and regulations in the Business Corporations Act. A co-operative is also a separate legal entity that is controlled democratically by its owners. A new generation co-operative is a business structure which incorporates characteristics of both corporations and traditional co-operatives.

The material in this fact sheet is a summary of the subject of business structures and should serve as a guide to further information on the subject or on a specific structure. By doing the research and planning at the beginning you will help to ensure that the appropriate business structure is employed in your business and improve the chances for success.

Business Structures Summary (Taken from *Choosing the Right Structure for Your Agri-Business Booklet, Saskatchewan Agriculture, Food and Rural Revitalization*)

	Proprietorship	Partnership	Corporation	Co-operative	New Generation Co-operative
Purpose	Profit	Profit for partners	Profit for Shareholders	Service and savings for members	Profit driven; value added processing
Ownership	One owner	Partners	Shareholders	By members	By members
Control (voting)			The number of voting shares held by each shareholder	One member, one vote, regardless of the number of shares. No proxy voting.	One member, one vote, regardless of the number of shares. No proxy voting by members. If non-member investment is allowed, proxy
Liability	Owner is fully liable for business and debts.	Owners are fully liable for business and debts.	Shareholders limited to share subscription. Directors can be liable.	Members limited to share subscription. Directors can be liable.	Members limited to share subscription. Directors can be liable.
Distribution of Profits	Owner gets all profits	Partners split profits as per partnership agreement.	Dividends paid on shares. Rate set by Board of Directors.	To members in proportion to their use of the co-op's services.	To members in proportion to their use of the co-op's services; to investors based on the dividend rate.
Initiation of Policies	Owner	Owners	Board of Directors, Shareholders and Management	Board of Directors, members and Management	Board of Directors, members and Management
Exit Strategy	Sell or close the business	To sell the partner's portion of the business (as per the exit strategy agreed to at the beginning of the agreement) or to close the business.	Public: Shares sold on the Stock Market Private: Agreed to at the commencement of the business	Agreed to at the commencement of the business, usually sale of shares to another party or back to co-operative.	Agreed to at the commencement of the business, usually sale of shares to another party or back to co-operative. Delivery and investment shares may receive different consideration.
Tax Implications	Owner records profits or losses on his or her personal tax return	Owners record profits on their personal tax returns.	Corporate taxes paid on all profits. Dividends are then paid to shareholders who pay personal taxes and apply for a personal tax credit. Corporations can also receive a tax credit on reinvested profits.	The Co-operative records profits, pays dividends and pays taxes on the remainder of the profits. Members pay tax dividends regardless of whether they do or do not receive them that year.	The Co-operative records profits, pays dividends and pays taxes on the remainder of the profits. Members pay tax dividends regardless of whether they do or do not receive them that year.

Additional Resources:

Canadian Farm Business Management Council
Agriculture and Agri-Business Structures – A Practical Guidebook
<http://www.farmcentre.com/Home.aspx>
(Available from the Business Management Library, NSDA
<http://www.gov.ns.ca/agri/bde/lib/index.shtml>)

Choosing The Right Structure for Your Agri-Business
<http://www.agriculture.gov.sk.ca/Default.aspx?DN=efc3ce38-be38-4255-86e9-70ec7aacd80c>

Business Structure: Cooperatives, Partnerships and Leases
BC Ministry of Agriculture and Lands
http://www.agf.gov.bc.ca/busmgmt/structure_leases.htm

Canada Business – Nova Scotia
<http://www.canadabusiness.ca/ns>

Start-up Assistant – Choosing a Business Structure
<http://bsa.canadabusiness.ca/gol/bsa/site.nsf/en/su13295.html>

Nova Scotia Co-operative Council
<http://www.nsco-opcouncil.ca>

Forming Our Cooperative
www.nsco-opcouncil.ca/Publications/Forming%20Our%20Co-operative%202006.pdf

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