

Food Business Boot Camp

Webinar series presented by Food Secure Canada
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Business Structures for Sustainable Food Businesses

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Food
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pour une alimentation
durable

HOW TO CHOOSE THE RIGHT BUSINESS STRUCTURE

BASIC TYPES OF BUSINESSES

1. Sole Proprietorship
2. Partnership
3. Incorporation
 1. Federal or provincial
 2. Co-operatives

The structure chosen must reflect the goals to be accomplished with the business. The structure must help create a climate for success.

SOLE PROPRIETORSHIP

Simplest form of a business. The self-employed form.

ADVANTAGES

- Low start up costs
- Minimal working capital required
- Tax advantages to the owner
- All profits go to the owner
- Total control in decision making
- Rules and regulations are limited

DISADVANTAGES

- Unlimited liability
- Business continuity
- Raising capital
- No name protection
- Responsible for all the debts
- Assume all the risks

Purpose:

Profit

Ownership:

One owner

Voting (control):

n.a.

Distribution of profits:

Owner gets all

Initiation of policies:

Owner

Exit strategy:

Sell or close

Tax implication:

Profits or losses on personal tax return

GENERAL PARTNERSHIP

A partnership is an agreement in which you and one or more people combine resources

ADVANTAGES

- Ease of formation
- Low start up costs
- Additional sources of investment capital
- Some tax advantages
- Broader management base
- Rules and regulations are limited
- Potential for continuity

DISADVANTAGES

- Unlimited liability
- Divided authority
- Difficulty in finding the right partners
- Potential conflict between the partners
- Raising capital
- No name protection
- Partners can legally bind each other without prior approval

Note: to establish the terms of the partnership and to protect yourself, a partnership agreement should be drawn up.

Con't: General partnership

Purpose:	Profit for partners
Ownership:	Partners
Voting (control):	n.a.
Distribution of profits:	Split profits as per partnership agreement
Initiation of policies:	Owners
Exit strategy:	Sell the partner's portion of the business (as agreed in partnership agreement) or to close the business
Tax implication:	Owners record profits on personal tax returns

BUSINESS STRUCTURE FOR SOCIAL ENTREPRENEURSHIP

Choices available throughout Canada

- For profit Corporation
- Non profit Corporation
- Co-operatives

CORPORATION

It is a legal entity that is separate from its shareholders

ADVANTAGES

- Limited liability
- Specialized management
- Transferable ownership
- Continuous existence
- Separate legal entity
- Easier to raise capital
- Name protection

DISADVANTAGES

- Closely regulated
- Most expensive form of business to organize
- Charter restrictions
- Extensive record keeping necessary
- Possible double taxation of profits
- Directors may be held legally responsible
- Limited liability advantages are undermined when personal guarantees are required

TYPES OF INCORPORATIONS

- * **Federal incorporation**

- * Best option if you want to carry your business activities in more than one province or outside of the country.

- * **Provincial incorporation**

- * Best option if you intend to carry your business activities solely in one province.

For profit, if you think profits will be similar to a conventional business however with social values. Easier to generate profits. Easier traditional financing availability. No income taxes deductions. Restrictions with public financing.

Non profit, if revenues are to be reinvested totally in the social mission. Better adapted for a business with social values. Income taxes exemptions. Government grants availability. No shares are available nor dividends can be voted for.

Con't: Corporation (federal or provincial)

Purpose:

Profit for Shareholders

Ownership:

Shareholders

Voting (control):

The number of voting shares held by each shareholder

Distribution of profits:

Dividends paid on shares. Rate set by Board of Directors

Initiation of policies:

Board of Directors, Shareholders, and Management

Exit strategy:

Public: Shares sold on the Stock market

Private: Agreed to at the commencement of business

Tax implication: (for profit)

1. Corporate taxes paid on all profits
2. Dividends are then paid to the shareholders who pay personal taxes and apply for a personal tax credit
3. Corporations can also receive a tax credit on reinvested profits

Tax implication: (for non profit)

1. no taxes, surpluses reinvested
2. No tax credit on reinvested surpluses

CO-OPERATIVES

TYPES

OBJECTIVES

DOMAINE

CONSUMERS

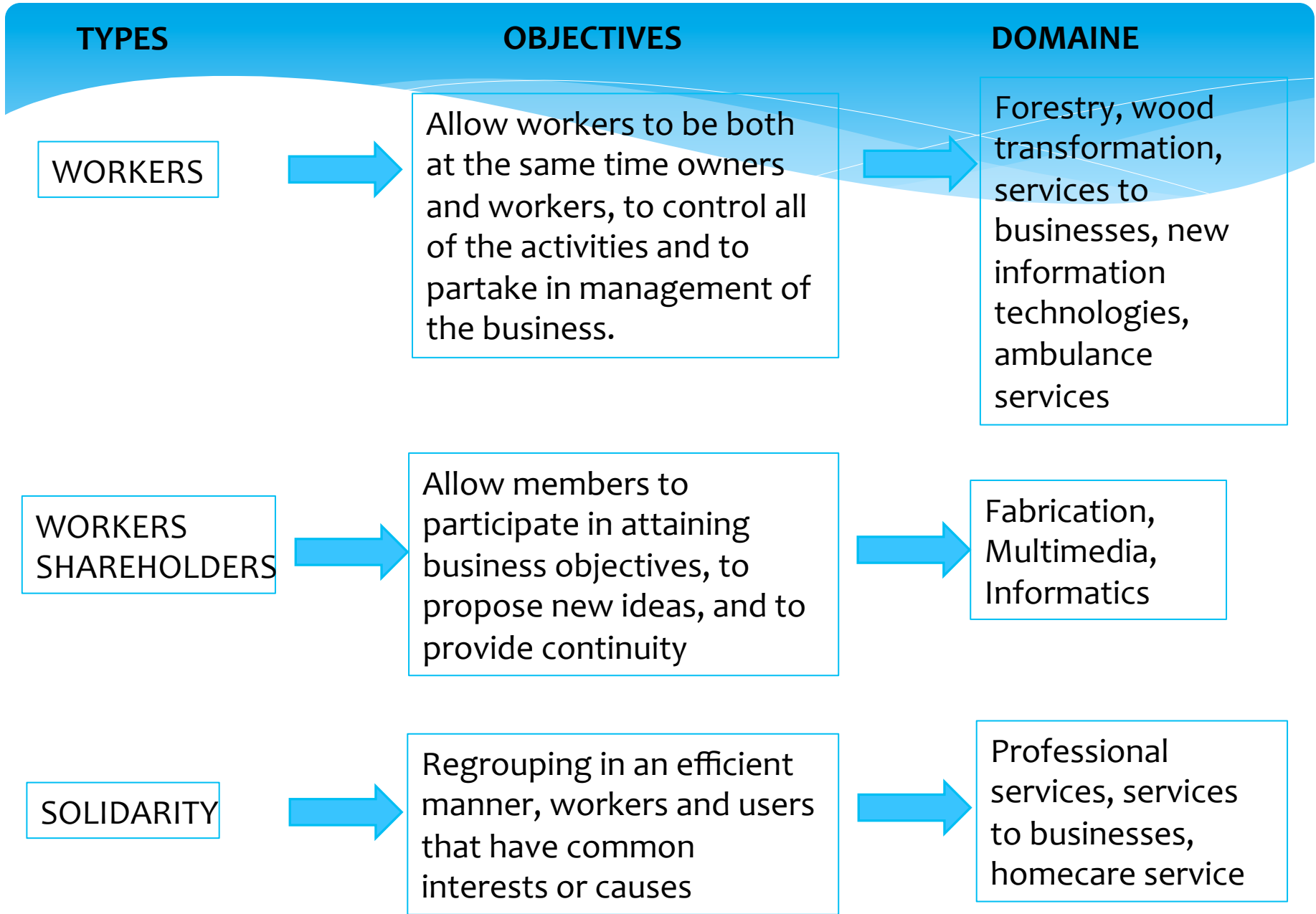
Supply goods & services to members for personal use

Food, housing, schools, goods & services, cable distribution, funeral services

PRODUCERS

Regrouping people and corporations in order to create an efficient network and to facilitate necessary services to exercise their profession

Agriculture, taxis, professional services



Con't: Co-operatives

Purpose:	Service and savings for members
Ownership:	By members
Voting (control):	One member, one vote, regardless of number of shares. No proxy voting.
Distribution of profits:	To members in proportion to their use of the co-ops services.
Initiation of policies:	Board of Directors, members, and management
Exit strategy:	Agreed to at the commencement of the business. Usually sale of shares to another party or back into the co-op.
Tax implication:	The Co-op records profits, pays dividends and pays taxes on the remainder of the profits. Members pay taxes on the dividends regardless of whether or not receive them that year.