New Business Tool Kit

The financial, tax, and accounting considerations of starting a new business

Audit / Tax / Advisory

Smart decisions. Lasting value.

Chapters

Looking to start a business? This guide proivides the information you need to get going on the right track. Use this tool kit to navigate through your business start-up phase.

1 Selecting a Legal Entity

One of the first major decisions to be made when starting a new business is determining the type of business structure it will take on. Simply put, a business structure is how you will own and operate the business. Before starting, you must determine which structure is best for your business, and ask yourself whether you wish to work by yourself as a sole proprietor, together with another person or persons in a partnership, or as an incorporated company. Each of these three structures have unique advantages and disadvantages, especially in regards to legal and tax matters.

Sole Proprietorship

A sole proprietorship is typically the easiest type of business to set up because you only need to register your business name provincially unless you decide to operate under your own name. As a sole proprietorship, you do not typically have any rules or operating regulations which you must follow to function. Typically, the business decisions are solely the result of your abilities.

Operating as a sole proprietorship means that your business will not be recognized as a separate legal entity, but rather as an extension of yourself. This means that you, as an individual, will be fully responsible for all debts and obligations related to your business. This is known as unlimited liability and gives creditors a right to make claims against all of your assets, including personal property. Unlimited liability also extends to income taxes, and as such, all your business income and expenses will be reported on your personal tax return.

Advantages

- Low start-up costs
- Greatest freedom from regulation
- You have direct control of decision-making
- Minimal working capital required
- Possible tax advantage
- All profits automatically go to the owner

Disadvantages

- Unlimited personal liability
- Difficult to raise money
- Income taxable at personal rates
- Lack of continuity in your absence

Partnership

A partnership is an alternative business structure that can be beneficial to you if you want to carry on business with a partner without having to incorporate your business. In a partnership, you and other like-minded individuals can pool your collective resources to form a business. With this in mind, there are two type of partnerships: general and limited liability.

In a general partnership, each individual has the ability to exercise authority in addition to having a share of the company's assets and liabilities. Essentially, each partner is responsible for the actions and consequences of the other partner(s).

In a limited partnership, some partners control and manage the business while others limit their involvement and simply serve to provide capital. As a limited partner takes no part in the control or management of the business, their liability is limited to their investment.

In either case, before you enter into a partnership, it is recommended you draw up a detailed legal agreement to establish the terms of your business and type of partnership so you can be protected in case of a disagreement or dissolution.

A partnership is a legal entity recognized under the law, and as such, it has rights and responsibilities in and of itself.

A partnership can sign contracts, obtain trade credit, and borrow money. However, a partnership is similar to a sole proprietorship in a few regards. Much like a sole proprietorship, each partner's share of income is combined with their personal income and may need to be reported through a Partnership Information Return.

Advantages

- Low start-up costs
- Additional sources of investment capital
- Possible tax advantages
- Limited regulation
- Broader management base
- Partnership incentives for employees

Disadvantages

- Unlimited liability
- Held responsible for partners actions
- Divided authority
- Difficulty raising additional capital
- Hard to find suitable partners
- Possible conflict between partners

Which structure should you choose?

Corporation

A third option is incorporation whereby you form a corporation. A corporation is a separate legal entity that exists under the authority granted by provincial or federal law. By incorporating, you and others own shares issued by your corporation.

A corporation has all the legal rights of an individual and is responsible for its own debts. It must also file income tax returns and pay taxes on income it derives from its operations. Typically, the owners or shareholders of a corporation are protected from the liabilities of the business; however, when a corporation is small, creditors often require personal guarantees of the principal owners before extending credit. The legal protection afforded to the owners of a corporation can outweigh the additional expense of starting and administering a corporation. This protection can be limited in certain industries, so seeking independent legal advice is important.

A corporation must obtain permission from provincial or federal authorities to use or do business under a registered name. A corporation must also adopt and file Articles of Incorporation and By-laws, which govern its rights and obligations to its shareholders, directors, and officers.

Corporations must file annual federal income tax returns and, in some provinces/ territories, provincial/territorial tax returns.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the issuance of equity, or allowing individuals to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their interest.

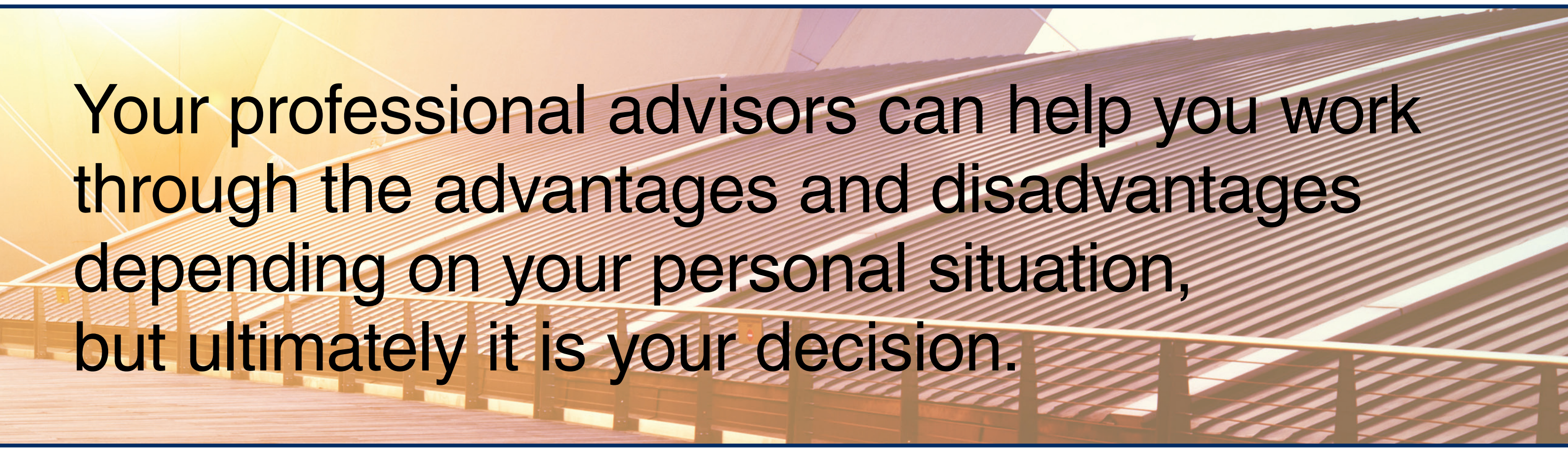
Should you decide to incorporate your business venture, you should seek the advice of competent legal counsel and accountants.

Advantages

- Limited liability
- Ability to generate capital
- Corporate tax treatment
- Attractive to potential employees
- Transferable ownership
- Continuous existence

Disadvantages

- Closely regulated
- More expensive than alternatives
- Possible conflict between shareholders and directors
- Possible problem with residency of directors
- Extensive corporate records required



2 Registering with Tax Authorities

A significant task for the new business owner is ensuring their business properly complies with the extensive tax and information filing requirements imposed by various government agencies. Stiff penalties are commonly assessed if the required forms and returns are not properly prepared and timely filed. There are several forms required to be filed when the business is started. While this chapter is not intended to be an all-inclusive list of the filing requirements, it does summarize some of the more prominent requirements common to most businesses. Many industries have specific filing requirements which are not part of this text but which, nevertheless, must not be overlooked. Professionals with experience in your industry should be consulted to assure that any such filings are properly handled.

Canada Revenue Agency

All tax forms filed with the Canada Revenue Agency require the use of a Federal Business Number. This number is obtained by filing Form RC1 “Request for a Business Number” with the Canada Revenue Agency.

The Business Number is a nine digit account identifier which is used for all programs. Each program uses the same Business Number but with different identifiers, such as:

- RT: GST/HST
- RP: Payroll
- RC: Corporate Income Tax
- RM: Import/Export
- RZ: Dividend/Interest Payments

The required program accounts may be applied for when registering for the Business Number or later as required. Most filings with the Canada Revenue Agency come under the headings of income and payroll taxes. Payroll tax requirements are detailed in Chapter Four. Income tax filing requirements and tax planning are discussed in Chapter Seven.

Business License

To operate a business you must obtain a business license. Applications can typically be obtained at the city hall where your business is located. At the time of filing the application, a fee must be paid which can vary depending on the city and the size of the business. The license is issued immediately, and must be posted in plain sight at your place of business.

Goods and Services Tax (GST)

This is a tax on sales levied by the Government of Canada. Most businesses must be registered and are required to collect this tax. There are exceptions to the taxability of all goods and services. The exceptions are specific and should be discussed with your professional advisor.

The tax collected by the business must be remitted to the Canada Revenue Agency either monthly, quarterly, or annually depending upon the rules that apply to each business. Tax paid by your business on goods and services it has purchased may be offset against the tax collected on its sales and the net amount remitted, or in some circumstances refunded by the Canada Revenue Agency.

It is necessary to keep a record of all GST collected and paid on purchases in order to calculate the net tax to be remitted.

Provincial Sales Tax (PST)

Several provinces/territories levy a provincial/territorial retail sales tax (PST) or a harmonized sales tax (HST) which combines provincial and federal tax on the sale of certain goods. If your business will include the retail sale of goods (i.e. they are not for resale), you will be required to collect tax on the sale of “taxable goods” and remit it to the provincial government.

In order to accomplish this, your business must be registered with the taxation department of the provincial government, online or in person. For example, in British Columbia you can apply at the Service BC Centre which administers the Provincial Sales Tax Act, or online using eTaxBC.

The tax is collected at the time of sale, and is considered to be held in trust for the Minister of Finance of the province/territory until it is remitted before the end of the month following the month of the sale.

Although GST and PST appear to tax the same goods, there are many very important differences in the application of the two taxes. Canada Revenue Agency has published many explanations and instructions concerning this tax and they provide a telephone enquiry service to answer questions. Your accountant is available as a consultant on matters concerning GST and PST.

3 Accounting and Bookkeeping

As an owner of a business, your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors, and trade creditors, as well as taxing authorities and other governing bodies. The necessity for good, well organized, financial records cannot be over emphasized. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often, owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise the bookkeeper).

Accounting Records & Recordkeeping

Another question the owner of a business must answer: "Who will keep the books of the business?" Will you do it yourself, will the receptionist or secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain good financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up on later.

This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, this can be achieved by maintaining close control over the cheque signing function and scrutinizing certain records.

Remember, many businesses that have otherwise been successful have failed — very often due to their inability to maintain adequate financial records. Whether you do it yourself or choose to hire someone else to do it for you, bookkeeping is essential. Properly maintained books will let you gauge your performance and plan for the future. Your company's accountant can help develop a good program of record keeping duties for you, your employees, and any outside bookkeepers you may engage.

Accounting Software

There are a number of very good, easy to use, and relatively inexpensive accounting software systems that are commercially available, many of which offer a range of features based on current technologies. Each program is different with a variety of options to choose from. Your accountant knows your business and can take much of the confusion out of the selection process by assisting you in the purchase and set-up of your accounting software.

Internal Control

What is internal control? It is the system of checks and balances within a business enterprise which helps to ensure the company's assets are properly safeguarded, and the financial information produced by the company is accurate and reliable. When you're operating as a "one person shop" or at least handling all of the company's financial transactions, maintaining good internal accounting control is relatively straightforward.

When your company grows to the size where you must delegate some of the functions, it becomes more difficult to ensure that all the transactions are being accounted for properly.

No matter the size of your business, you should always be able to answer "yes" to the following questions:

1. When my company provides goods or services to our customers, am I sure the sale is recorded and the revenue is recorded in accounts receivable or the cash is collected?
2. When my company expends cash, am I sure we received the goods or services being paid for?

The methods used to ensure these two questions can be answered affirmatively will vary. There are essential stepping stones to maintaining good control in your business. The solution in your particular instance may be as simple as numbering the sales tickets and being sure all tickets are accounted for, or reviewing all invoices and timecards before signing company cheques. These are fundamentals in a well-run business. As the company grows, you will need to consider more internal controls as your processes and systems become more complex.

Regardless of your size, you should consider controlling your business and safeguarding hard-earned assets as a priority from the outset.

Questions you should ask in developing an accounting and financial reporting system:

Who will be the users of the financial information?

What questions do I need answered to manage the business?

What questions should be answered for government or regulatory taxing authorities?

4 Payroll Taxes

Irrespective of the form of business in which you operate, if you are going to have employees then you will have to contend with payroll taxes. This brief summary will give you some guidance in the rules and regulations of the various taxing authorities.

Available Publications

T4001, Employer's Guide to Payroll Deductions and Remittances, covers the payroll tax reporting and withholding on the Canada Revenue Agency (CRA) website.

Tax Withholding Requirements

Every employer is required to withhold income tax, Employment Insurance premiums, and Canada Pension Plan payments from employees' pay. Calculation of the appropriate amounts and the corresponding employer amounts is determined by using the employers' guide. The funds withheld are held in trust for the government and must be remitted to Canada Revenue Agency in accordance with the regulations as specified in the guide.

Other Tax Requirements

Whenever a wage payment is made, the employer must provide the employee with a statement of the gross wages and specific deductions. Use of the TD1 Form submitted by the employee and the tax tables provided in the employer's tax guides will enable you to determine the correct income tax to withhold.

Penalties and interest are regularly imposed by Canada Revenue Agency for failure to remit the correct amounts in a timely fashion.

The employer must also furnish a T4 Form to each employee showing remuneration and withheld taxes for each calendar year.

The payroll tax requirements and the work related to ensuring compliance are quite cumbersome and complicated. Once a business employs more than a few people, we recommend a qualified payroll service be used, because it has generally been our experience that the cost of the service is far outweighed by the personnel and management time required to operate the payroll system in-house.

Other Payroll Considerations

In addition to the rules around payroll taxes, it will be essential for an employer to understand the labour laws specific to each province/territory in which their business operates. Failure to comply with rules such as those involving working hours, overtime pay, and vacation pay can be costly. Provincial and territorial websites like Gov.bc.ca, Alberta.ca, Yukon.ca, and Gov.nt.ca, have such information specific to small businesses.

The CRA has a helpful online Payroll Deductions Calculator which can be a helpful tool for start-ups:

https://www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses/payroll-deductions-online-calculator.html

5 Selecting a Year-End

Generally, it is required for sole proprietorships and partnerships to use a calendar year-end. In contrast, corporations, other than perhaps some professional corporations, are able to select the month end which best suits their business.

Which Month to Choose

The selection of a year-end involves several considerations. One important factor is the ease with which data is accumulated. For this purpose, most companies prefer to use a quarter end as the last day of the fiscal year (e.g. March 31, June 30, September 30, or December 31). Many companies not using a quarter end date find that it complicates several government filings, and can be confusing to shareholders and others when disclosing quarterly data. Partnerships and sole proprietorships generally will choose a December 31 year-end due to fewer complications and less extensive work.

A second consideration involves the nature and seasonal fluctuations of the business. As a general rule, the year-end causes a disruption to the normal course of business, especially if a physical inventory is required. It is usually better to have this disruption occur during the off-season. Also, since the periods just before and just after year-end often involve an additional time commitment by the key officers, a year-end that does not conflict with normal vacation schedules is preferable. For these reasons, a calendar year-end may not be selected. There are also tax reasons to select a year-end other than December 31. If the company has, for example, a July 31 year-end, it is possible for the corporation to declare bonuses payable to the owner in July and obtain a tax deduction. The bonus must be paid within six months of the year-end and if deferred to January of the following year, a deferral of personal income tax is achieved.

Proper planning in selecting a year-end can also defer the payment of taxes at the corporate level. Suppose the company incorporated in July and operated at break-even through the next April, but expected May and June to be big income months. By selecting a March or April year-end, the company can delay for ten months the payment of taxes on the May and June income. Since cash is often scarce for a start-up company, this deferral can be of significant benefit.

How to Make the Election

The election of a year-end is made on the first income tax return of the corporation. There is not a separate form for making the election. The corporation merely states the fiscal year on page one of Form T2. The first year cannot be longer than 53 weeks, but may be any number of months up to that maximum.

Changing the Year-End

Once a year-end is selected, it may only be changed with the concurrence of the Canada Revenue Agency. In considering a request for change of year-end, the CRA look closely at the business or economic reasons for the change.

6 Cash Planning and Forecasting

The lifeblood of any business is its ability to collect cash and pay bills, as well as pay its employees, particularly its owners. Far too often small businesses are profitable, but they do not have enough operating capital to meet their current needs. Consequently, they may be forced to sell out to a stronger competitor, sell a portion of the company to investors at an undesirable price, or close the doors and put the company out of business. None of these alternatives is typically what the owners expected when starting the business. To try and compensate for this it is important that all business owners have a plan for their cash by preparing a cash forecast.

Cash flow projections can be very slow, time consuming, and tedious to undertake. It is often very tempting to hire someone else to prepare the projections for you. There are a variety of individuals who can help you do this, but the critical factor is that they only help.

You, as the owner and operator of the business, are the only one truly qualified to develop your cash flow projections. You know what it takes to open and operate your business. Certainly a trained professional can offer guidance and ask pointed questions to be sure you are considering all of the necessary and sometimes hidden costs of operating a business. However, the more effort you put into developing the cash flow projections, the more accurate they will tend to be. This exercise may also help you to pinpoint areas of potential cash savings that you had not otherwise considered.

7 Income Taxes

Income tax laws are extensive and can be confusing for an individual starting a business. This chapter does not cover all the tax ramifications of a new business; however, it provides some guidance on complying with the laws. An accountant or tax lawyer should be consulted when you are dealing with income taxes. Income taxes have a direct and potentially significant impact on the cash flow of your business.

Income Tax Forms

Each type of legal entity is required to file a different type of income tax form.

1. Corporation. A corporation is considered a taxable entity and is required to file a federal T2 Form and possibly a provincial tax return.
2. Partnership. A partnership is not a taxable entity. It is treated as a conduit through which taxable income is passed to the individual partners for inclusion in their respective tax returns. A partnership may be required to file a T5013 Partnership Information return. A partnership is required to file a return if:

   (a) at the end of the fiscal period, the Partnership has revenue plus expenses of more than $2 Million, or
   (b) has more than $5 Million in assets, or
   (c) the partnership has a corporation, trust or another Partnership as a partner.

3. Sole Proprietorship. A sole proprietorship is considered to be a component of the individual's personal T1 tax return. The tax form required is the T2125.

Allowable Business Deductions

As a rule, you can deduct any reasonable current expense you paid or will have to pay to earn business income. The expenses you can deduct include any GST/HST you incur on these expenses, less the amount of any input tax credit claimed. Some common deductions are as follows:

- Advertising
- Bad debts
- Business start-up costs
- Business tax, fees, licenses, dues, memberships, & subscriptions
- Business-use-of-home expenses
- Capital cost allowance
- Delivery, freight, & express
- Fuel costs
- Insurance
- Interest
- Legal, accounting, & other professional fees
- Maintenance & repairs
- Management & administration fees
- Meals & entertainment (allowable part only)
- Motor vehicle expenses
- Office expenses
- Property taxes
- Rent
- Salaries, wages, & benefits (including employer's contributions)
- Supplies
- Telephone & utilities
- Travel

More specific information can be found on the CRA website.

Instalments

New corporations do not have to make instalment payments until your second year of operation. Generally your instalment requirement will be based on your last year's taxes owing, so if you didn't owe tax in your first year, then you don't have to make instalments in your second year. Additionally, if your taxes owing were under $3,000, then you also don't have to make instalments. If instalments are required, individuals need to make payments on a quarterly basis, and corporations monthly (in some cases quarterly is permitted). Should you have an instalment requirement but don't pay your instalments, the Canada Revenue Agency will calculate instalment interest owing on your next notice of assessment. This interest is non-deductible for corporate tax purposes, so if you cannot pay your instalments you should consider borrowing the money to make your instalment payments, as the interest on the borrowing would be tax deductible. If your instalment interest ends up being more than $1,000, then the CRA may also charge an instalment penalty in addition to the interest.

Instalments can be paid in many different ways – CRA My Payment, online banking, pre-authorized debit, credit card, cheque, wire transfer, or in person at your financial institution or at a Canada Post outlet with a personalized remittance voucher.

Estimates are filed using:

- Corporate Remittance form T7DR
- Individual Remittance form INNS3

Tax Planning

Proper tax planning is essential in order to make the most of the income tax laws. You will probably need to develop a relationship with a qualified professional who has experience with the taxation of your type of business. Tax planning is not a one-time shot right before the return is due. Tax planning is a year round endeavor requiring communication from both you and your accountant. Proper planning ensures that there are no surprises when the return is filed.

Provincial and Foreign Taxes

If your company will be doing business in more than one province/territory or country, it is essential that you familiarize yourself with the tax laws and filing requirements of those jurisdictions as each has its own rules and regulations.

The due dates of the various forms are:

1. **Corporate**: T2 Form is due no later than six months following the company's fiscal year-end. Generally, the tax payable must be paid by the last day of the third month after the year-end, but can be two months in certain circumstances.
2. **Sole Proprietorship**: Income from a sole proprietorship or a partnership is to be included in the personal tax return of the individual for the calendar year. The T1 personal tax return must be filed by June 15 and taxes owing paid by April 30 of each year.
3. **Partnership**: If required to file a return and throughout the year all the members of the partnership are individuals, you have to file your Partnership Information Return no later than March 31 after the calendar year in which the fiscal period of the partnership ended. If all the members of the partnership are corporations, you have to file your Partnership Information Return no later than five months after the end of the partnership's fiscal period. If the members of the Partnership are a combination of individuals and corporations, you have to file your Partnership Return no later than the earliest of:

   a) March 31 after the calendar year in which the fiscal period of the Partnership ended
   b) The day that is 5 months after the end of the Partnership's fiscal period.

8 Obtaining Financing

If you are not independently wealthy, and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business, or, the funds you require may be for expansion or working capital during the off season.

Generally, business financing can take two forms: debt or equity. Debt means borrowing money. The loans may come from family, friends, banks, other financial institutions, or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a corporation, issuing of additional common stock options, or warrants to investors. It is typically a prudent idea to consult with your lawyer, as there are many significant legal ramifications to such a step.

How do I get the Money?

Irrespective of the type of financing you need and are able to obtain for your business, the process of obtaining it is somewhat similar. There are several questions that must be answered during the course of raising money for your business. The ability to answer these questions is critical to your success in obtaining financing as well as the overall success of the business. Remember, in raising capital you have to sell the ability of your business to potential investors in much the same way as you sell your product to your customers.

How Much Cash do you Need?

To answer this question you will have to do some serious cash planning which will require estimates of future sales, the related costs, and how quickly you must pay your suppliers. You will also have to factor into your planning some assumptions about when you will generate enough cash to pay the money back. However, if you raise cash through equity you probably don't need to pay it back, but your investors will want to know how the value of the business will grow and how they will benefit through dividends or selling their shares.

What will you do with the Money?

One of the most important questions you will have to answer for a potential investor is how the money will be spent. Will you use it for equipment, or to hire additional employees, or perhaps for research and development for a new improved product? Again, part of the answer on how you spend the money is how it will benefit the company.

What Experience do you have Running your Business?

One of the primary reasons for business failure is lack of experience and management. You will need to convince your investors that you have the knowledge, experience, and ability to manage your business and their money at the level which you expect to operate.

What is the Climate for Your Type of Business and Your Geographic Location?

Few investors will want to put money into your business if you haven't done sufficient "homework" to determine that you have a reasonable chance of success. If your business is based on existing economic or legal conditions that are subject to change in the near future, your risk is substantially increased. Even if your business has great potential, if the local economy is sluggish to the point that it can't support your venture, you need to be aware of this before moving ahead.

Once you have developed concrete answers to these and other pertinent questions, you can begin looking for financing. One of the first steps is to determine whether to raise funds through debt or equity. There are positive and negative aspects to each type of capital. The cost to your company of each type of funding is different, as is the way they are treated for income tax purposes. The interest on borrowed money is deductible by a business for income tax purposes, which reduces the effective cost to your company. Dividends that you might pay on the same investment in stock would not be tax deductible by your company. In selling stock there usually is no firm commitment by your company to pay the money back, but your stockholder will want and generally will have a legal right to have a voice in the management of your company.

When you have made the decision as to the type of financing you think is appropriate to fit your desires and needs, it is a good idea to consult with your accountant as to alternative types of debt or equity financing available.

Financing Alternatives

Whether you determine that debt or equity financing is the best choice for your company, there are a number of alternative types of financing available. Depending upon the nature of your business, the financing may be a combination of debt and equity and may be tailored to fit the specific needs of your company.

In the following summary, we only mention a few of the more conventional methods for a young company to obtain capital, though there are many possibilities. Your accountant can discuss these and other alternatives in greater detail.

Debt Financing Sources

Banks

The first source of funds that typically comes to mind when borrowing money is a bank; that is why they are in business. Banks typically lend to small businesses on a secured basis using equipment, inventory, or accounts receivable. The more liquid and readily saleable the assets you have to offer as security, the more acceptable they are likely to be to a banker.

Loans from a bank may take several forms:

- A line of credit which is renewed annually and allows you to borrow up to a predetermined maximum as you need it and pay it back as funds from sales and receivables are collected.
- A short-term demand note which is payable in full on a specified date.
- A term loan for the purchase of a specific asset such as a computer or a machine.

As your relationship with your banker becomes better and your business becomes established, you may consider a long-term (three to five years) loan which will be payable in monthly instalments.

Lease Financing

In today's business environment it is quite common to acquire equipment through lease agreements. Leasing packages come in a variety of types through many sources. Leasing companies typically will accept a somewhat higher degree of credit risk because they are looking to the value of the equipment for collateral if your business cannot make the agreed upon payments. For this reason, leasing companies generally prefer to finance new equipment of a general purpose nature that can be resold, if necessary. Leases often run for a period of three to five years, and because of the risk that leasing companies are willing to take, they are somewhat more expensive than commercial bank loans.

Trade Credit

A very important source of financing for your company may be from the vendors and suppliers with whom you do business. Many suppliers will originally ask for cash on delivery or in some instances they want payment before starting on your order, depending on the nature of your purchase. Most suppliers will quickly establish trade credit with you once you have gained their confidence by continuing to do business with them and paying as requested. Establishing good relationships with trade creditors is essential because it allows you to use the goods and services in your operations and to sell your product to your customers, in some instances, before you pay for them. Trade credit terms will vary depending on the type of purchase you make, the industry you are buying from and the industry you are in.

The trade credit you build today will be relied upon by other vendors, as you attempt to establish yourself in the future.

Equity Financing Sources

Equity financing usually means selling a portion of your business. This can be accomplished in a number of ways including the sales of common or preferred stock or stock warrants. Equity sales are usually carefully tailored to meet the needs of both the company and the investor.

Venture Capital Companies

A venture capital company or fund is typically a company that is in the business of taking risks. A venture capital fund is often backed by a group of investors that may be individuals or corporations. The investors are often represented by a management group, which evaluates potential investments and manages the existing investment portfolio.

The price of venture capital financing is usually very high when compared to borrowing money from a bank, but it must be remembered that venture capitalists are dealing with much higher risk situations than commercial banks will finance. This cost of venture capital is measured in terms of the portion of your company you must sell to obtain the level of financing you require. A venture capital firm sometimes requires a 300% to 500% return on its investment over a four to five year investment period. While this may seem like an enormously high return, a venture capitalist is in the risk business and the return on a good investment must help offset those companies that do not meet their projections, or fail all together. To determine the price of such financing, a venture capitalist will start with the amount of financing you require and calculate what they must receive at the time their investment will be sold to allow them to achieve the rate of return they deem necessary. Based upon the operating projections you provide, discounted based on their experience, they will estimate what your company might be worth at the time their investment will be liquidated. This might be at the point of a public offering or a sale to a corporate investor.

The last step for a venture capital company in determining pricing is to calculate what percentage of the company they must own to realize the return they desire. At this point, the “horse trading” generally begins. As a general rule, you will want to retain as much of the ownership of the company as you can. The venture capitalist wants enough ownership to achieve their investment goals and have some control over how their money is spent. This will often be achieved by voting power and representation on the Board of Directors. At the same time, a venture capitalist wants

Remember, a venture capital investor becomes a member of your team.

to be sure there is sufficient reward in the company for you and your management team to be motivated and achieve the projections in your business plan.

A venture capital company is often managed by an individual or group of individuals with a strong background in business and management. They can often provide depth of experience and management assistance in areas where your management team may be weak. A venture capital group can very often provide contacts and valuable introductions in your industry.

Private Individuals

Very often, individuals who are successful in their own right and have accumulated substantial wealth may be looked to for investment in your business venture. Such individuals may believe that the success of your business may enhance theirs, as well as help increase their personal wealth. These individuals, like a venture capital company, very often want to participate in the management activities of your firm and help guide your progress through representation on the Board of Directors. The business acumen and contacts of these individuals can often be a valuable asset of your business. An individual investor can often react to opportunity much more quickly than a venture capital firm and typically has only their own interests to serve, as opposed to a financial backer or group of limited partners.

Individual investors can be more flexible in the type of investment structure they can deal with and often have personal, financial, and tax motivations to consider.

Alternative Financing Resources

Here are a list of helpful links to guide you towards alternative financing sources. From Angel investors, to accelerators, incubators, and grants, there are a variety of different options when it comes to financing:

https://www.canadainvestmentnetwork.ca

https://www.kickstarter.com/about

https://www.canada.ca/en/services/business/grants

https://www.bdc.ca/en/articles-tools/start-buy-business/start-business/pages/start-up-financing-sources.aspx

https://www.canadiangrantsbusinesscenter.com/

9 Insurance

Business insurance, like many types of expenditures, is one of those items which business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all the money, time, and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity that you purchase.

Your insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks that could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, general, and product liability. Depending on the nature and size of your business, it is often a good idea to self-insure for all or a portion of certain losses. Self-insurance can be accomplished by not buying coverage for incidental risks or increasing the deductions on policies that you do buy. Often, raising the deductible can have a very favorable impact on policy premiums. The administrative cost to the insurance company to process small claims is quite high. The rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizable deductible amount. An insurance broker can provide you with comparative costs for various types of coverage with varying degrees of deductible amounts.

Required Policies

Very little insurance coverage is mandatory. For most industries, workers' compensation coverage is required by law. It covers injuries to employees while on the job. Premiums for this coverage are payable as a specific assessment against your business payroll, based upon industry-wide claim experience.

You must also be aware that the terms of your building, office lease, or mortgage may require you to carry certain kinds of insurance coverage in specified minimum amounts. If you have leased equipment or have borrowed money from a bank or other lenders, there will usually be insurance requirements in the agreements relating to these transactions. There are many other types of policies that you may wish to consider. The specific coverage provided by each and their related costs can be explained in depth by a qualified insurance broker.

Some types of Insurance coverage you may consider for your business are:

Business Interruption

This coverage, as the name implies, covers the loss of revenues your business would have generated if it were forced to shut down for reasons beyond your control. While this is obviously valuable insurance, the policy premium must be carefully considered relative to the potential profits your business might lose during a short shutdown of operations.

Employee Fidelity Bond

This type of insurance typically covers the risk of loss from theft by employees. If your business deals in large amounts of cash, negotiable securities, or similar types of assets, you may be well advised to consider this coverage. Certain industries are required to carry this insurance by regulatory authorities.

Umbrella Coverage

This type of insurance covers losses above and beyond the limits of other policies that you carry. Umbrella policies usually pertain to liability of various sorts, and are usually valuable if your business, or you, have a higher net worth, which requires protection in the event of a catastrophic loss.

Accounts Receivable Coverage

Also referred to as credit coverage, reduces the risk of doing business, because it covers you against customer bankruptcy, refusal of delivery, or other non-payment.

Insurance is like any other product you purchase. Before purchasing it you should consult with more than one broker. You should discuss insurance needs with acquaintances in the same or related business as yours.

10 Selecting Professional Advisors

Starting your own business entails a multitude of decisions which can seem overwhelming without the right players on your team. In order to succeed, you need to equip yourself with every tool at your disposal. One of the most cost effective tools you can utilize is the expertise of professionals. The right accountant and lawyer can eliminate a host of problems and potential costly errors you might make as you build the financial foundation of your successful business. Their expertise can help save you money, which in turn can be used to increase profits.

There are a variety of advisory services outside of your traditional accounting needs that your Crowe MacKay advisor can provide. In the initial stages of starting your business, two services that may provide efficiency and financial benefits are our Technology Consulting Services and Scientific Research and Development Tax Incentive.

Technology Consulting Services

Crowe MacKay's technology consultants provide IT solutions for Cloud based small businesses. As you build your companies infrastructure having the proper supports translates to enhancing your business' capacity and functionality. With the right systems in place you can improve your business' application performance through leveraging cloud infrastructure, and increase business continuity with improved capabilities in backing up and recovering data; all allowing your business' IT systems to support your organic growth.

Crowe MacKay's Technology Consulting Services include:

- Cloud based productivity and collaboration tools (Microsoft Office 365, Google Docs)
- Remote desktops
- All the virtualized servers you need to run business applications
- Anti-Spam and Anti-Virus protection
- A managed virtual firewall
- Cloud based accounting and ERP software configuration and maintenance services
- Data backup services

Navigating Cloud technologies can be overwhelming and require additional human resources and financial investments. When you engage with a Crowe MacKay consultant you receive customized solutions for your unique business model with fixed cost solutions. This means you have no surprise expenditures; no network hardware to purchase or maintain; no expensive refresh cycles; and no depreciating IT assets. You can focus all your resources on revenue generating initiatives.

When enlisting the expertise of an accountant and lawyer you want professionals suited to meet your specific needs and who will listen to you.

Scientific Research & Experimental Development Tax Incentives (SR&ED)

Scientific Research and Experimental Development (SR&ED) is a tax incentive program in Canada. This program is administered by the Canada Revenue Agency (CRA) and is designed to encourage Canadian businesses of all sizes and in all sectors to conduct Research and Development (R&D) in Canada. Crowe MacKay's SR&ED team is made up of Technical Specialists, Financial Specialists, and Tax Specialists who have significant experience in the Engineering, Life Sciences, and Information Technology sectors.

Crowe MacKay SR&ED experts take the time to understand your business to prepare a strong SR&ED Claim. In addition, our specialists can also identify weaknesses in your documentation in our exploration process, and apply their expertise to strengthen your claim.

SR&ED Benefits

Once SR&ED work has been determined by our specialists, you may be eligible

to receive benefits in the form of a refundable Investment Tax Credit (ITC), a reduction of taxes payable, or both. The federal and provincial tax credits you receive may be as high as 64% of salary-based eligible expenditures.

Our SR&ED Team specializes in numerous industries, including (but not limited to):

- Agriculture & Agri-food
- Aviation
- Biotechnology
- Construction and Engineering
- Consumer products
- Medical Diagnostics
- Energy & Natural Resources
- Environmental Sciences
- Food & Beverage
- Life Science
- Manufacturing
- Marine Engineering
- Medical & Healthcare Professionals
- Mining
- Pharmaceuticals
- Oil & Gas
- Professional Services Firms
- Technology
- Veterinary Medicine

More importantly, you need someone you can trust to devise strategies to help you make smart decisions.

Crowe MacKay LLP

Crowe MacKay LLP is a vibrant team of Chartered Professional Accountants with over 400 team members in nine cities across Northern and Western Canada. Established in 1969, Crowe MacKay LLP has a rich history of building lasting relationships and creating innovative solutions for our clients in both private and public sectors.

Comprised of audit, tax, and advisory professionals, Crowe MacKay serves clients in a diverse range of industries. A firm focused on people first, Crowe MacKay's corporate culture is built on maximizing potential for clients and staff.

Crowe MacKay is a member of Crowe Global, an international network of independent accounting and advisory services firms. Ranked the eighth largest accounting network in the world, Crowe Global has over 200 independent accounting and advisory firms in more than 130 countries.

At Crowe, our professionals all share one commitment, to deliver excellence.

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