For New Small Business Owners

Evaluate Your Options: Starting a New Business or Buying a Business in Canada?

NEW BUSINESS CHECKLIST

1. Plan for success. A business plan will help you think through a number of important aspects of your new business. When you create your plan you will identify customers and the market potential, outline how you will promote your new business, identify startup costs, and create financial projections for your first few years in business.

2. Select the form of business that is right for you.

3. Register your business (the process and requirements vary from province to province)

4. Do you need a business license? Check with your municipality to find out. You can look up the proper phone number in the blue section of your phonebook.

5. Do you meet zoning and bylaw requirements? You'll need to check your local bylaws to find out. For example, some municipalities have restrictions on the operation of a home-based business, and specific requirements may apply. If you will be leasing premises it is also important to check that your intended use of the premises conforms to zoning requirements.

6. Register for provincial taxes, permit, if they apply. Depending on the type of business you are in, you may need to collect provincial sales tax and apply for a vendor permit or other permits. Service businesses are normally only required to collect the GST, but there are some unusual exceptions.

7. GST, PST, HST basics. There are two main taxes that businesses collect: the Goods and Services Tax (GST) and Retail or Provincial Sales Tax (PST). Several provinces combine these two taxes into a single tax known as the Harmonized Sales Tax (HST).
A Business Number will be assigned to you when you set-up one of the four following accounts with Canada Customs and Revenue Agency (CCRA):

- Goods and Services Tax (GST)
- Corporate Income Tax
- Payroll Deductions
- Import Export

Also, you may not be required to charge the GST immediately, but there can be advantages to registering immediately. For example, if you purchase $5,000 in goods to start your company, you won't be able to claim back the GST spent on these purchases unless you are registered to collect the GST.

8. Research and purchase business insurance. Running a business carries some risks. There are many types of insurance that offer protection. In addition to insuring your property and business assets you may also want to investigate Liability and Loss of Business insurance, which offer specialized protection. Talk to several commercial insurance agents to find out what is available to meet the needs of your business. You may want to shop around, as rates and plans can vary.

9. Understand HR issues and responsibilities. Will you be hiring staff? If so, you'll need to understand your obligations. There are three things to investigate:

- Payroll obligations. You will need to remit taxes to the CCRA
- Labour laws. As an employer you must comply with the labour laws and human rights standards for the province or territory where you operate.
- Workers' Compensation Board (WCB). Many businesses, but not all, are required to register.

10. Keep necessary records. When you run a business you are required to keep permanent books and records for a specified period – usually six years from the end of the last taxation year. You must keep records of all income, earnings, and outlays of money. These records will include receipts, invoices, vouchers, and cancelled cheques indicating outlays of money. Importers are required to keep extra information related to the goods they import.

A Guide to Buying a Business in Canada

1. Franchising vs. the Independent Business. Franchises come with a set of rules that you must follow. Franchising offers many advantages. With a good franchise, the formula has been proven, and the kinks should have been worked out the system. Potential customers will probably be familiar with the name or brand of the franchise. This consistency of product, store design and operations is the key advantage that a franchise offers. As a result a franchise may takes less time to establish a customer base than an independent business, which may in turn lead to bigger profits earlier.

Buying an independent business gives you the freedom of setting your own rules. You set the vision of the company, control human resources, and get to choose which supplier you're going to buy from. In an independent business the decisions – and the success – of the business rest on your shoulders. Unless you are buying a business with a strong, existing brand, you may not have the same recognition that you would get with a franchise.

2. Book Value & Liquidation Value. The book value form of valuation is based on the books of a business, where owners' equity – total assets minus total liabilities – is used to set a price. There are a couple of problems with this simplified approach. First, unless you audit the business' books, you cannot be certain that the numbers presented are correct. Secondly, the value of some assets, such as buildings, equipment and furniture/fixtures, may be overstated on the books, and may not reflect the maintenance and/or replacement costs for older assets. As a result, some business valuation experts will use an adjusted book value. By using the Tangible Book Value, intangible or soft assets are deducted from the total assets. The Economic Book Value, on the other hand, includes intangible assets and allows assets to be adjusted to their current market value.

The Liquidation Value approach is similar to the book valuation method, except that the values of assets at liquidation are used instead of the book or market value of the assets. Using this approach, the liabilities of the business are deducted from the liquidation value of the assets to determine the liquidation value of the business. The overall value of a business using this method should be lower than a valuation reached using the standard book or adjusted book methods.

3. Tax Considerations. Buyers should look to buy assets, not shares. If you buy assets you can depreciate them from the price you paid when you bought them, says Miehls. However, if you buy shares and continue to run the business as a new shareholder, all of the assets are valued at their historical cost and you are only able to depreciate the assets at those historical costs as opposed to what that same inventory and equipment would cost today. If the fair market value is higher, you can begin to depreciate the assets at this higher value right away.

4. Legal Considerations. Working with your lawyer, you have now reached the stage where the parties draft and agree upon a buy-sell contract. It's important to note that most contracts include a clause stating that the agreement is the whole agreement, so it is vital that all issues are addressed in the scope of these documents.

5. Closing the Deal. When the paperwork if finally completed and signed, it's time to kick back and relax for a few minutes. Congratulations, you now own the business you have worked so hard to understand!

But don't relax for too long. Critical issues, such as how you intended to moderate employee fears about the change in management and how you plan to get up to speed on your new position, are already rising on the horizon. You will certainly have some ideas and plans in place at this point, and the day when you finally get to start implementing those plans will soon dawn.

For more information see:

Writing an effective Business Plan