

What is your liability?

ITEM	SOLE PROPRIETORSHIP	PARTNERSHIP	CORPORATION
Income Tax	The business owner is responsible for paying income tax. He/she must include all income earned from the business on his/her personal income tax return. Business expenses can be deducted from <u>all</u> income earned by the owner, including income from employment.	Each partner is responsible for his proportionate share of the income tax. He/she must include all income earned from his share of the partnership on his/her personal income tax return. Business expenses can be deducted on a pro rata basis from <u>all</u> income earned by the partner.	A corporation is a separate legal entity and therefore the corporation files its own tax return separate from its shareholders. Both the income and the expenses from the business belong to the corporation, not the individual shareholders.
Payroll Deductions	The business owner is responsible for making the required payroll deductions and is liable for remitting them to the appropriate government departments.	The partners are jointly and severally responsible for making the required payroll deductions and are liable for remitting them to the appropriate government departments.	The corporation is responsible for making the required payroll deductions and is liable for remitting them to the appropriate government departments. However, if the corporation fails to make the remittances, the directors may be personally liable if they have failed to exercise a degree of care, diligence and skill to ensure that this obligation has been met.
Business Debts	The business owner is personally liable for all business debts. Therefore everything he/she personally owns is potentially at risk since there is no distinction between the individual's personal and business assets.	The partners are jointly and severally liable for all business debts. Everything they personally own is potentially at risk since there is no distinction between the partners' personal and business assets. Each partner is an agent for the partnership and can potentially bind the other partners.	The corporation is the debtor and is therefore liable for all business debts. This is one of the main advantages of incorporation. However, directors do have certain statutory obligations with respect to the corporation's debts, e.g. the corporation's withholding tax obligations such as GST.
Employees' Wages	The business owner is personally liable for the wages of his/her employees.	The partners are jointly and severally liable for the wages of their employees.	The corporation is principally responsible for the wages of its employees. However, in the event the corporation fails directors are legally responsible for six months worth of wages plus any vacation pay that has accrued during the most recent 12 months.
Lawsuits	If the business is sued, the owner will be named as the defendant and will be personally liable for any damages that may ensue.	If the business is sued, the partners will be named as defendant and will be personally liable for any damages that may ensue, probably on a joint and several basis.	If the business is sued, the corporation will be named as the defendant and will be personally liable for any damages that may ensue. This is another advantage of incorporation.
Environmental Offences	If the business has committed environmental offences, the owner will be personally charged and will be personally liable for any penalties.	If the business has committed environmental offences, the partners will be personally charged and will be personally liable for any penalties.	If the business has committed environmental offences, the corporation will be charged and will be liable for any penalties. In addition, the directors may also be subject to substantial penalties, including fines, imprisonment or both.
Notes		In the case of limited partners, liability is limited to the extent of the partner's capital investment.	Unlike directors, shareholders are not at risk of liability aside from their capital investment to the corporation.