

## ***Don't Be Caught Without Your Corporate Veil!***

Being an entrepreneur, be it sole proprietor, partner, or shareholder in an incorporated business is fraught with much responsibility, endless hours and possible liability. In Canada, the self-employed are the largest sector of our economy and continue to grow. The taxes produced by the self-employed, according to most economists, provide the necessary dollars to fuel our public sector, and most importantly, our education and health care systems.

It is important for anyone entering into the world of self-employment to seek the advice of a chartered accountant and a lawyer. You want to ensure that your business will run soundly and not be subjected to unnecessary expenses or liability, which could burst your dream of self reliance and success.

An essential part of any business plan will include obtaining adequate insurance for all purposes including the protection of business assets and liability. Sit down with an experienced insurance broker and determine what coverage you require. It matters not, in today's society, whether you ever do anything wrong that might incur liability, it will be the cost of defending yourself that could destroy profitability and in fact, even force you into bankruptcy. While some people will caution you not to become "insurance poor", the cost of insurance will seem small and insignificant should you ever be served with a claim against your business.

There is a disturbing trend for people, once a business has become profitable enough, to incorporate and yet forget to announce to the world that they are indeed now an incorporated entity. It is essential that a corporation discloses on all signage, invoices, letterhead, advertising and so on that it is indeed an incorporation. This will mean inclusion of words such as "LTD.", "LIMITED", "INC.," and "INCORPORATED", depending on the company. Failure to use these words on all documentation in relation to the name of your business may result in you being personally liable to the public.

Here is an example. If you purchase from a supplier and let them invoice you in your name and you pay them with cheques that only indicate your name, they will have no idea that they are dealing with a corporation. Should a dispute arise in relation to your suppliers account, they will sue you personally. If you then say, "you can't sue me, my business is incorporated", they will argue that you failed to use any wording that would indicate they were dealing with a corporation rather than you as an individual.

As can be seen, it is a worthless exercise to become incorporated if you do not then clearly operate the business as a corporation.

You should of course be aware that when you attempt to borrow money, banks may insist upon your personal guarantee and your corporate entity will not protect you from liability for such loans. However, in relation to your day-to-day business, purchasing from suppliers and entering into contracts, the corporate entity should, if used correctly, and without personal guarantee, insulate your personal assets from those of your business.

Incorporation is just one tool that can help you on the path toward success in business. Even if incorporated, you will still need appropriate insurance coverage in order to protect yourself personally and in order to protect your business. Advice from your accountant, lawyer and insurance broker in the planning stages will help to make sure that you are a business success and not a bankruptcy statistic.

*The opinions expressed are for information purposes only and readers should consult with a lawyer in relation to specific cases.*