



# Farm Management Fact Sheet

# Business Structures



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Determining your farming enterprise's ownership and legal framework is a decision you will live with for quite a while. You should consider whether you want to be the only owner – a sole proprietorship – or prefer having the expertise and assistance of a partner or partners. You will also want to assess whether it makes more sense to incorporate. Numerous farm business arrangements are available in today's business world, such as joint ventures, syndicates, or cooperatives. The three most common structures are sole proprietorships, partnerships, and corporations.

## Sole Proprietorship

Sole proprietorship is the most common form of business structure in the farming community. It is the simplest form of organization, and requires the least effort to set up. The farmer owns the farm assets as an individual, and reports net income on a personal income tax return.

### Advantages:

- Simple form of organization and easy to set up
- Owner keeps net income, with no sharing of profit
- Losses, if they exist, may be used against personal income

### Disadvantages:

- Transferring the business may be more cumbersome than for corporations
- You are on your own with no expertise or financial support from a partner
- Unlimited personal liability

## Partnerships

Partnerships offer an immediate advantage simply because of the sharing aspect. Start-up and operating capital, business expertise and decision-making all occur on a shared basis in partnerships, along with burden of debt and risk. From a taxation point of view, partnerships are very similar to sole proprietorships. Income is distributed according to the partnership agreement, and partners pay income tax on their share of the profits. The business itself is not subject to tax.

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for all assets and liabilities. Unlike proprietorships and partnerships, the corporation pays income tax just like an individual, although tax rates are different than those for individuals.

**Advantages:**

- Limited personal liability
- May pay less tax
- Business continuity is usually more certain if you roll over your share

**Disadvantages:**

- Usually expensive to incorporate
- Initial losses are not deductible against personal income
- More cumbersome business structure

Before deciding on a form of business structure, you should fully assess your situation as each structure has pros and cons, and each could work very well in certain circumstances. Be sure to evaluate this important aspect of business planning fully before deciding.

**Advantages:**

- Partners can bring complementary talents to the business
- More capital to start and operate the business
- Partners share business liabilities and risks

**Disadvantages:**

- Each partner has a say in running the business, which may lead to conflicts
- Profits are shared
- Leaving a partnership can be complicated



## Corporations

The corporation is a legal entity that exists separately and distantly from the people who own it – the shareholders. Corporations issue shares, each of which represents a portion of ownership. Limited personal liability is one of the key features of an incorporated business; however, this may be compromised if personal guarantees are in place. The corporation is responsible

The Agriculture and Lands Branch of the Department of Fisheries, Forestry and Agriculture offers resources to assist with farm management, including short courses, consultations, publications, and financial assistance for eligible applicants.

For more information, please contact the Agriculture Business Development Division Farm Management Specialist in your area.

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