



Skilled Trades - Business Start-up

Introduction

You have made the decision to start your own business and you plan to operate within a skilled trades industry. Many entrepreneurs have experienced frustration in navigating through the important decisions that must be made before the business begins operations. Based on their suggestions, CYBF has assembled an overview of the key steps in getting your business ready to operate.

This guide provides a step-by-step general reference source for entrepreneurs starting a new skilled trades business. Many of the steps are not much different from other industries – after all, a skilled trades business is still a business.

While the guide provides more detailed information for Ontario, if you are opening a business in another province you will still find value in the key steps and are encouraged to supplement this guide with provincial information sources.

The activities required to launch your business are listed in chronological order in the guide with the ones that typically require your attention first on the countdown list. The timeframe listed to the left of the countdown summary provides an indication of how long in advance of opening each activity should be completed.

This generic guide should serve as an introduction as you may need additional information suited to the unique needs of your business. We have provided a general indication of key considerations – you will likely want to review your options with advisors who are familiar with your business and circumstances.

This guide was created in August 2008. While it will be updated on a regular basis – please use the References listed at the end of each section to further investigate or to obtain details of any recent changes.

What is a skilled trade?

CYBF describes skilled trades broadly as those occupations requiring a formal training program or apprenticeship prior to beginning work.

This includes the Construction trades such as welders and carpenters as well as Transportation skilled trades like aviation technician or automotive mechanics. Another group of skilled trade entrepreneurs are those involved in Manufacturing including tool and die makers or industrial electricians.



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Click on any subject in the countdown to read more about this important step in getting your business operational, including links to additional sources of information.

COUNTDOWN

2-6 months

- ⑩ **Business Plan** – Trades businesses should customize a standard business plan with details of trade certification, details of local competitors and equipment needs.
- ⑨ **Financing** - While many new small businesses are financed by the owners; trades businesses often need funds for equipment financing and may use small business loans or leases.
- ⑧ **Business Name and Structure** - The business structure you choose is one of the most important decisions that you'll make when you're starting a business. Your business name tells customers who you are, what you do, and a little about how you do it.

1-2 months

- ⑦ **Register the Business** - Once the type of business is established, you file a business declaration form to begin the registration process and reserve your business name.
- ⑥ **Banking and Accounting** – Save time and focus on your trade by keeping good records from the first moment you start a business, things such as accounting and paying taxes become so much easier.

2-4 weeks

- ⑤ **Business Licences** - You may need to get business licenses before you can operate legally within your city or use your home for business operations.
- ④ **Register for GST & PST** - Although the consumer pays the tax, businesses are responsible for collecting and remitting it to the government.
- ③ **Prepare for Employees** - Trades businesses often use subcontractors or temporary employees. Understand your payroll, taxation and work environment responsibilities.

1-3 weeks

- ② **Business Insurance** – Consider the needs of your business for equipment property insurance, general liability insurance and surety bonds common in the construction industry.
- ① **Prepare for Customers** - Challenge yourself today to become more adept at running a financially savvy business through job costing, contracting, and managing receivables.

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Business Plan



Your business plan is the single most important resource to help map out the future of your business and its success. Specifically, it must:

- Solidify your business ideas and detail your plan of action
- Demonstrate to lenders/investors that the business can provide a good return
- Provide a roadmap for your business as it grows and develops

Simply put, a business plan is a written summary of all the activities of your proposed business. Trades businesses should include:

- what your business does and any trade certification you possess
- who will your customers be
- how you can compete successfully in the local trade industry including a profile of key competitors in your local market
- how you will operate including specific details of equipment needs
- vital financial information including cash flow projections for the business which take into account anticipated payment terms

Your plan should be concise, easy to read and professional looking. CYBF provides an interactive tool called the CYBF Business Planner to guide you through the process of creating an effective yet comprehensive business plan. The CYBF Business Planner will assist you in documenting:

- ✓ Executive Summary
- ✓ Company Outline
- ✓ Marketing Plan
- ✓ Operating Plan
- ✓ Risk Assessment and Contingency Plan
- ✓ Start-Up and Implementation Plan
- ✓ Financial Projections

Your business plan is a tool that is most effective when it is tailored to whatever audience you're presenting it to. It should evolve with the changing circumstances of your business.

Links to More Information:

Interactive on-line business planning tool	<u>CYBF Business Planner</u>
Industry forecasts for select trades in Canada	<u>Canadian Construction Association</u>



Financing



Leasing

If you are like many skilled trades business owners, your equipment needs may require more money than you can borrow using a loan. Equipment leasing is not only an option to consider, but in many cases, the best choice for business financing for tools and equipment.

You can lease almost any type of hard asset that can be utilized in your business. Everything from heavy duty equipment and motor vehicles can be eligible for lease financing. In a leasing arrangement, the leasing company purchases an asset and provides the asset to the business owner for business use in exchange for lease payments.

In deciding whether you should lease or buy, you should review:

- *Cash flow implications* – what are the monthly payments of each option and how long are you responsible for making payments.
- *Flexibility* – if your circumstances change will you be able to sell the item or upgrade to a different model and not be restricted by the lease or loan.
- *Interest rates* – every form of lending results in interest payments. Sometimes the interest rate is not advertised so be sure to ask about rates to obtain a fair comparison of the cost.
- *Taxation implications* – To determine how each option will affect your annual taxes at the end of the year, you may need to consult an accounting or tax professional for guidance.
- *Type of lease* – some leases are treated for accounting purposes like you bought the item while others are treated like you are renting an item. There may be a big impact to your financial statements and therefore your financial ratios.

Loans

CYBF lends on character, not collateral. If you do not qualify for conventional bank loans, financing is available through CYBF's Community Partner (CP) network. Local community volunteers review all loan applications and look first and foremost at your integrity, your business idea and plan, as well as the local market demand to make recommendations to CYBF.

In combination with a mandatory mentoring program, CYBF provides aspiring entrepreneurs with start-up financing of up to \$15,000, low interest rates, flexible 3-5

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Financing



year repayment schedules and no principal payments for the first year. CYBF's investment enables you to leverage additional sources of capital to make your dreams of starting your own business a reality.

Links to More Information:

CYBF – Begin the process of applying for a loan from CYBF	<u>CYBF - Loan Application</u>
Information about leasing as an alternative to traditional loans.	<u>Canadian Finance and Leasing Association</u>

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Business Name and Structure



The first step is to identify what type of business you want to operate (sole proprietorship, partnership or corporation). This is an important decision and you may want to consult with a lawyer or accountant to help you decide.

Many small businesses begin as sole proprietorships because it is easier, faster and cheaper to set up the business, and control and profits are yours alone. There are also advantages to having a partner who shares both the risk and the workload and may provide skills or knowledge that you lack.

To determine which option will give your business a better chance of success, consider:

- Does the business have roles for more than one owner?
- Will the business generate enough money to support more than one owner?
- Does your potential co-owner have skills that complement yours?
- Can you work well with your potential co-owner?

If you decide a partnership is the way to go, you should give serious consideration to defining your relationship by way of a partnership agreement.

Once you've decided on ownership, you need to determine whether or not to incorporate. The main reasons people incorporate are to limit their personal liability in case the business fails and to take advantage of certain tax breaks. The fee for provincial incorporation in Ontario is \$300 for on-line filing in addition to the service provider charges and \$360 if completed by mail or in person at Land Registry offices. The business must then maintain corporate records and file documents with the government annually.

Finally, select a business name that is memorable but easy to spell, describes what your business does and is not too long.

Sole Proprietorship – a business owned and operated by one individual. The set up and administration is straightforward, you are personally responsible for the debts of the business, and business income is included in your personal tax return.

Partnership – multiple people in a legal relationship usually taking advantage of complimentary talents. A general partnership is most common and results in each partner being jointly responsible for the debts of the partnership (including those incurred in the name of the partnership by another partner). Income is allocated to the personal tax returns of the partners.

Corporation – a distinct legal entity, no owner can be held personally liable beyond the money invested in the company. It is the most expensive form of business to set up and operate and must file tax returns and remit taxes on earnings.

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Business Name and Structure



If you choose to structure your new business as a sole proprietorship or partnership, you can't include words such as Limited, Incorporated or Corporation (or Ltd., Inc. or Corp.) in your business name, as these are reserved for the use of corporations only.

For More Information:

Ontario locations that accept applications for incorporation	<u>Ontario Land Registry Offices</u>
Ontario online Service Providers for electronic applications for incorporation	<u>Ontario on-line services</u>

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Register the Business



All Ontario businesses must register their business names **except** for sole proprietorships that use only the owner’s legal name with no additions. Registering a trade name in Ontario does not mean that you own that name. In addition to confusing consumers, selecting a business with a name too similar to an existing business may result in a law suit that can be avoided with a name search.

NUANS® is a computerized search system owned by the government of Canada that compares a proposed corporate name or trade-mark with databases of existing corporate bodies and trade-marks.

If you are incorporating with a ‘named’ company and not a ‘numbered’ company, you must obtain a NUANS® report from a private company (many of them offer on-line services) that will provide you with a list of businesses with similar names. Alternatively, search in person via the public record at the Companies Branch in Toronto or search via the Primary Service Providers under contract with the Ministry of Consumer and Business Services.

If the NUANS® report shows similar names, you may decide to change the business name. The other company may have incurred debts or have an undesirable reputation that you may not want your customers to associate with your company.

You can register your business name through the public office of the Companies Branch in person for \$60 or by mail for a fee of \$80. If you register in person, you'll receive your Master Business License (proof of business name registration) immediately; if you register by mail, you'll receive it in 6 to 8 weeks.

You can also register your business name via Ontario Business Connects workstations or web-site for a fee of \$60 and receive your Master Business License the same business day. The third option is to register at a Canada Revenue Agency local tax service office through CRA's BRO (Business Registration Online) service that can also register other CRA accounts you may need, such as GST/HST registration or Payroll Deductions.

Links to More Information:

Ontario Business Connects locations & registration	Ontario Business Connects - locations Ontario Business Connects - registration process
CRA – tax office locations in Ontario	Canada Revenue Agency – Ontario
NUANS® General Information NUANS® Registered Search Houses	NUANS® General Information NUANS® Registered Search Houses

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Banking and Accounting



A good record keeping system should be simple to use, accurate, and designed to provide information on a timely basis. The legal requirements concerning financial records specify only that they be an accurate and complete record of your daily income and expenses and be retained for seven years past each business fiscal year.

Business owners generally open a separate business account at a bank separate from personal accounts. Ordering numbered cheques with stubs to record cheque details and obtaining a deposit book may simplify the bookkeeping process. You can arrange for your bank to mail you a statement along with your cancelled cheques every month to aid in record keeping.

There are many inexpensive computer programs designed for small business record keeping. Alternatively, you can use a columnar book obtained from an office supply or stationary store. The number of columns you need will be determined by the number of expense accounts you choose to use.

Pay bills with a numbered cheque and fill in the particulars on the cheque stub. Also, put your cheque number and date on the paid invoice. You may also want to purchase a generic numbered invoice book which can be personalized with an ink stamp with your company name and address. Also helpful is a small record book to track vehicle expenses.

Using a columnar book:

Each page will record the transactions for the month. Use the first three columns to record the date, particulars of the transaction and the cheque or invoice number. The next two columns are for revenue and expenses. Each transaction will be entered in one of these columns.

The remaining columns are a breakdown of the revenue and expense columns. For example: allocate the revenue entries into sales and sales tax columns and expenses into inventory, rent, telephone, office supplies, insurance and vehicle. All common expense should have a column with unusual expenses noted in a miscellaneous column. At month-end simply total each column.

Keeping quality financial records will ensure you understand how your business is performing and save you time and money at your business year-end. To determine what to track consult Canada Revenue Agency's Business and Professional Income Tax Guide which describes eligible business expenses and provides information on depreciation, home-based business expenses, and vehicle expenses.

Links to More Information:

Canada Revenue Agency's Business and Professional Income Tax Guide

[Canada Revenue Agency](#)

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Business Licences



Some trades businesses require licensing from the Ontario provincial or municipal government. These requirements could include an operating permit, special permission to operate in your chosen location or specific qualifications for you or your employees.

Businesses that do not have a premises or location often do not need to be licensed however some trades businesses will need to get business licenses before they can operate legally within their municipalities. After all departments approve your application, your business license will be mailed. The city may need to inspect your premises as part of the licensing process. If your city or town doesn't have a Web site, you can find the contact information in the blue pages of your phone book.

Trades business owners may decide to use their home as a base of operations. In general, home-based business licenses are granted so long as the nature of the neighbourhood is preserved. There are restrictions as to how much of the home and garage may be used for business, materials storage, parking and signage. You will not be permitted to create nuisance or generate traffic that is not characteristic of the neighbourhood.

For More Information:

ServiceOntario (Bizpal) – Online business permits and licences

[ServiceOntario](#)

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Register for GST & PST



Under the Goods and Services Tax (GST), most goods and services sold or provided in Canada are taxable at a rate of six percent (6%). If your business provides GST-taxable goods or services and has annual revenues of more than \$30,000 in any previous four consecutive calendar quarters or in any one calendar quarter, you must register for the GST.

Once you register for the GST, you must charge GST to all your customers and send it to CRA. You can claim a refund on the GST you pay when you buy goods and services you need for your business. If the GST collected is greater than the GST paid, the difference is sent to Canada Revenue Agency. If the GST collected is less, a refund can be claimed.

A quick method of accounting for the GST is available for small businesses with annual worldwide GST-included sales of \$200,000 or less. You have to apply to the CRA to use this method. If you do use this method, you have to continue using it for at least a year.

Even if you don't expect to have revenues in excess of \$30,000 in your first year of business, you may want to apply for a GST number and charge the tax anyway. You'll be able to get back the GST you pay on the goods and services your business buys—and not collecting it sends a message to your customers that your business is small, which may not be the impression you want to give.

Once you have registered, you will be assigned a Business Number with a GST account. The Business Number (BN) includes the major accounts most businesses have: corporate income tax, GST, and payroll deductions. Businesses can apply online or call CRA in BC at 1-800-959-5525 to register a new business.

In Ontario, you must register as a vendor to collect and remit Retail Sales Tax (RST) on the sale and/or provision of taxable goods and services, admission charges and insurance premiums, regardless of anticipated sales volumes. RST is also called Provincial Sales Tax or Ontario Retail Sales Tax. Application for a Vendor Permit can be made via telephone, in person at an Ontario Ministry of Revenue Tax Office, by fax or mail, online at www.rev.gov.on.ca or at an Ontario Business Connects workstation.

For More Information:

CRA – Business Number	Canada Revenue Agency - Business numbers
CRA – On-line Registration	Canada Revenue Agency - registering for GST
CRA – GST quick method	Canada Revenue Agency - GST

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Register for GST & PST



Ontario Retail Sales Tax registration

[Ontario Ministry of Revenue](#)

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Prepare for Employees



While it's not legally necessary, it's a good idea to have a written contract that details the employee duties, hours of work, probation periods, and pay and benefits. To the government, the difference between an employee and a sub-contractor relates to the intent and the nature of the working relationship (such as who has control and who provides the tools). It may be part-time or full-time or for a specified period.

Each province will have its own workers' compensation body that collects premiums from employers to cover employees injured at work. The premiums are calculated using one rate for each employer based on the industry that employer is in regardless of the type of role the employee has in the company. For example, a plumbing business would have all employees subject to the same rate. Rates are calculated based on earnings and quoted per \$100 of employee earnings. For example a rate of \$5 per \$100 of earnings would mean that if an employee made \$1000 the premium for those earnings would be \$50 ($\$1,000/\$100 \times \5).

As an employer, you'll need to make payroll deductions and hold them for the government until you submit them, so it's important to keep these amounts separate from the operating funds of your business.

- The federal payroll deductions are Employment Insurance (EI) and Canada Pension Plan (CPP) which are deducted with income tax from the employee's pay. Send those amounts, with your employer share of CPP and EI premiums, to CRA.
- Employer Health Tax (EHT) is a payroll tax that employers register for at any Ministry of Revenue Tax Office or on-line via Ontario Business Connects workstations. Eligible employers (generally private-sector employers) are exempt from EHT on the first \$400,000 of payroll. Eligible employers whose payroll does not exceed \$400,000 and who are not associated are not required to register with the Ministry.
- The employer is also required to pay Workers' Safety and Insurance Board (WSIB) premiums based on the earnings of the employee. For most industries, workers' insurance coverage is required by law and provides protection should one of your workers be injured at work. You must open a WSIB account within 10 days of hiring regular, casual workers, or contractors. Operating a business without this coverage can result in assessments and penalties.

While Ontario WSIB rates have remained stable since 2006, trades typically pay more than the average. Plumbers are over \$6 and framers more than \$9 per \$100 of employee earnings.

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Prepare for Employees



New employers should also become familiar with other provincial requirements such as Employment Standards (*i.e. hours of work, overtime, and leave*) or Workplace Health and Safety (*i.e. safe workplace, waste disposal*).

Links to More Information:

CRA – employee vs. sub-contractor	Canada Revenue Agency
CRA – payroll deductions	Canada Revenue Agency - payroll
Ontario Employment Standards	Ontario Business Connects
Ontario Employer Health Tax	Ministry of Revenue – Employer Health Tax
WSIB Ontario – new accounts	Ontario Workplace Safety and Insurance Board

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Business Insurance



Your business is unique and so is your insurance protection needs. The most common types of business insurance are property and liability insurance.

Property insurance protects the assets your business owns, including the building and equipment, from destruction or damage. Your home owner's policy may not cover business equipment and you'll need contents insurance to protect your business equipment from perils such as fire, flood, or theft. To determine how much property or contents insurance you'll need, create an itemized list of your business' assets and their individual dollar values. Then decide which assets you actually want to insure and for what value, which will determine the insurance premium and allow you to evaluate if the insurance is worth paying for.

Ask yourself, if this equipment was stolen, would I be able to afford to replace it? If the answer is no, you should insure it.

General liability insurance protects your business from liability arising from negligence that may cause injury to others, such as a customer or employee. The legal expenses and settlement costs of a single lawsuit could drive your business into bankruptcy and so this kind of insurance is considered a "must-have".

As a business owner, you should also carry some kind of **disability insurance**. If you own a business, you are not automatically eligible for workers' compensation benefits but can buy personal coverage. When shopping for disability insurance investigate how the policy defines a "disability" in addition to the nature of the benefit payment. There are only a few companies selling individual coverage in the Canadian marketplace – use the industry web-site to evaluate your needs and locate insurance providers. Unfortunately, there is no generic plan that will meet every small business's needs. You may need to shop around to get the business insurance that's most suited to you.

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Business Insurance



Surety bonds are common for those in construction. Bid bonds, performance bonds and payment bonds may be requested by your client. Usually sold by insurance company subsidiaries, surety bond pricing is determined by the contract value, duration of the job, and risks to completion of the contract.

Surety Bonds – Used primarily in the construction industry for government projects and frequently in the private and institutional sectors, surety bonds provide security to owners, sub-contractors and others that a contractor will transform plans and specifications into a timely, successful and complete project.

Performance Bonds - Guarantee the performance of the contracted work. If the owner of a job is not satisfied with the contractors work, he or she can look to the issuer of the bond for compensation.

Payment Bonds - When a job is bonded, the rightful claims of direct subcontractors, labourers and suppliers are paid by the issuer of a payment bond.

Links to More Information:

Insurance Canada – industry website	<u>Insurance Canada</u>
Canada Business – general information on bonding	<u>Canada Business - Government of Canada</u>
Surety Association of Canada – contacts across Canada	<u>Surety Association of Canada</u>

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Prepare for Customers



In today's highly competitive market, the success of any trades business relies heavily on the owner's ability to quickly generate profitable yet competitive estimates or quotes. Inaccurate bids account for a significant losses in trades businesses.

Pricing a job involves anticipating spending on a specific job. Software programs offer customized job costing features for anyone in skilled trades or you can elect to have a manual process for creating estimates. Each quote should consider:

- Direct labour costs (your own and your employees')
- Materials costs (identifying both the quantity and price of materials)
- Other costs or Overhead costs (travel costs, equipment usage allocations)
- Profitability (usually a % of the cost categories)

As creating a quote takes time, be prepared to share what a 'typical' job costs during the initial contact to confirm that real interest in pursuing a full quote. Lastly, use the bid you create as a budget to track performance as the work progresses, evaluate the profitability of the job, and improve the quality of future quotes.

Documenting the agreed work (details of service, costs, and payment terms) in a written contract will manage client expectations and enable you to respond to mid-project change requests with revised time and price estimates. Many trade associations, such as the Ontario General Contractors Association, offer contract and bid templates.

After the work is complete, you must collect on the money owed to you. Business owners who skilfully manage receivables enjoy a positive impact on the business cash flow. Prepare in advance by determining:

- Will you offer discounts for early payment or penalties for delays?
- How much money is required up front before the work will begin?
- How will you track the number of days an account is outstanding?

Trades business owners should become familiar with their rights for collecting past due receivables that are past due by reviewing the Ontario Builder's Lien Act.

Word of mouth is a powerful marketing tool so make it easy for your customers to pass on your contact information – perhaps by providing multiple business cards.

Links to More Information:

Ontario standard documents order form	Ontario General Contractors Association
Ontario Construction Lien Act	Canadian Legal Information Institute