Tax Saving Tips and Strategies for Your Business

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Canadian Business Taxation

As the old saying goes, there are two things unavoidable in life: death and taxes. This article discusses one of these two unavoidables: taxation.

If you do not mind the cold winters, Canada is thought to be a good country to live in with plenty of attractive social benefits and welfare programs. There are tax benefits and payments if you have children and Old Age Security payments for the aged. Basic health care is provided by the provinces. All these benefits and programs are paid for using your tax dollars, ranging from taxing salaries, interest income, dividends and capital gains, to taxes on your property, GST and PST on your consumption, and even gasoline tax when you fill up your gas tank. Despite the government's effort in reducing personal and corporate taxes in recent years, Canada remains one of the higher taxing countries in the world.

In spite of the heavy taxation regime we have, there are legitimate tax saving strategies and planning ideas that you can use to save on the taxes you pay. Some of these tax saving arrangements need proper planning and implementation with the help of accountants or tax experts. However, if implemented properly, tax savings can far outweigh the fees you pay to your accountant.

I have been involved with financial planning and tax filing work for many years. I own an accounting and consulting practice to help businesses with their financial planning and tax compliance needs. I am taking this opportunity to share tax saving tips and strategies that may be related to your business.

Incorporation of Your Business

Some people think that incorporation is the first step in starting a business. Incorporation is an important milestone but may not be required right away. When you first start a business, it may not be profitable in the first few years. If your business losses are incurred under an unincorporated proprietorship, they can be offset against your other income such as salary, investment or rental income, thereby reducing the personal taxes you have to pay. These losses can also be carried forward if they are more than your personal taxable income in those years.

If you start your business from your

basement or use a portion of the space in your home for business, you may be able to deduct your home office expenses against your business income.

Professionals such as doctors, dentists, lawyers and accountants are now allowed to set up professional corporations for their practices. There are tax savings or deferrals resulting from the setup of these professional corporations.

Once you have incorporated your business, you can choose the fiscal year end that is appropriate to the seasonality or cycle of your business. The fiscal year end so chosen may facilitate the deferrals of certain business owner's income.

Deduction of Expenses

Generally speaking, there are fewer controversies in the recognition of sales or gross income, unless business owners deliberately understate their revenues. The Canada Revenue Agency (CRA) tends to hone in on your deductions or expense items when requesting additional information or when starting an audit. Expenses must be incurred to generate business income to be deductible. They should be necessary and reasonable. Only 50% of your meals and entertainment expenses are deductible. You are allowed to deduct the expenses of attending two conventions a year for your professional training needs. If you are self-employed, you can claim from your business income the premiums paid for private health care services.

If you have your family helping you in your business, you can pay them salaries to split overall income.

Your accountant can help you decide on the amounts paid out as salaries versus dividends to optimize the combined taxes you pay at corporate and personal levels.

Capital expenditures are deducted against business income through the Capital Cost Allowance (CCA) over several years. If you are having a very profitable year, you could consider making capital asset purchases just before your year end and thereby lower your taxable income for that year. On the other hand, you do not need to take any CCA if your business incurs losses in a given year. In this way you preserve the Undepreciated Capital Cost (UCC) of the capital assets for more amortization in future years.

You should keep good accounting and banking records. It is important that you file your tax returns within the deadlines and pay tax installments as required to avoid any interest and penalties. If you are expecting a tax refund, you should try to E-file your tax return so that you get the refund quicker.

Tax Savings

Your corporate income tax rate will be much lower if your corporation is a Canadian Controlled Private Corporation (CCPC). In Ontario, the taxable income for a CCPC up to $400,000 is taxed at a reduced federal and provincial combined rate of 18.6%.

A corporation's losses can be deducted against income in the previous three years or against income in the ensuing twenty years.

If your business can afford it, you might consider spending money to develop new products or invest in new business ventures. You may get to deduct these expenses against current business income, and help your business to expand into potential income streams for the future.

As in most countries, Canada encourages businesses to conduct research and development. There are several billions of SR&ED (Scientific Research and Experimental Development) tax credits within your grasp. SR&ED tax credits pay you about 68 cents for every dollar of SR&ED labour costs you spent. Of course you have to spend the money and do the paperwork. Amazingly there are businesses that qualify yet fail to claim these generous credits!

Not all the monies you take from your business are taxable. Capital Dividend Account (CDA) stands out as an example. CDA is made up of the non-taxable portion of the capital gain, or the non-taxable payments from corporate-owned life insurance policies. Also, every person has a life-time capital gain exemption of $750,000 from his or her disposition of qualified small business shares. The capital gain exemption helps you preserve more income when you sell your business upon retirement.

There are other advanced and complicated tax saving strategies that usually require help from your accountant or tax expert. Examples include the transfer of personal assets to a taxable corporation, setup of holding companies, corporate re-organization or mergers, re-investing in another small business the proceeds from the sale of a small business to defer capital gain, and setup of family trusts for estate planning purposes.

Help from the Expert

Accountants tend not to tell jokes, perhaps due to their profession of dealing with cold numbers and matters that tend to have serious consequences. I hope you find the following thoughts both amusing and ironic.

You won't get a personalized thank-you note from the CRA if you pay extra taxes that you could have saved with proper tax planning and arrangements. Yet your accountant would probably thank you personally and typically has a thank-you message on the professional service invoice sent to you. Speaking of "personal," CRA always need your social insurance number to identify you, but your accountant probably would know you by your first name and may over time get to know well about you, your family, your objectives or even your hobbies. By the way, the income taxes you pay are not deductible, but the accountant's fees you pay are deductible. So, why not hire a good accountant to help you look for opportunities to save some tax dollars?