



By Seemant Thakkar CPA, CGA CMA LPA

416-985-7154

sthakkar@entllp.com

www.entcpaseemant.com

Business and Taxation Strategies

For small businesses

- Disclaimer
- This material is at high level purpose only it is technical and should only be used as a guide to discuss these matters with a qualified professional accountant.
- As it deals with technical matters which have broad applications and is not practical to be used alone.
- No person or organization involved with this material accepts any legal responsibility for its contents or consequences from its use.



Sole Proprietorship

- Is a business consisting of one owner.
- The owner is an individual (who is also personally liable for all the debts of the business) |
- Carries on business under a name other than his or her personal name,
- That name must be registered under *The Business Names Registration Act*.



Partnership

- Is a business owned by one or more individuals
- Within a partnership, each partner is potentially liable for all debts of the partnership
- If the partnership carries on business under a name, that name must be registered under *The Business Names Registration Act*



Corporation

- Is a legal entity that has a separate legal existence apart from its shareholders and directors.
- It is sometimes also referred to as a 'limited company'. Since it has a separate legal existence from its shareholders and directors, they are generally not personally liable for the debts of the corporation beyond the amount contributed.
- Although it is the shareholders which 'own' a corporation, it is the directors who manage the day-to-day operations.

Taxation of Corporation VS Sole Proprietorship

- Most of the expenses are deductible are the same for both.
- The advantages of a corporation(SBC) are that fund can be left in the Corporation and only taxed at about 15.5% thereby deferring the tax until use need the funds.

Taxation of Corporation VS Sole Proprietorship

- Income splitting with use of dividend for shareholders over the age of 18.
- Lifetime Capital gains deduction of \$800,000 on active business only not passive.

Choice of year-end

- For a partnership for proprietorship there is no choice but they are required to have a December 31 fiscal year
- Corporation on the other hand may choose a year that must be within 53 weeks from the date of incorporation



Budgetary Process

- Designed, at all levels of business
- To ensure that there are control
- Accountability and planning
- In theory, the preparation by the executive (usually annually)



Cash flow Management

- Small businesses are especially vulnerable to cash flow problems since they frequently operate with inadequate cash reserves or none at all and, worse,
- Tend to miss the implications of a negative cash flow until it's too late.



How to Improve Cash Flow

- Establish your credit
- Monitor Your Credit
- Improve Your Credit
- Protect Your Credit
- Develop a cash flow system



Use of Company Car

- Strictly business purposes does not incur a taxable benefit
- However where the automobile involves a degree of personal use a standby charge will apply
- Standby = 2% of the original cost per month

Use of Employee Owned Car

- Mileage between home and office not deductible except where home is the primary office.
- Mileage log must be kept
- Deductible expenses are gasoline, insurance, maintenance, repairs ,interest in proportionate to the amount of business driving.
- An employee may receive an allowance in the amount of \$.55 a kilometer for the first 5000 km. and\$.49 per kilometer thereafter

Use of Employee Owned Car

- Alternatively an employee who receives an unreasonably low allowance may included in income and deducted business use expenses.
- Also, an employee who receives an unreasonably high allowance must include the difference in income.

Loans to Employees

- Loans to employees and may be made for the following reasons
- Purchase or refinance a home
- Purchase an automobile or aircraft for employment use only
- Purchase shares from treasury
- Certain conditions to apply



Loans to Employees

- In all cases the difference between prescribed rate of interest set by CRA and charged to the employee must be added to the employee's T4
- All employee home purchase loans are deemed to have a five-year maximum term
- Any loans forgiven are added to the employees T4



Employee vs. Subcontractor

- Other multiple sources of income
- Are the tools/equipment owned by
- Is there a servant relationship
- In the eyes of the average man how is the individual portrayed

Employee vs. Subcontractor

- Is the individual a shareholder of the company
- Does the individual have other businesses
- Where is most of his time spent
- How long has the individual been working with the company

Shareholder remuneration

- If the shareholder main source of income comes from there business they should be on payroll
- Management fees are no longer acceptable by CRA
- Revenue Canada wants their payroll deductions on a monthly basis
- The shareholder are deemed to be employees of the company

Salaries paid to family members

- It must be fair market value
- We must be able to demonstrate to CRA that a true relationship exists an employee-employer relationship
- The work must represent the salaries paid

Salaries paid to family members

- Salaries must be paid periodically
- Funds must actually be paid preferably by cheque not just on paper
- There should be a bank accounts set up for the children and it cannot be for their basic needs

Workplace in the home

- Used exclusively to earn income from the business
- Must be a continuous basis for meeting clients customers or patients
- Must be the individuals principal place of business
- Therefore you cannot have two offices

Workplace in the home

- The calculation must be proportionate based on square footage
- Eligible expenses are rent, mortgage interest, realty taxes, insurance, utilities, and maintenance
- It is not advisable to claim capital cost allowance due to the principal residence exemption

Workplace in the home

- Similarly claiming 50% or more business use of the home he may trigger the loss of your principal residence

Business and self-employment expenses

- Accounting fees
- Advertising
- Amortization of capital assets
- Bad debts
- Business related memberships and subscriptions
- Business related start-up costs

Business and self-employment expenses

- Business taxes and fees and dues
- Certain group benefits
- Collection expenses related to bad debt
- Convention expenses up to two per year
- Consulting
- Freight and delivery
- Disability related modification expenses

Business and self-employment expenses

- Rental equipment
- insurance fire theft and liability
- Interest and bank charges
- Legal
- Light heat and water
- Maintenance and repair
- Management and administration fees

Business and self-employment expenses

- Meals and entertainment expenses
- Motor vehicle expenses
- Office expenses
- Property taxes or rent on business property
- Purchase of materials and supplies
- Business related licenses permits franchisees trademarks
- Salaries and wages

Business and self-employment expenses

- Courses taken to improve business skills
- Subcontract costs
- Traveling expenses
- Keep in mind that all the above expenses are only deductible if they were used to generate income.



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➤ Thank you for your time and giving me this opportunity