Maximize your Tax Situation

Always consider working with a bookkeeper, get a great accountant and be aware of what you can do to reduce your tax bill. All reasonable business related expenses are tax deductible:

- A business expense is a cost you incur for the sole purpose of earning business income
- You must support any business expense with receipts and invoices
- You are required to keep evidence for 6 years

Consult your accountant regularly on what expenses are deductible. When making personal purchases that may aid your business find out exactly what portion is deductible. It may influence your purchasing decision.
Listed below are just some of the expenses that are tax deductible:

- **Advertising expenses**
- **Business licenses**
- **Delivery and freight costs**
- **Business insurance**
- **Interest on business loans**
- **Maintenance & repairs of business equipment**
- **Office expenses**
- **Office rent**
- **Meals & entertainment:** 50% of the total spent. Instead of taking clients out for dinner have company events – you can have up to 6 employees to sporting or social events a year. **Note:** Golf green fees are not deductible!
- **Conventions:** you may deduct expenses for 2 conventions per year and 50% for meals and entertainment at these events
- **Motor vehicle expenses**: If your business is incorporated and it owns the business vehicle and you use it onlyfor the business, all vehicle expenses are deductible

- If you personally own a vehicle which you use partly for business you need to keep an accurate log of the mileage you do in your vehicle for business
- Health and dental insurance premiums are deductible as an expense if:
  - Your business is incorporated and the business is your primary source of income
  - You offer equivalent coverage to all permanent full time employees
  - You get advice from an expert on how to structure this legally in your business

- Life insurance for a loan as long as it is assigned to the lender as security or the company is the beneficiary
- Local and international travel business expenses
- Bad debts are deductible. A provision can be made for bad debts
- Home office expenses are deductible – consult your accountant. You can deduct a portion of your rent, hydro bill, gas etc.
- If you operate as a sole proprietor you can apply losses made in a business against other income earned. If you earned $40,000 working for a boss and incurred a loss of $5,000 in your part-time business you will only pay income taxes on $35,000.

Expenses that are not allowed

- Personal and domestic expenses
- Inventory taken for personal use
- Traffic fines and related professional fees paid to defend these in court
- All Federal and Provincial penalties and interest charged
- Take the time to carefully account for all of your business expenses. At the end of the year it is good practice to review all of your expenses to find if you have missed any. While tedious, this can be the difference between your business reporting a loss or a profit.

What Do We Pay Tax On?

The structure of your business affects what you pay tax on.

- Sole proprietors pay taxes on the business profit generated
- Partnerships – partners pay taxes on their share of the business profits
- Employees of a corporation pay taxes on their monthly salary, bonuses and dividends
- Corporations pay taxes on the income statement profits
  Current taxes rates (*Rates vary by province…this sample is for businesses in Ontario)

How To Pay Less Tax
Proper record keeping, tracking and managing deductible expenses along with taking advantage of the Capital Cost Allowance will help you pay less tax. But there are other strategies to consider. Review the following and consult with your accountant to find out what's right for you.

Incorporate to save taxes
Because the income tax rate for corporations is less than the personal tax rate, you can reduce your tax bill by incorporating your business. This is particularly effective if:
- You are not withdrawing all the profits from the business
- You are growing the business
- You are increasing your receivables
- You are increasing your inventory
- You are purchasing assets

Tax splitting
Tax splitting is a way to direct revenue to a family member so that it can be taxed at a lower rate. You can:
- Employ family in the business. Ensure that you pay them a fair wage for the work they do.
- Balance your salaries. If a husband and wife are in a business together and the wife earns $80,000 and the husband earns $20,000 their tax payable will be higher than if they each earn $50,000.

Avoid Evasion and Embrace Avoidance
Evasion of tax is breaking the law. Falsifying accounting and other records or not declaring income is illegal.
Tax avoidance, however, is legal. You can use legitimate ways to reduce tax including:
- Incorporating to save taxes
- Income tax splitting (see below)

Sometimes, there is a fine line between tax evasion and tax avoidance. In these situations, it is always best to play it safe. Catching the attention of the Canadian Revenue Agency is one of the last things a business wants.
Even when you have done everything right, an audit will take up a lot of your time and create a great deal of unnecessary stress.