

SAVVY ENTREPRENEURSHIP

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Small Business Taxes

LEARNING OBJECTIVES

- Identify the tax forms proprietorships, partnerships and corporations use to report their profit or loss and file their annual income tax return as well as the filing deadlines
- Identify several examples of tax-deductible business expenses
- Identify the benefits a business owner can take advantage of as an employee of their business
- Identify when a business must register for GST/HST and provincial sales taxes
- Record the necessary data for performing payroll as well as quarterly and yearly tax filing
- Describe the small business audit

Small Business Taxes

T1 Income Tax and Benefit Return vs. T2 Corporate Income Tax Return



Small Business Taxes (cont.)

Filing Deadlines

■ Proprietorships

- Profits/losses are reported on a T1 Income Tax and Benefit Return.
- Payment is due April 30th of the following year, but filing is not due until June 15th.

■ Partnerships

- If the partner is an individual, profits/losses are reported on a T1 Income Tax and Benefit Return.
- If the partner is a corporation, profits/losses are reported on a T2 Corporation Income Tax Return.
- For individuals, filing deadlines are the same as sole proprietors, and corporations use the corporate year-end deadline.

■ Corporations

- Profits/losses are reported on a T2 Corporation Income Tax Return.
- Payment is due 3 months after the fiscal year end, but filing is not due until 6 months after the fiscal year end.

Small Business Taxes (cont.)

Tax-Deductible Business Expenses

- Costs incurred for the sole purpose of earning income
- Examples include:
 - Salary and wages paid to employees
 - Contractor, bookkeeping and marketing costs
 - Office expenses such as pens, paper and printer ink
 - Rent
 - Utilities
 - Shipping
 - And more...



Small Business Taxes (cont.)

- Home office expenses

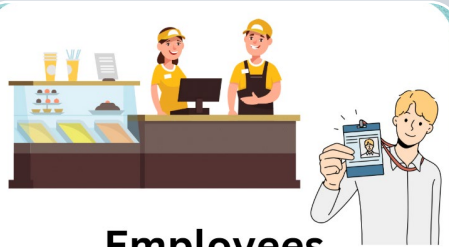
- Your home is your main place of business, or you use the space only to earn business income.
- You use it on a regular and ongoing basis to meet with clients, customers or patients.

- Vehicle expenses

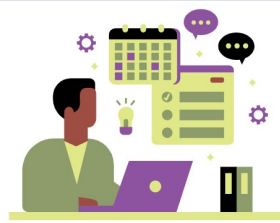
- A mileage log is always required, and business use as a percent of total use must be calculated.
- You must track vehicle expenses and apply the business-use percentage to the total expenses.
- Employees may claim the “allowance-per-kilometre rate.”

Small Business Taxes (cont.)

Tax Deductions



Employees



Operations



Office/Store



Product/Service

- Medical benefits
- Retirement accounts
- Salaries
- Uniforms
- Bonuses

- Professional fees
- Marketing
- Transportation
- Depreciation
- Financing
- Admin/bookkeeping
- Training

- Property insurance
- Repairs
- Expansions/
additions
- Rents
- Mortgage payments

- Ingredients
- Raw materials
- Supplies
- Direct labour

Small Business Taxes (cont.)

Benefits of being an owner-employee

- Remember: As a proprietor or partner, you are never an employee of your business.
- As an employee of your business, you may benefit from:
 - Claiming the “allowance-per-kilometre rate” for vehicle expenses rather than tracking the expenses
 - Greater income flexibility (T4 vs. T5 income)
 - Company paid health and dental benefits, insurance
 - More retirement-planning options

Small Business Taxes (cont.)

Tax Credits for Small Businesses

- Small Business Deduction (SBD)
 - Canadian-controlled private corporation, applies to the first \$500,000 of active business income
- Scientific Research & Experimental Development (SR&ED)
 - For key software and technology research
- Clean Economy Investment Tax Credit
 - For investment in carbon capture, clean technology/hydrogen and clean technology manufacturing
- Canadian Film or Video Production Tax Credit
 - For Canadian film/video production
- Apprenticeship Job Creation Tax Credit
 - For eligible employers hiring eligible apprentices in prescribed trades
- Other provincial/territorial tax credits

GST/HST and PST

- GST/HST is a value-added sales tax.
 - GST is the 5% Goods and Services Tax.
 - HST is where the provincial sales tax is combined with the GST for a single sales tax amount:
 - Newfoundland and Labrador, New Brunswick and PEI charge 15% HST.
 - Nova Scotia charges 14% HST.
 - Ontario charges 13% HST.
 - All other provinces/territories charge 5% GST.
- PST is the generic name for a sales tax that that may be charged by a province or territory:
 - BC and MB charge 7% PST.
 - SK charges 6% PST.
 - QC charges 9.975%.
 - No other province/territory charges PST.

GST/HST and PST (cont.)

- Businesses must register for GST/HST when they have \$30,000 or more in taxable sales in a quarter or year.
- Some business have to register as soon as they start.
- GST/HST are collected on applicable sales and must be remitted to the CRA.
- The amount remitted can be reduced by GST/HST paid on expenses (ITCs).
- GST/HST is charged based on the “place of supply” rule.

GST/HST and PST (cont.)

- GST/HST categories:
 - Taxable supplies
 - Zero-rated supplies
 - Exempt supplies
- Documents must be kept to provide proof of the purchase and the amount of GST/HST claimed.

GST/HST and PST (cont.)

- PST is the generic name/initials for Provincial Sales Tax (currently the territories do not charge a separate sales tax):
 - BC and SK call it Provincial Sales Tax (PST).
 - MB calls it the Retail Sales Tax (RST).
 - Québec calls it the Québec Sales Tax (QST).
- Businesses selling in the applicable province must register for and charge PST when they meet the requirements of that province and then remit those amounts to the appropriate agency.

Recordkeeping for Tax Filing

- The journal for a business
- Accounts for all income and expenses

RECORDKEEPING: WHAT TO SAVE FOR TAX FILING		
INCOME	EXPENSES (PURCHASES)	ASSETS
• Cash-register tapes • Deposit information (credit sales and cash) • Receipt books • Invoices • E-transfers received	• Cancelled cheques, other proofs of purchase • Credit card statements • Paid invoices • Reconciled purchase orders	• Receipts for purchases (new equipment, real estate, vehicles) • Receipts for additions or upgrades to existing assets • Receipts for items sold, the value of items gifted

Recordkeeping for Tax Filing (cont.)

- Records and documents must be kept for at least 6 years, longer if there is an audit or a review has been requested (by the business or the CRA).
- Permission to destroy records must be obtained from the CRA and form T137 Request for Destruction of Records must be submitted.

NOTE! The burden of proof is on the business owner, so keep good records.

The Small Business Tax Audit

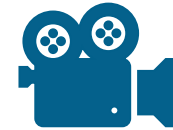
- An official review of a business's bookkeeping
- Types:
 - Correspondence, or desk, audit
 - The CRA will call and ask questions or request copies of documents.
 - You have the right to verify the call before answering questions.
 - Office audit
 - The business visits a local CRA field office for an in-person meeting.
 - Field audit
 - A CRA representative visits the place of business or another location such as the accountant's office.

NOTE! Fewer than 5% of business tax returns are audited. HOWEVER, avoiding taxes is never a problem until you are caught.

The Small Business Tax Audit (cont.)

Audit Triggers

1. Large or repeated business losses
2. High meal and entertainment deductions
3. Large fluctuations in earnings
4. Large mileage deductions
5. Other large expenses
 - Equipment
 - Vehicles
 - Real estate



KEEP RECEIPTS!

CHAPTER SUMMARY

- Tax Reporting:
 - Proprietors and individual partners report their earnings/losses on a T1 Income Tax and Benefit Return.
 - Partners that are corporations report their earnings/losses on a T2 Corporate Income Tax Return.
 - Corporations report their earnings/losses on a T2 Corporate Income Tax Return.
- Tax deductible expenses include equipment costs; employee income; costs for medical benefits, utilities and computers; and even entertainment and meals.
- Being an employee of your business has certain advantages that being a proprietor or partner doesn't.
- Businesses must register for GST/HST and PST where applicable.
- An audit is an official review by the CRA of a business's recordkeeping that can be done via correspondence (most common), in the CRA's offices or at the business itself. Good recordkeeping is a must.