Your Guide To Building Wealth Through Year-Round Tax Planning

TAX PLANNING ISN'T A ONCE A YEAR THING

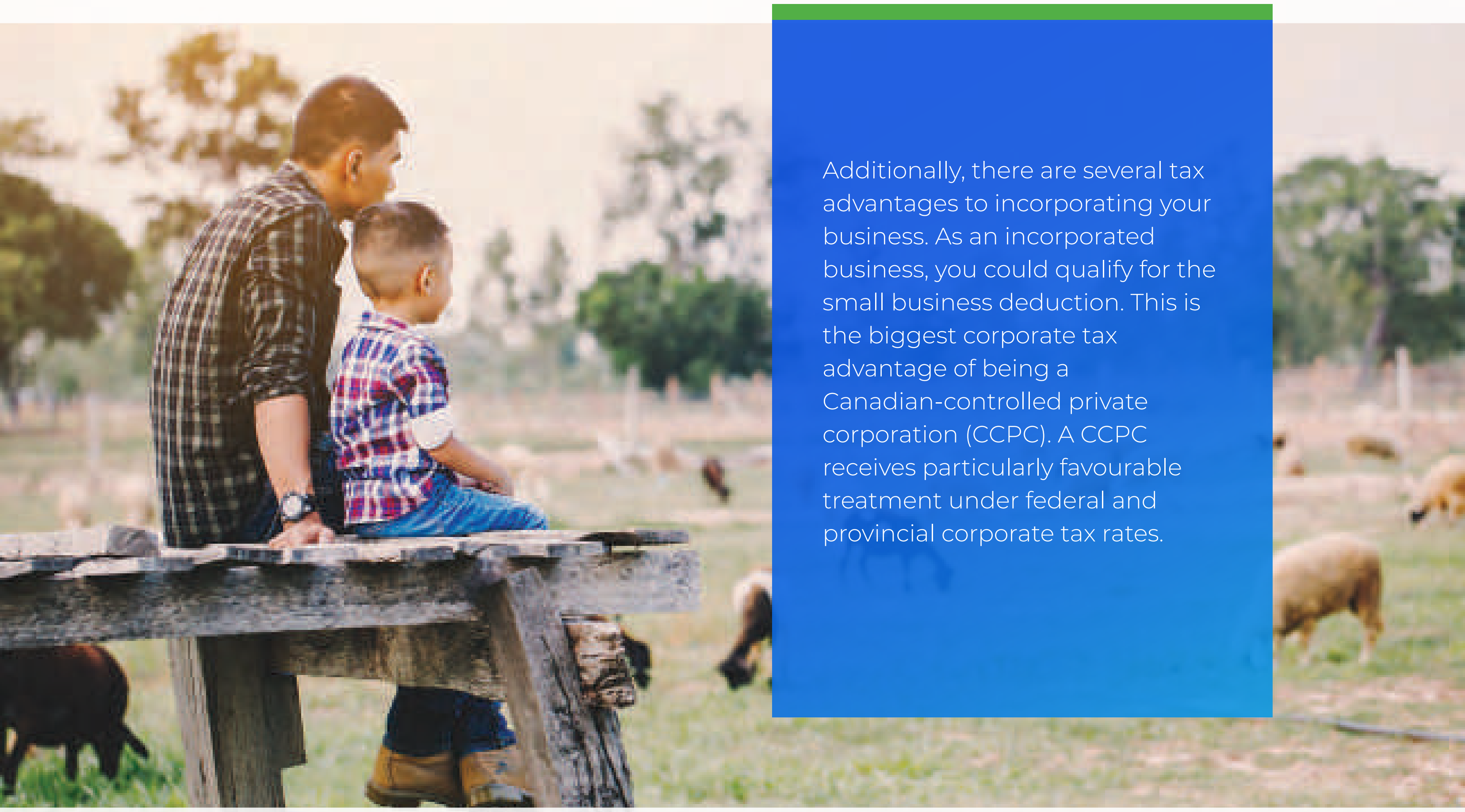
FBC is a third-generation family company. We've worked with Canadian small business owners to minimize their income taxes and maximize their assets for more than 65 years.

Our people are at the heart of our business, and at the heart of the communities we serve.

FBC offers an industry-leading Membership model, which means we help our Members year-round with tax planning and ongoing business consulting. In this eBook, we'll outline strategies we use to help our Members identify tax savings.

TIP 1: CHOOSE THE BEST BUSINESS STRUCTURE FOR YOUR COMPANY

If you’re operating your small business as asole proprietorship or partnership, you can deduct business losses against your other income. However, as your business turns profitable, you might want to consider incorporation. This will protect your personal assets from creditors.



Additionally, there are several tax advantages to incorporating your business. As an incorporated business, you could qualify for the small business deduction. This is the biggest corporate tax advantage of being a Canadian-controlled private corporation (CCPC). A CCPC receives particularly favourable treatment under federal and provincial corporate tax rates.

In some cases, the income tax rates an incorporated small business would pay are less than 50 per cent of the personal tax rates the owner would pay by operating the business as a sole proprietorship.

Other tax advantages of incorporation:

- Choose a non-calendar fiscal year that better suits your business cycles for income tax reporting
- Defer income withdrawals from the company from one year to the next
- Create a registered pension plan and obtain tax-deductible group health and life insurance plans for your employees and family members
- Apply for cash refunds and/or tax credits for R&D through the Scientific Research and Experimental
- Development Program (SR&ED)

TIP 2: ENSURE THAT YOUR INVESTMENTS ARE TAX OPTIMIZED.

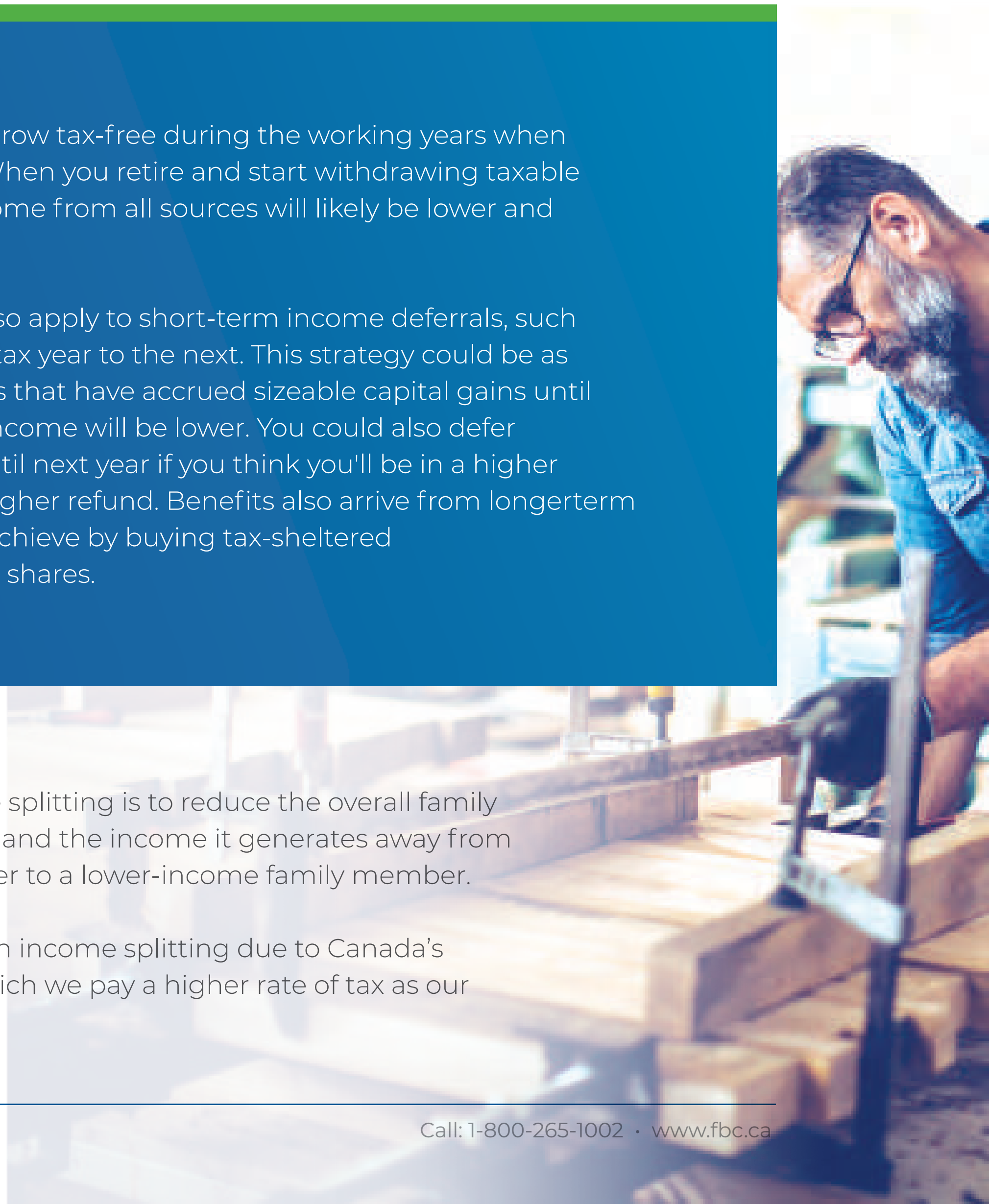
Ensuring that your investments are optimized for the best tax situation takes careful planning, including special attention to the three pillars of tax-efficient investing:

1. Income Deferral
2. Income Splitting
3. Income Conversion

INCOME DEFERRAL

The most common tactic for tax-optimizing your investments is something referred to as income deferral. The benefits of income deferral as a tax planning technique are two-fold:
1. Your marginal tax rate may be lower in the future.
2. Deferring tax effectively discounts your final tax bill.

Much of FBC's retirement planning, such as the use of registered retirement savings plans (RRSPs), is based on this premise.



With an RRSP, your investments grow tax-free during the working years when you're earning a higher income. When you retire and start withdrawing taxable income from your RRSP, your income from all sources will likely be lower and you'll fall into a lower tax bracket.

The benefits of income deferral also apply to short-term income deferrals, such as shifting a tax liability from one tax year to the next. This strategy could be as simple as holding off selling stocks that have accrued sizeable capital gains until a later year when you think your income will be lower. You could also defer claiming an RRSP contribution until next year if you think you'll be in a higher tax bracket and would receive a higher refund. Benefits also arrive from longerterm income deferrals, which you can achieve by buying tax-sheltered investments such as flow-through shares.

INCOME SPLITTING

The basic principle behind income splitting is to reduce the overall family tax bill by shifting invested money and the income it generates away from the highest-income family member to a lower-income family member.

There are potential tax savings with income splitting due to Canada's "progressive" tax system under which we pay a higher rate of tax as our taxable income increases.

INCOME SPLITTING CONTINUED

You can use the lower income spouse's salary and other earnings for investment purposes, resulting in the family's total Investment income being taxed at the lowest possible rate.

You also could consider making an interestbearing loan to your spouse or a gift of cash to an adult child for investment purposes. The higher income earner might also pay taxes for the lower-income spouse, make contributions to a spousal RRSP, and allow the lower-income spouse to claim all family tax credits such as medical costs.

INCOME CONVERSION

With income conversion you can receive tax-advantaged rates in your nonregistered portfolio. Because different types of income are taxed at different rates, you want to make sure your investments are getting the best returns and cash flow on an after-tax basis. It's important to be aware of how the government treats the taxation of different investment vehicles. For example, preferential tax treatment is given to investment income in the form of eligible dividends and capital gains.

Interest income is fully taxable in your nonregistered accounts, just like any salary, net business income and other regular income. However, Canadian dividends and capital gains receive preferential tax treatment.

Dividends from Canadian corporations are grossed up on your tax return and a special dividend tax credit applies. This generally means that dividends are effectively taxed at a much lower rate than regular income. Capital gains are also effectively taxed at a lower rate - only 50 per cent of net capital gains are included in your taxable income.

TIP 3: SAFEGUARD YOUR ESTATE

In general, when a person dies, the lawassumes they sold their assets on the day prior to their death, and there may be substantial capital gains on those assets. If so, the estate will have to pay tax on those gains to Canada Revenue Agency (CRA). However, if assets are left to a named beneficiary, tax consequences may be reduced.

With estate planning, you may be able to reduce the amount of probate fees and taxes that your estate would otherwise pay. Consider the following:

JOINT ASSETS

Joint assets, such as a joint bank account that two or more people own, or a house owned by two people as joint tenants, have a "right of survivorship." This means that when one person dies, the other person or persons own the asset. So if you and another person own a house as joint tenants, the surviving joint owner will get the house when you die. The house is an asset that passes outside your will. No probate fees will have to be paid by your estate regarding the house, and if the

RRSPs

A registered retirement savings plan (RRSP) is another asset that passes outside your will if you name a
beneficiary in your RRSP. If a spouse is named beneficiary there are no tax consequences.

TRUSTS

Depending on the size of your estate, you might want to establish a trust before you pass away to protect against a will being contested as invalid or subject to variation.

TIP 4: PLAN FOR YOUR CHILDREN'S EDUCATION

If you have children, a registered education savings plan (RESP) is a great way to put away money for their post-secondary education.

There are two advantages to RESPs:
1. Although contributions to a RESP are not tax-deductible, the income accumulates on a tax-free basis year after year.
2. When your child uses the funds, the income portion is considered the child's income and is taxed at his or her low tax rate.

Plus, the federal government kicks in a Canada Education Savings Grant of 20 per cent of what you contribute, up to a maximum of $500 per child per year to a lifetime maximum of $7,200 per child.

The concept of establishing an RESP is not so much a one-time tax decision but an overall strategy to provide educational assistance to a child. The earlier the plan is established, the longer investment income can accumulate and the more educational assistance is available to the beneficiaries (your children or grandchildren).

With an RRSP, your investments grow tax-free during the working years when you're earning a higher income. When you retire and start withdrawing taxable income from your RRSP, your income from all sources will likely be lower and you'll fall into a lower tax bracket.

The benefits of income deferral also apply to short-term income deferrals, such as shifting a tax liability from one tax year to the next. This strategy could be as simple as holding off selling stocks that have accrued sizeable capital gains until a later year when you think your income will be lower. You could also defer claiming an RRSP contribution until next year if you think you'll be in a higher tax bracket and would receive a higher refund. Benefits also arrive from longerterm income deferrals, which you can achieve by buying tax-sheltered investments such as flow-through shares.

INCOME SPLITTING

The basic principle behind income splitting is to reduce the overall family tax bill by shifting invested money and the income it generates away from the highest-income family member to a lower-income family member.

There are potential tax savings with income splitting due to Canada's "progressive" tax system under which we pay a higher rate of tax as our taxable income increases.

TIP 5: STAY ON TOP OF YOUR BOOKKEEPING

Doing all your bookkeeping at the very last minute is not the best way to achieve successful tax planning. Keeping up-to-date with your bookkeeping will save you money and give you the following benefits:

You won't miss tax deductions

Sloppy bookkeeping may lead to overlooking tax deductions. Trying to remember all of the expenses you incurred throughout the year is virtually impossible. By recording as you go, you will miss fewer deductions. Keeping business and personal finances separate is an important component of your tax planning. By not doing so, you risk overlooking a legitimate business expense or inadvertently claiming a personal expense as a business deduction.

You will avoid CRA audits and penalties

Want to avoid an audit? Do your books. Messy bookkeeping is an audit trigger. If you are audited, and your books are in good order, the CRA will be able to finish quickly and let you get back to work. If you don't keep adequate records or provide the CRA with access to your records, you may face penalties and/or sanctions.

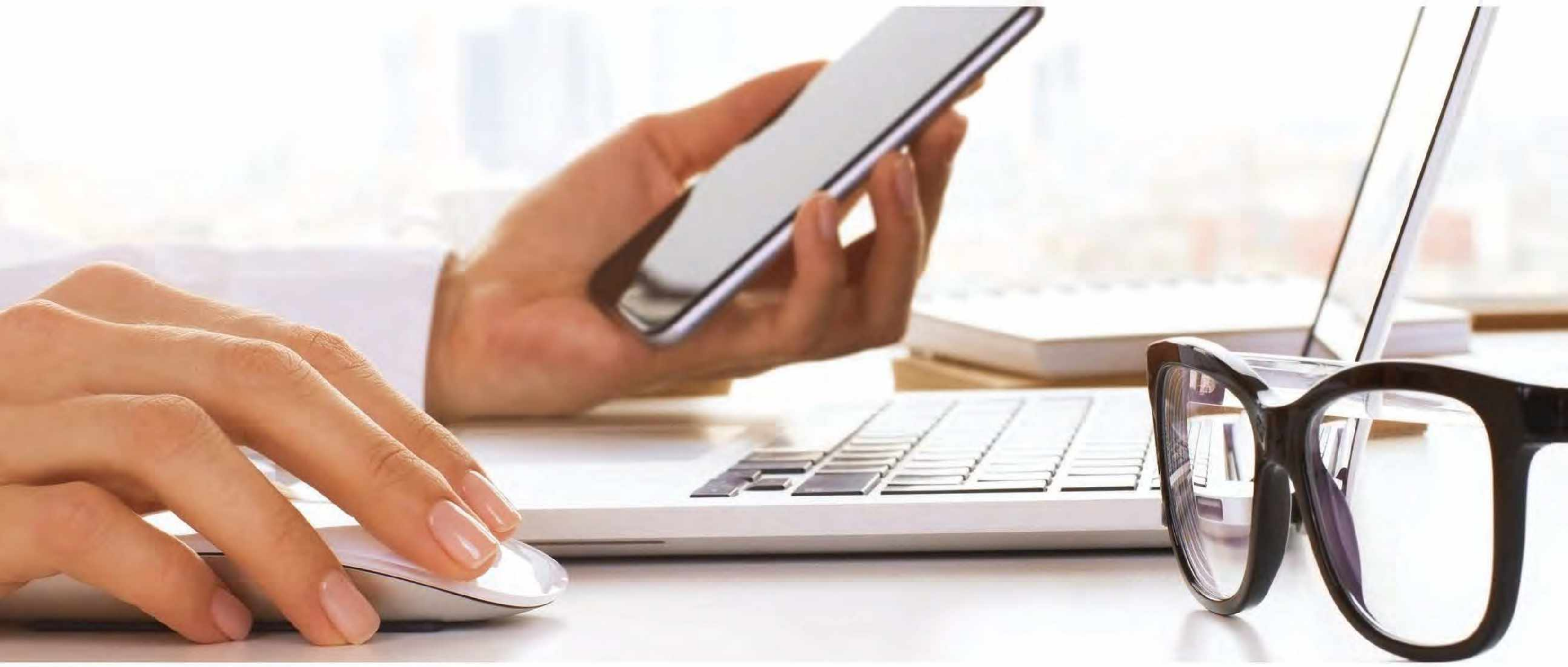
You will have a clear picture of your company's financial health

If you don't have an accurate handle on your business income and expenses, how do you know if you're actually making a profit?

Monitoring cash in and cash out can help you make better decisions. Conducting monthly bank reconciliation allows you to catch any anomalies with your finances before it's too late. By October or November, take a preliminary look at your potential year end and, if possible, put some of next year's expenses into the current year and delay income to next year to reduce your tax burden.

Plus, when it comes time to sell your business or secure capital to grow your business, being able to thoroughly document your past performance will help your company's valuation.

We make life less taxing®



FBC MEMBERSHIP

Tax Preparation
We'll come to you to complete your tax return at a time convenient for you

Tax Planning
All Members have a personalized tax plan to maximize tax savings today and over the long run

Tax Consultation
We understand that business questions may arise at any point in the year, not just at tax time. Unlike other firms, FBC Membership includes year-round access to our team of experts at no extra cost

Audit Representation
We provide audit representation on any challenges to your returns for income tax or GST/HST

QUESTIONS?

Call us at 1-800-265-1002, ask a question on our live chat at www.fbc.ca, or email us at fbc@fbc.ca.

FBC delivers more value to farm owners, agricultural producers, self-employed contractors and small businesses than the traditional accounting approach through our industry leading, year-round membership model.