10 TAX TIPS

For Small Business Owners

FBC We make life less taxing®

ABOUT FBC

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 over 65 years. Our people are at the heart of our business, and at the heart of the communities we serve.

We're not just experts in tax preparation and financial planning. We have an entire portfolio of back office support services that help small business owners save time, improve operations, make better decisions and hold on to more of their money.

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 tried-and-true strategies that we use to help our small business Members identify tax savings and optimize tax returns.

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This material is provided for educational purposes only.
Always consult a tax professional like FBC regarding your specific tax situation.

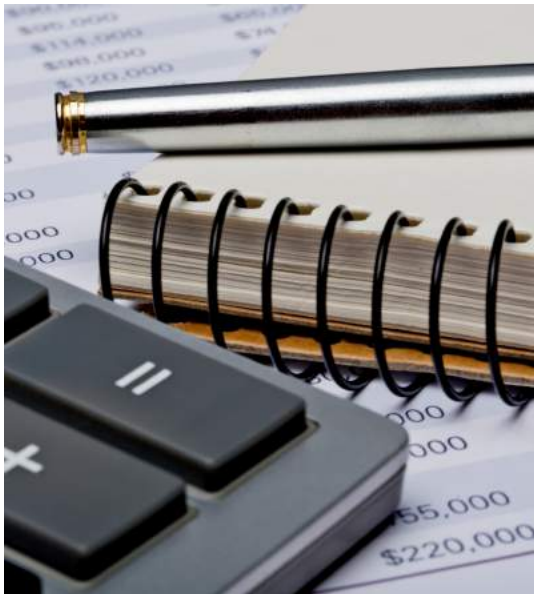
1 Keep Business and Personal Accounts Separate

It's easy to lose track of cash transactions. Instead, use a credit card or debit card to cross-check your receipts.

It's a good idea to have a separate business account and credit card so you don't mix personal and business expenses.

As a bonus, if all transactions are business related, you can claim any associated expenses with that card or account. For example, the annual fee on a points card, or the interest from a balance carried from one month to the next, can be claimed if all transactions are business related.

2 Keep Good Records



If you're self-employed or a small business owner, you are required by law to keep a record of your transactions. If you keep good records, you will avoid Canada Revenue Agency (CRA) fines in the event of an audit. Plus, putting in the work now means you'll save time when it comes to filing your taxes.

Here are five easy ways to organize your receipts:

1. Save Your Receipts

The CRA won't accept your bank or credit card statements to justify deductible business expenses - you need an itemized receipt that corresponds with the transaction. Hang on to those receipts for at least six years after your last Notice of Assessment, which is as far back as the CRA will ask to see them in the event of an audit. You can keep the physical receipts or digital copies.

2. Spend time reviewing your receipts once a month

Sit down for 30 minutes every month to review and categorize your receipts. This keeps things manageable as the year progresses and keeps you on top of your spending, so you don't miss out on any tax deductions. Purchase an accordion folder every year to house all business receipts. These inexpensive folders are easy to obtain and allow you to organize your receipts by category and year, so finding a specific receipt is a snap in the future.

2 Keep Good Records (continued)

3. Back Up Your Receipts

Since receipts tend to fade with time, we recommend you keep a digital copy of each receipt. A good practice is to snap a picture of each receipt on your phone which you can upload to a central location later.

4. Go Digital

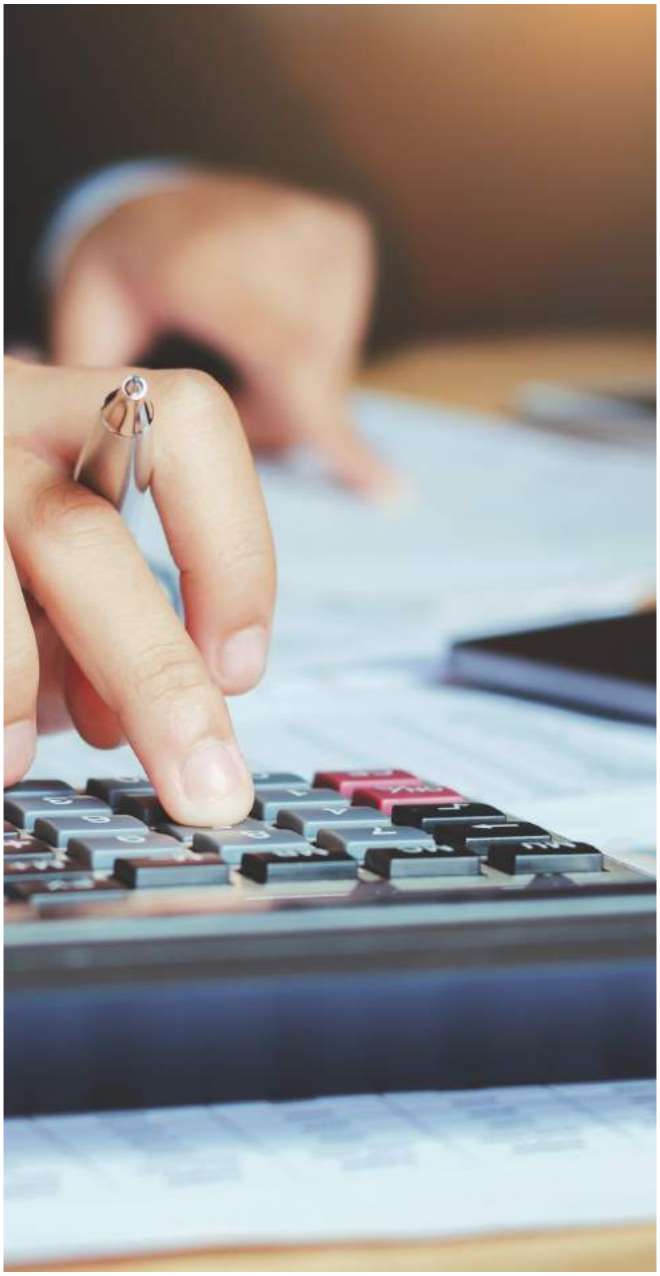
Software like Kashoo allows you to take a picture and digitize the receipt on the spot, then you can throw the hard copy in the accordion folder. If you only need to track expenses, Mint.com is a good option, and it's free.

5. Get Ahead of Tax Season

Our own app, FBC Tax Advantage, is a free app that’s part of our Membership model and gives you the ability to track, manage and store your tax slips, medical expenses and charitable donation receipts.

Throughout the year, you can "snap, save and forget about it", since FBC will attach the receipts to your tax file and take care of it for you.

3 Don't Miss Any Tax Deductions



Commonly Missed Tax Deductions

- Accounting, bookkeeping and tax preparation fees
- Branded charitable donations
- Business expenses like a landline, cellphone or internet
- Home office expenses, including utilities, house insurance, repairs, property taxes and mortgage interest
- Charitable donations made to a registered Canadian charity through your business
- Interest charged on your mortgage, business loans or credit cards may be tax deductible
- Vehicle costs like licence and registration fees, fuel and oil, insurance, maintenance and repairs
- Employee salaries and benefits

4 Top up your TFSA each year

In 2019, the Tax-Free Savings Account (TFSA) contribution limit was increased to $6,000.

If you're making less income one year, it's a great option since there's no penalty if you withdraw from the account.

The investment income in the account, and capital appreciation from stocks and bonds, is also tax-free.

5 Plan Your RRSP Contribution

When you have higher income, consider contributing to a Registered Retirement Savings Plan (RRSP), since contributions are tax deductible. That will help bring down your taxable income.

6 Take Advantage of a Spousal RRSP

If your spouse is earning less money than you are, the spousal RRSP will help even out retirement savings for the both of you.

If you have a lot of money in your RRSP when you retire, and your spouse has less, you'll be paying more income tax since you are in a higher tax bracket. If you even it out, less tax is paid on the same income when you retire.

7 Know When to Incorporate

It can be financially beneficial to incorporate depending on your circumstances. Here are a few milestones in your business that could trigger incorporating:

1. The benefits of incorporation outweigh the costs of incorporation and filing a separate tax return.

2. Your business is earning more money than you need to live. You could reinvest surplus profit into the business, allowing you to defer personal taxes on withdrawals.

3. There is an opportunity to reinvest large portions of profits into capital expansion. An incorporated business will allow you to shield the non-tax-deductible portion used to purchase capital assets from higher rates of tax.

4. The debt servicing of the business demands a large portion of profits. This strategy will allow you to shield a portion of profits used to repay principal from higher rates of tax.

5. You want greater flexibility upon the closure or sale of the business. In the event of asset liquidation when wrapping up the business, corporate tax rates are more preferable than graduated marginal personal rates.

Talk to a tax professional to figure out if incorporation is right for you.

7 Know When to Incorporate (continued)

Benefits of incorporation

- Because an incorporated business is a separate entity, you are not personally responsible for debts, obligations or other acts of the corporation (talk to your tax professional about exceptions)
- Corporations are taxed at a lower rate. For Canadian-controlled private corporations claiming the Small Business Deduction, the net tax rate is 9% (2019)
- The business has extended life
- There are more opportunities to raise capital
- You can use the lifetime capital gains exemption if you have capital gains arising from the disposition of certain properties (small business corporation shares and qualified farm and fishing properties) and meet certain conditions - the exemption could spare you from paying taxes on some or all of it

8 Know the Difference Between Employee and Contractor Work

Small business owners can save on their taxes and avoid administrative work by hiring contractors rather than employees. However, it's important to know the differences between how to treat contractors and employees. If a contractor decides to argue they are an employee, the CRA may later hit you with unpaid taxes, penalties, interest, CPP and EI premiums.

We recommend having a written agreement setting out the intentions of both parties that offers some protection if a contractor changes their mind and argues that they are an employee. Here are some key differences:

1. Contractors Set Their Terms

Contractors decide how and when to perform the required work. They don't have anyone overseeing their activities and they're free to work when, and for whom they choose, and may provide his or her services to different payers at the same time. And ultimately, they can accept or refuse work from you.

2. Contractors Assume the Financial Risk

Employees don't assume any financial risk and their expenses are reimbursed. However, a contractor has no guarantee of steady income and may either make a profit or incur a loss. Their income depends on the value and results of their contracts.

3. Contractors are not Dependent on Your Business

When contractors earn the majority of their income from one client, the CRA could perceive the relationship as an employer-employee one. The contractor should have several contracts in place with many different clients, and only earn a fraction of their total revenues from your business.

If you're unsure about how to treat your workers and want to avoid any trouble with the CRA, speak to a tax consultant.

9 Consider a Health Spending Account

A Health Spending Account (HSA) is a tax-free account for eligible health care expenses, which means it's a win-win for you and your employees.

It can fit into your existing insurance plan to pay for things not covered (or partially covered), or it can be a stand-alone solution by providing you (and your employees) a reimbursement plan for most health and dental expenses.

You are suitable for an HSA if you:

1. Own a business
2. Pay medical bills
3. Pay income tax/receive T4 income

How Does an HSA Work?

Using an HSA begins when the employee makes a purchase or has a partially paid expense by another insurance plan. The HSA provider then coordinates the process from receipt of the employee's claim to funding the reimbursement (up to the appropriate limit as set by your business).

Once the claim has been processed, your company receives an invoice for the service (submitted expense plus an administrative fee) as a business expense and the employee receives the reimbursement tax free.

10 Always file a tax return and file on time

You can access money under various government programs only by filing a return.

For example, if you want to claim the GST, HST credit or Canada Child Benefit, the net income declared on your tax return determines the amount you receive.

Always file on time - the sooner you file, the sooner you get your refund.

The CRA starts charging compound daily interest the day after the tax filing deadline. If you file your taxes late, you'll have to pay a penalty of 5% of the balance owed plus 1% for each month you are late, to a maximum of 12 months.

If you are late multiple years, the penalty can increase to 10% plus 2% for each month your return is late, to a maximum of 20 months.

If you're incorporated and paying installments, there is installment interest, along with penalties.

CONTACT FBC

Questions or concerns?

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 small businesses than the traditional accounting approach through our industry leading, year-round Membership model.

FBC 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