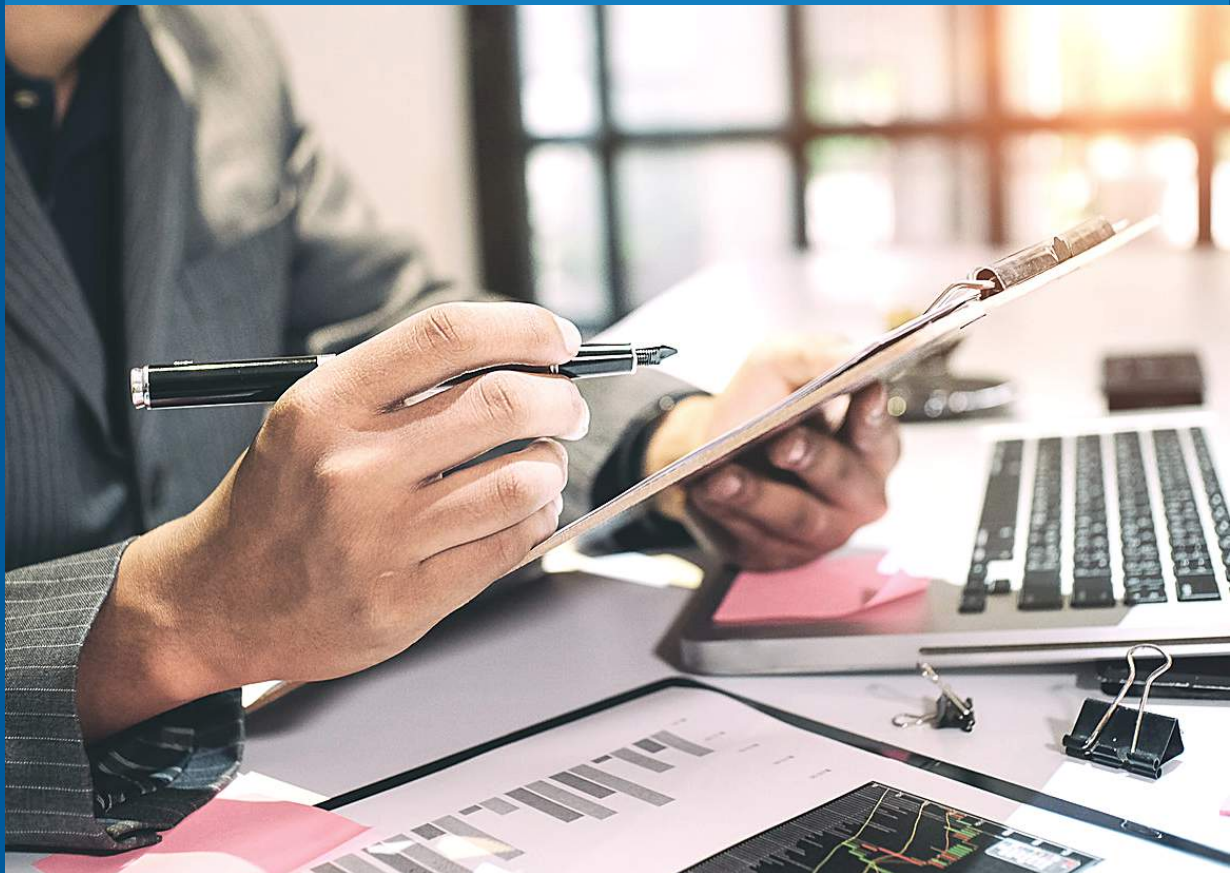




7 BIG MISTAKES SMALL BUSINESS OWNERS MAKE AT TAX TIME



UPDATED 2019




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.


Disclaimer: This material is provided for educational and informational purposes only. Always consult a tax professional like FBC regarding your specific tax situation. © FBC 2019

A woman with brown hair, smiling, wearing a denim shirt and a black apron, stands next to a window with a dark frame. A small sign with the letter 'N' is visible on the window frame. The background is dark and out of focus.

**AS A SMALL BUSINESS
OWNER, YOU'RE BUSY
DOING WHAT YOU DO
BEST - WORKING ON
YOUR BUSINESS.
YOU DON'T HAVE TIME TO
BE A TAX EXPERT TOO!**

**Avoid these 7 mistakes and you can
ensure you're paying the least amount
of tax and keeping more of your hard
earned money.**





MISTAKE 1

OVERLOOKING TAX DEDUCTIONS

If you're self-employed or a small business owner, you know how quickly business expenses can add up. There are plenty of tax deductions you can take advantage of to lower your taxes:

ACCOUNTING FEES

Fees for accounting, bookkeeping, tax preparation and finances can be deducted.

BUSINESS ADVERTISING AND PROMOTIONAL EXPENSES

Some of these expenses include online advertising, advertising on Canadian radio and television stations and Canadian newspapers and magazines, as well as promotional materials like business cards and pamphlets.

BUSINESS EXPENSES

If you use a landline or cellphone and internet for your business, you can deduct the cost, along with office supplies.

BUSINESS TAX, DUES, FEES AND INSURANCE

Business taxes, yearly union dues or fees for memberships can be claimed.



MISTAKE 1

OVERLOOKING TAX DEDUCTIONS

Continued

BUSINESS USE OF HOME

If you work from home, you're eligible for tax deductions on home office expenses, including utilities, house insurance, repairs, property taxes and mortgage interest.

BAD DEBTS

If you are owed money from a client but are unable to collect it within a year, you may be able to claim it.

CHARITABLE DONATIONS

If you receive a receipt, you can write off any donations made to a registered Canadian charity through your business.

INTEREST

The interest charged on your mortgage, business loans or credit cards may be tax deductible.



MISTAKE 1

OVERLOOKING TAX DEDUCTIONS

Continued

MEALS AND ENTERTAINMENT

You can deduct 50 per cent of your total meal and entertainment expenses for business purposes.

VEHICLE

If you're self-employed and use your car for business-related activities, you can deduct a portion of your licence and registration fees, fuel and oil costs, insurance, maintenance and repairs and leasing costs.



MISTAKE 2

FORGETTING TO GIVE CREDIT WHERE CREDIT IS DUE

There are tax credits you can take advantage of as a small business owner, including:

INVESTMENT CREDIT

You may be able to claim tax credits if you invested in your small business, buying machinery, equipment, or new buildings.

What if you could have taken advantage of investment tax credits, but forgot to? You can claim unused investment credits from the previous 20 years on your current year's taxes.

APPRENTICESHIP JOB CREATION TAX CREDIT

If you own a small business that has hired an apprentice, you can claim 10% of their wages, up to a maximum of \$2,000 per eligible employee.

An eligible apprentice is someone who works for you in a qualifying trade in the first two years of their field of expertise. Any unused credit can be carried back three years and carried forward 20 years (to help offset larger tax bills).



MISTAKE 2

FORGETTING TO GIVE CREDIT WHERE CREDIT IS DUE

Continued

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT PROGRAM (SR&ED)

This program encourages Canadian businesses to conduct research and development by providing cash refunds and/or tax credits for your research and development expenditures.

You can pool your SR&ED expenditures and deduct them against your current-year income or keep them and deduct them in a future year. You can also earn the SR&ED investment tax credit (ITC) and use it to reduce your income tax payable. In some cases, the CRA will refund the remaining ITC.

If your SR&ED work is eligible, your investment tax credit will be at least 15% and can be as much as 35% of qualified SR&ED expenditures. If you have any unused ITCs, you can carry them back three years or forward 20 years and apply them against tax payable for other years.



MISTAKE 2

FORGETTING TO GIVE CREDIT WHERE CREDIT IS DUE

Continued

INPUT TAX CREDIT

If your small business claims goods and services tax/harmonized sales tax (GST/HST), you may be able to recover GST/HST paid or payable on purchases and expenses related to your business, by claiming input tax credits.

If you own a business and buy supplies for it, you can claim the entire amount of GST paid for those items.

MISTAKE 3

MISSING FILING DEADLINES, OR NOT FILING AT ALL

Surprisingly, many small business owners fail to file a tax return, or file after the deadline.

Apart from catching unwanted attention from the CRA, not filing a tax return means losing out on some financial benefits. 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. Also, your tax return creates the contribution room in your RRSP. Plus, you'll avoid interest and penalties from the CRA by filing on time.

We've outlined some important dates to be aware of:

INDIVIDUAL TAX DEADLINE

The tax deadline is officially April 30th. But the actual day of the week differs from year to year, as sometimes it's on a weekday while other years it's on a weekend. In cases where the deadline is on a weekend, payments are considered on time if the government receives it the next business day.

For example, if the deadline is on a Saturday, the government will accept the money it's owed on Monday without penalty.

MISTAKE 3

MISSING FILING DEADLINES, OR NOT FILING AT ALL

Continued

DEADLINE FOR SELF-EMPLOYED INDIVIDUALS

As a small business owner, you and your spouse have until June 15th each year to file your individual tax returns. However, although you have extra time to file, if you have taxes owing it must be paid by the April 30th deadline to avoid any interest and penalties.

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.



MISTAKE 3

MISSING FILING DEADLINES, OR NOT FILING AT ALL

Continued

INCORPORATED BUSINESS TAX DEADLINE

One of the requirements of a corporation, rather than a sole proprietorship or partnership, is to pay corporate income taxes.

If a corporation has a balance that it still needs to pay, business owners have until 2 months after the end of their fiscal tax year to pay it off.

There are some exceptions to this rule.

Canadian-controlled private corporations with annual business income less than \$500,000 may have up to three months rather than two, provided they meet the eligibility criteria.

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



MISTAKE 4

MIXING PERSONAL & BUSINESS FINANCES

It's crucial to keep your business finances and home finances separate for the following reasons:

- If you're mixing personal and business finances, it could lead to overlooking a legitimate business expense
- If you're at a shop picking up supplies for your home and your business, and you don't put them on separate accounts, it can be easy to lose track of expenses for home and business.
- Come tax time, it's a time-consuming process to go through your expenses and identify which are personal expenses and which are business expenses.
- You might accidentally claim a personal expense as a business deduction, and if your business is audited, the burden of proof is on you to prove your business expenses
- It makes it easier for your tax professional to prepare your taxes if you keep them separate, and you'll save a lot of time if you're filing your own taxes



MISTAKE 4

MIXING PERSONAL & BUSINESS FINANCES

Continued

Here are some easy tips and tricks to keeping those finances separate:

HAVE A SEPARATE BUSINESS ACCOUNT

If you're only using your business debit account for your business expenses, it's easy to review your bank statements come tax time.

HAVE AN ORGANIZATIONAL SYSTEM IN PLACE FOR YOUR BUSINESS RECEIPTS

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. You can also go digital and snap pictures of your receipts on the go, and upload to a central location later.



MISTAKE 4

MIXING PERSONAL & BUSINESS FINANCES

Continued

HAVE A SEPARATE CREDIT CARD FOR YOUR BUSINESS

You'll build up a credit history for your business that isn't tied to your personal credit history, be able to cross-check your credit card statements with your receipts, and 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 the transactions are business related.

KEEP A CALENDAR AND LOGBOOK

Make notes in your calendar about business expenses and events so you can cross-check them in case you're audited. If you use your car for business trips, keep track of mileage through a logbook or app, since you can only deduct part of your car expenses for business.



MISTAKE 5

NEGLECTING TO MAKE TAX-SAVVY INVESTMENTS

Save on your tax bill by taking advantage of the following investments:

REGISTERED RETIREMENT SAVINGS PLAN (RRSP)

The money you place in your RRSP is sheltered from tax until you withdraw it, your contributions are tax deductible, and if you withdraw the money in retirement, you'll likely be in a lower income bracket - and be taxed less on the income.

TAX-FREE SAVINGS ACCOUNT (TFSA)

In 2019, the amount you can put into a tax-free savings account (TFSA) each year was increased to \$6,000. It's a good strategy to max it out every year since you don't pay interest on any return earned in the TFSA, and there are no tax consequences for withdrawing from it. Since you can take out the money at anytime, it has a lot more flexibility than an RRSP.



MISTAKE 5

NEGLECTING TO MAKE TAX-SAVVY INVESTMENTS

Continued

REGISTERED EDUCATION SAVINGS PLAN (RESP)

If you have children and grandchildren, the RESP is a great way to put away money for their education.

For every contribution to the RESP of a child up to 18, the federal government will contribute at least 20% to an annual limit of \$500 through the Canada Education Savings Grant (CESG). The maximum lifetime CESG is \$7,200 per child.

While contributions to a RESP are not tax-deductible, the income it generates accumulates tax-free.

And when your child uses the funds, the income is considered your child's income and is taxed at his or her low tax rate.

QUICK TAX-SAVING TIP

Time the triggering of capital gains and capital losses of your unsheltered investments to reduce your overall tax burden. If you have capital gains and capital losses in the same year, you must use them to offset the capital gain. But if you only have a capital loss, you can carry it forward to offset future capital gains. Talk to a tax professional to find out if this strategy will work for you, and the proper way to carry it out.



MISTAKE 6

FAILING TO LET FAMILY LEND A HAND

Running a small business requires the support and understanding of your family. But did you know that your family can also lend a hand by helping lower your tax burden?

You may have heard that the Income Tax Act has attribution rules that prevent Canadians from income splitting.

If you gift your spouse part of your income, the CRA will still attribute it back to you and you'll be taxed at the higher rate. However, there are exceptions to the attribution rules where you can use income splitting to your advantage and grow your family wealth. Below we outline four strategies you can use to make income splitting work for you.



MISTAKE 6

FAILING TO LET FAMILY LEND A HAND

Continued

LEND MONEY TO YOUR SPOUSE

You can loan money to your spouse if you follow these rules:

- It must be an interest-bearing loan
- The interest needs to match the prescribed rate set by the CRA at the time the loan is made
- Your spouse must pay the interest by January 30th of the following year

The prescribed rate set by the CRA remains fixed for the term of the loan, so if your investment has expected returns higher than the prescribed interest rate, it will be a good way to help bring down your taxable income. Any return is taxed at your spouse's lower rate. Plus, the loan interest expense can be deducted by your spouse. The prescribed rate is set quarterly by the CRA - right now it's a very low 2%.



MISTAKE 6

FAILING TO LET FAMILY LEND A HAND

Continued

SPLIT PENSION INCOME

If you're 65 years or older, you can split up to 50% of eligible pension income with your spouse.

Eligible pension income includes:

- Lifetime annuity payments under a registered pension plan
- Registered retirement savings plan (RRSP)
- Deferred profit-sharing plan
- Payments from a registered retirement income fund (RRIF)

While you'll still receive the actual income, you can split it on your tax return to lower your tax payable.



MISTAKE 6

FAILING TO LET FAMILY LEND A HAND

Continued

MAKE CONTRIBUTIONS TO A SPOUSAL RRSP

If your spouse is earning less money than you are, and there's a good chance they'll have less income in retirement, the spousal RRSP will help even out retirement savings for the both of you. Contribute to the plan every year, and when your spouse withdraws the money in retirement, they'll pay the tax on the withdrawals at their lower tax rate.

Any income earned on the RRSP is tax-sheltered, and when the funds are turned into an annuity or RRIF, the payments are income to your spouse.



MISTAKE 6

FAILING TO LET FAMILY LEND A HAND

Continued

MAX OUT YOUR TFSAS

If you max out your own contribution, you can also max out your spouse's TFSA - it's tax-free so attribution doesn't matter in this case. The funds in your spouse's TFSA can be invested on a tax-free basis.

Compounded interest will make the money grow over time, so it can have a significant impact on building your family wealth.



MISTAKE 7

NOT HIRING A TAX SPECIALIST

A tax specialist will keep your books and records in order, track your progress and compare past and present financial positions, plan and forecast future financial positions and provide information to make sound business decisions. Here are 7 reasons to hire a tax specialist:

- They'll keep on top of filing tax returns so you avoid penalties and interest, and stay up-to-date with tax rules and regulations so you receive all the credits you're entitled to.
- A tax specialist will give you an overview of your financial situation and provide long-term tax planning that will reduce your yearly tax bill.
- A tax specialist and bookkeeper can help you manage the day-to-day tasks of record keeping so you can focus on the tasks that make you money.
- They will provide professional financial statements if you need financing.



MISTAKE 7

NOT HIRING A TAX SPECIALIST

Continued

- If you are audited by the CRA, a tax specialist can represent you so that you don't have to take time away from your business to deal with the audit process.
- They will help you prepare for major life changes like marriage, divorce, having children, retirement and death and make sure your taxes and investments are optimized for the change.
- A tax accountant and bookkeeper can help you find balance and handle time-consuming tasks that free up your time to build your business.



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.

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