

3 Tax Tips for Small Business Owners



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Every small business is different.

Talk to your Assante advisor today to discuss what deductions you might be eligible for, the best salary/dividend mix for you, and any other tax questions you may have about structuring your business tax-efficiently.

TAX TIP #1

Balance Dividend/Salary Mix

As a small business owner, you are entitled to pay yourself from your business as salary or dividends. How you draw from your business will depend on its unique structure.

Salary



With salary, you will have a consistent personal income which will make it easier to obtain bank loans or a mortgage. Paying yourself this way, you will also pay into CPP and make RRSP contributions for your retirement.

Dividends



You may want to pay dividends to take advantage of a lower tax rate - because dividends are considered investment income rather than personal income. Paying in dividends also means avoiding involuntary retirement contributions, giving your business a more flexible cash flow.

TAX TIP #2

Know your eligible expenses

There are many tax deductions available to small businesses for yearly expenses incurred. Various criteria need to be met to claim these expenses, but here are a few of the big ones to be aware of.

Home office expenses



If you work primarily out of a home office, you can deduct a portion of your home expenses that relate directly to operating your business. The percentage that you can claim is based on the size of your office in relation to the square footage of your home. For example, if your office takes up 10% of your house, you can deduct 10% of home expenses as business expenses. This could include things like utilities, home insurance, mortgage interest, and property taxes.

Advertising expenses



You can claim things like online and print advertising and the creation of promotional materials like business cards and brochures as business expenses.

Bad debts



Bad debts are expenses incurred when a customer has not paid for services rendered and you are unable to collect the amount due.

Travel/vehicle expenses



Cost of taxis, plane tickets, and accommodations can be claimed when used strictly for business purposes. If you use your own vehicle for business travel, you can claim fuel and oil, insurance and lease payments, parking fees and tolls, repairs and maintenance, and registration fees. The amount you can claim would be a percentage of your total mileage. CRA requires a detailed record of your vehicle use for both business and personal purposes.

Salaries/wages



You can claim your employees' gross salaries as a business expense. If you match CPP contributions, EI premiums, and pay employee benefits, those are tax deductible too.

Meals/entertainment



As a small business, you can claim 50% of the total amount spent on meals and entertainment relating to the business, with receipts. You may be entitled to claim 100% for staff events, up to six per year.

Property tax/rent expenses



You can claim the taxes on your business building and rent expenses for rented office space. CRA will require your rent receipts and a copy of the lease agreement.

Donations



The full value of any donations your business makes to registered Canadian charities are tax deductible.

TAX TIP #3

Collect receipts for business-related activities

Knowing which business expenses are eligible for tax deductions is important, but it's imperative to keep records and receipts for all business expenses as well.

Keep your Receipts



All of them. Every single one. CRA won't accept credit card or bank statements as proof of business expense without the receipt in the case of an audit.

Seven Years



Keep your business receipts for at least seven years after your last Notice of Assessment, because CRA can go back that far in an audit.

Make Digital Copies



Making digital copies of paper receipts is good business practice as paper receipts tend to fade after a couple of years. Physical receipts or digital copies are acceptable.



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