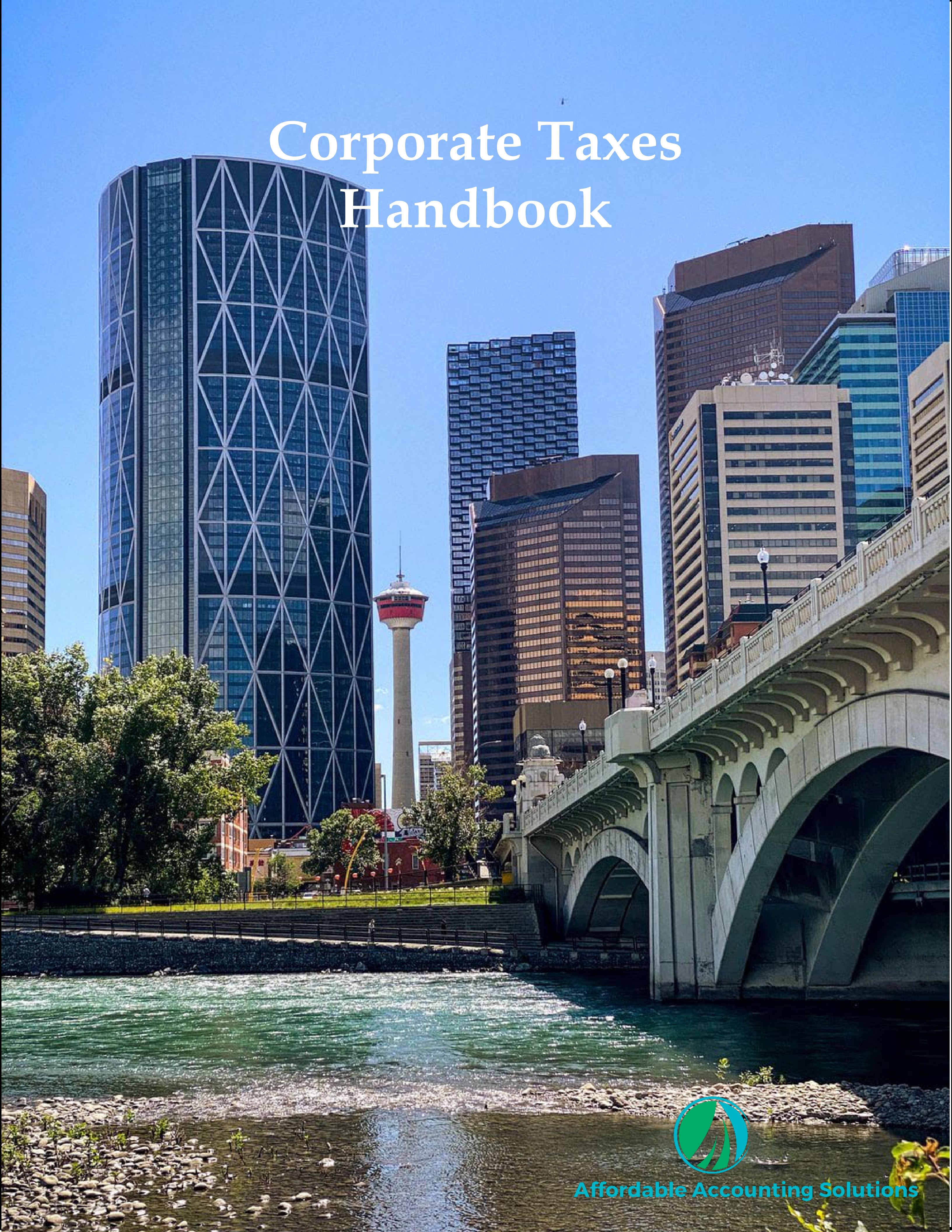
Corporate Taxes Handbook



Affordable Accounting Solutions

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1. Canada and Alberta

Canada is one of the most attractive countries in the world for entrepreneurs and companies seeking opportunities to expand their business. The country offers a stable market and supportive government policies for business. Canada is also a leading center for innovation and entrepreneurship, making it an ideal place for entrepreneurs, both new and experienced, to start their new businesses. Whether you are starting your business from scratch or expanding your operations in an existing company, Canada offers numerous opportunities for success.

Alberta, one of Canada's provinces, is located in the western part of the country. The province is one of the most attractive regions for entrepreneurs from all over the world. The province is known for its strong economy, abundant natural resources, highly skilled workforce, and low taxes. Alberta is attractive to entrepreneurs due to its stable economy, primarily fueled by the oil and gas industry in North America, which contributes to the province having the highest per capita income levels in the country, with an overall employment rate of over 90%. In addition to a strong economy and favourable business environment, Alberta is also home to a young and highly educated population in the country. The province has strong universities and technical colleges in the cities of Edmonton and Calgary, which are home to approximately three million people. Starting companies will have no trouble finding qualified workers among the province's residents. The province has a good reputation for supporting businesses at the federal and provincial levels and is one of the top three economically potential regions of the 21st century.

2. Opening Corporation

To open a new corporation in Alberta, the owner(s) need to take several important steps:

1. It is necessary to determine the business structure of the company, whether it will be an entrepreneurial activity without creating a legal entity, or it will be a corporation. In Canada, legal entities conducting entrepreneurial activities are called corporations.

Depending on the type of ownership, some corporations are owned by the state - public corporations, which are owned by thousands of shareholder investors, and corporations that are the property of one or several individuals. Small corporations can also be federal, that is, registered in such a way that they can conduct business activities throughout the country, and provincial, where corporations can only operate within the province.

2. When registering a corporation, you will be given a unique number, in addition, to which you need to come up with a name for your corporation that you will use in the future to work with clients, advertise, issue invoices, and communicate with government agencies. To avoid confusion with other companies, it is better to register your unique name. If you are opening a federal corporation, the name of the company will also be registered at the federal level. In practice, the name of the company is often already used by someone else, so it is necessary to come up with at least three different names at your discretion.

3. You need to submit the founding documents for registration, which include a legal document called the Articles of Incorporation that describes the structure and purpose of your corporation, such as the number of shareholders and their percentage of ownership in the company, the industry, and types of work the company will engage in. Additionally, this document must define the director(s) of the corporation, which can be any authorized individuals representing the company before government agencies, including the shareholders themselves, their friends, or family members.

4. Obtain a Business Number (BN) - this is a unique taxpayer identification number that the Canada Revenue Agency (CRA) assigns to corporations operating in Canada. This number is required for filing your company's tax returns, and for registering your corporation in various federal and provincial programs. Your corporation also needs to register as a sales tax (GST) payer with the tax agency.

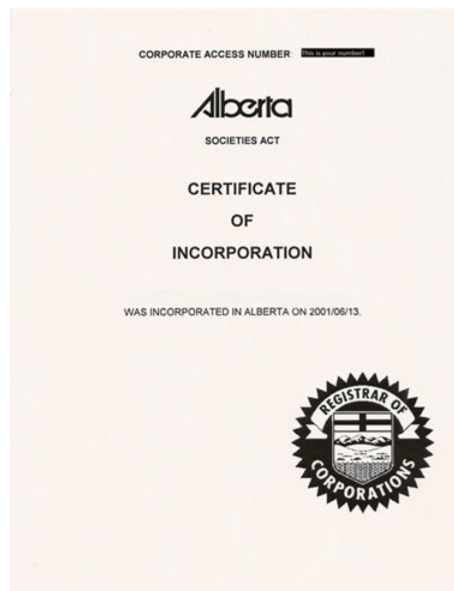
5. Obtain all necessary licenses and permits to conduct business from local licensing authorities and the government. For example, opening a restaurant serving alcoholic beverages will require a license from an organization that oversees this type of business.

6. Finally, it is necessary to familiarize yourself with the legal, accounting, and tax aspects of conducting business in the province.

It is also important to work with tax specialists and accountants who can help with all aspects of starting and running a business. **Affordable Accounting Solutions** will always be at your service in this exciting adventure.

To open a corporation, the shareholder owner needs to come to any registration office in the province of Alberta and fill out forms with the following information:

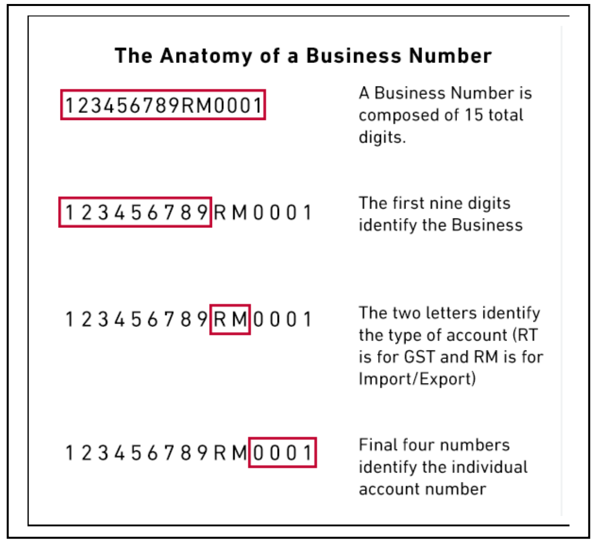
- Name and surname of the shareholder owner;
- Corporation name (or Alberta numbered corporation);
- Corporation address (owner's address);
- Names of the directors (shareholders) of the corporation;
- Type of shares to be issued (common, preferred);
- Percentage of shares for each shareholder to be assigned.



The approximate cost of registering a corporation at a registration office in the province is approximately $450.

After registering the company, the owner receives a document called **Articles of Incorporation** and a **Federal Business Number (BN)**. You will also receive a registration number in the province of Alberta and a **Corporate Access Number**, which can be found in the top right corner of the Certificate of Incorporation.

3. Corporate Business Number



Business Number (BN) is a unique nine-digit identifier that the Canada Revenue Agency (CRA) assigns to businesses and organizations in Canada for tax purposes. The BN is used to identify a business or organization when they interact with the CRA for tax-related activities, such as filing tax returns, making payments, or submitting tax-related forms. The Business Number consists of two parts: a unique nine-digit identifier and a program identifier.
The unique identifier is assigned to the business or organization upon registration of their tax account with the CRA, while the program identifier indicates the type of tax account that the business or organization has registered for. For example, the program identifier for a GST/HST account is "RT0001," and the program identifier for a payroll account is "RP0001."

To apply for a BN, a business or organization must register with the CRA. The registration process involves providing certain information, such as the legal name and mailing address, the type of business or organization, and the type of tax account being registered. Depending on the type of account being registered, the business or organization may also be required to provide additional information, such as the number of employees or sales volume. Once a business or organization has registered for a BN, it can use it to manage its tax obligations with the CRA. This includes filing tax returns, making payments, and applying for additional tax accounts as needed. The BN is an important identifier for businesses and organizations in Canada, as it is used by many federal and provincial government agencies in addition to the CRA, such as the Canada Border Services Agency (CBSA) and Employment and Social Development Canada.

To open a tax account with CRA, you will need to provide certain information such as your name or company name, address, and social insurance number or company number. You can manage your tax accounts online through the **My Business Account** or **My Account** CRA portals, as well as by phone, mail, or in-person at a CRA office. It is important to maintain accurate financial records and timely file and pay taxes to avoid penalties and interest.

4. Opening Bank Account

After obtaining the Certificate of Incorporation, it is necessary to visit a bank to open a corporate bank account. You will need to bring the Certificate of Incorporation and identification documents of the company directors (passport or driver's license). Below is information on banks and their services for corporations (as of January 2023):

Bank accounts for corporations with a low volume of transactions.

RBC Digital Choice Business Account

If you conduct most of your operations online and do not require the use of checks, this service will be suitable for novice entrepreneurs. The following service conditions apply:

- $5 monthly fee;
- Unlimited electronic deposits and withdrawals;
- No requirement to maintain a minimum balance on the account;
- $2.5 for each incoming and outgoing check;
- $5 for every $1000 deposited into the account through a teller at a branch;
- $2.25 for every $1000 deposited through an ATM.

RBC Flex Choice Business Account

If you want to expand your services, a more convenient plan is available:

- $6 monthly fee;
- Unlimited deposit accounts;
- $0.75 per electronic deposit;
- $1.25 per cash transaction;
- $2.5 per $1,000 deposit made in-branch;
- $2.25 per $1,000 deposit made at an ATM.

TD Basic Business Plan

- $5 monthly fee;
- 5 free transactions;
- 5 free deposits;
- $1.25 per transaction after the 5 free ones;
- $0.22 per deposit after the 5 free ones;
- $2.5 per $1000 deposit.

Scotiabank's Right Size Account for Business includes:

- A monthly fee of $6;
- 4 free transactions per month;
- A charge of $1 for each transaction after the first 4 free ones.

Scotiabank Basic Business Account:

- Monthly fee of $10.95;
- Fee waived with a minimum deposit balance of $8,000;
- 1 free transaction for every $1,500 deposit balance;
- $1.25 fee for each cheque deposit made in the branch;
- Transactions are available in Canadian and American dollars.

Accounts for corporations with a large number of transactions

If your company requires significantly more transaction volume in its banking services, the price of banking services can significantly increase. Most banks offer monthly servicing starting at $20 per month, which is more suitable for retailers or companies with average banking transaction volumes.

TD Everyday Business Account

This is one of the best service products for small businesses. For just $19 a month, you'll get 20 free transactions, 50 deposits, and up to $5,000 in cash deposits. This is a great offer that other banks don't provide. The next level of this service is $39 for 60 free transactions and $72 for 120 transactions per month.

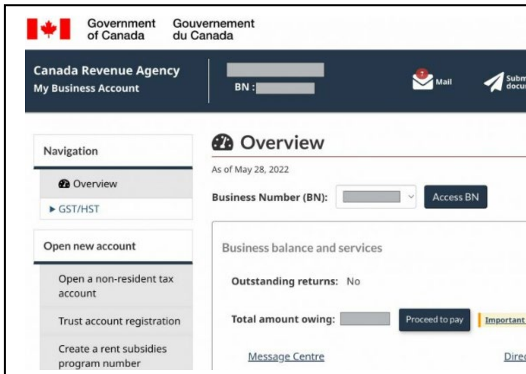
CIBC Unlimited Business Operating Account

As the name suggests, this service provides unlimited banking services for only $65 per month. Compared to other banking products where transactions are limited and the higher the transaction volume, the higher the cost of service, this product makes sense to purchase if you have consistently high transaction volumes.

RBC Ultimate Business Account

Finally, the most expensive product is offered at $100 per month, it covers an unlimited volume of operations and deposits, plus 100 cash transactions. The payment for monthly service is not deducted if the balance on the account remains at $75,000.

5. CRA Business Online Account



CRA My Business Account is an online portal provided by the Canada Revenue Agency (CRA) that allows businesses to manage their taxes and other obligations to the CRA. "My Business Account" is a secure and convenient way for businesses to access their information and transactions with the CRA, including account balances, tax transfers, and GST/HST reports. Through the "My Business" account, businesses can also apply for business numbers, register for tax programs, file returns, and make payments online. "My Business Account" provides real-time access to important information about a company's tax affairs, which allows for more effective and accurate tax management.

Moreover, CRA My Business Account allows authorized representatives of a business, such as accountants, to access information about the business on behalf of the owner, simplifying tax management for enterprises. Overall, CRA My Business Account is an important tool for any business operating in Canada, providing access to important information and services related to their tax obligations.

To open a CRA My Business account, you need to:

1. Go to the official website of the Canada Revenue Agency (CRA). https://www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses/business-account.html
2. Click on the "My Business Account" link located in the "Businesses" section on the homepage.
3. Click the "Register for a CRA user ID" button.
4. Follow the instructions on the page to create a CRA user ID and password.
5. After creating your user ID, you will be redirected to the "Log in to My Business Account" page.
6. Enter your CRA user ID and password, and then click "Log in".
7. Complete the registration process by providing the required information and verifying your identity.
8. Once your identity is verified, you will be able to access your CRA My Business account.

After completing the registration process, you will be able to access all the services and information related to your business in CRA through your 'My Business' account. It is important to keep your account information up-to-date and regularly monitor your account for any updates or changes. CRA may also use your 'My Business' account to communicate with you regarding your tax obligations.

6. Annual Reporting

As the owner of a corporation, it is necessary for you to annually report to government organizations such as Statistics Canada and the Canada Revenue Agency (CRA) by submitting informational returns to the Alberta Registry and tax returns to the tax administration (CRA). Failure to file with the Alberta Registry may result in the cancellation of your corporation's registration, and failure to file tax returns may result in tax debt and penalty sanctions.

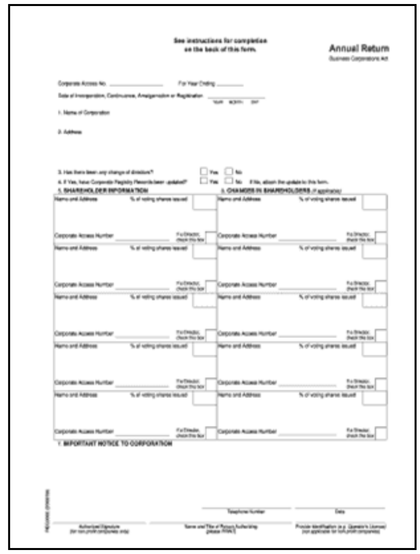
You can find a copy of the annual return form here:
https://amaabcainternal.blob.core.windows.net/2013/12/annual-return-form1.pdf"

To file a declaration, owners can personally apply to:

- The Registration Bureau and pay $85 for the service;
- Corporate lawyer and pay an average of $400;

- Corporate accountant and pay an average of $200;
- **Affordable Accounting Solutions** offers this service for only $85.

The untimely submission of a declaration or failure to file in the reporting year may result in the forced deregistration of the company, and if the owner wishes to return to registered status, it will cost **$300 plus** fees for previous years, if any. The Registration Bureau will issue a **Certificate of Reincorporation**, which should be sent to the tax agency to confirm the active status of the company. Owners receive annual reminders to conduct informational reporting for their corporations. It is **strongly recommended** to comply with corporate reporting rules.


Annual Return

7. Accounting Software

The owner of a corporation has the right to do their company's accounting themselves, use specialized accounting software, or use the services of an accountant or a CPA company. The cost of services provided by a CPA company can be several times higher than that of a simple accountant. However, the cost of your time is priceless. We, **Affordable Accounting Solutions**, aim to live up to our name and offer affordable prices for our services.

Computerized accounting programs, which we will discuss below, are often used by corporate owners and their accountants.

Sage 50 Cloud

www.sage.com/en-ca/products/sage-50cloud/

Sage 50 was created to meet the needs of small and medium-sized businesses and successfully allows users to address accounting tasks related to tax accounting for sales (GST/HST), invoicing, inventory and material management, analysis of expenses and revenues, financial reporting, and management of customer and supplier data. The system can be installed on the user's computer (Desktop), can be fully online (Cloud), and there is also the option to work through applications for iPhone and Android mobile phones.

The first Sage Business Cloud Accounting package is designed for novice entrepreneurs and contains the full functionality required by a small corporation for their daily accounting and financial management needs, from creating invoices to processing payroll and tax payments. The package costs $17, and the first 3 months can be obtained for just $4.25 per month, and a free trial of the program is available for 30 days.

For users who require more extensive inventory management capabilities for materials and finished products, cost analysis, project cost accounting, and complex budget analysis, a desktop version of Sage 50 Cloud Pro Accounting can be installed for $50.58 per month.

If your business is growing and there is a need to manage accounting for more than one corporation, for example, you can open a branch as a new corporation, there is a more advanced system - Sage 50 Cloud Premium Accounting, which already includes modules for tracking your employees' time, managing material purchases, tracking and storing materials, project budgeting, and financial reporting according to accounting standards for small corporations. This version costs $71.82 in the first year with the possibility of free use for the first 30 days."

Finally, for a mid-sized private corporation, there is a final version of Sage 50 Cloud Quantum Accounting available for $376.25 per month for 5 users (company director, financial director, chief accountant, and accountants). This version offers deep customization of accounting modules according to the conditions of your business, project management, protection of information for you and your counterparts; keeping track of employee records, salaries, taxes, and many other processes that exist in a successful mid-sized business.

QuickBooks online

www.quickbooks.intuit.com/ca

For the past 40 years, the main competitor of Sage 50 (Simply Accounting) has been Intuit with its product QuickBooks for accounting for small and medium-sized businesses in the United States and Canada. Historically, QuickBooks has become the primary accounting software for professional accounting and auditing firms in the United States and Canada, thanks to successful marketing: Intuit provided free licenses to professional firms, and now the majority of accountants work specifically with this family of products.

For beginner entrepreneurs, EasyStart is offered for $22 per month, and the version includes all the functionality necessary for running a small business in Canada. Starting from creating invoices and ending with the ability to keep track of personal vehicle usage.

The Essentials version adds functionality to support 3 concurrent users (director, chief accountant, and accountant), as well as the ability to work with foreign currencies and employee time tracking. The version costs $44 per month and is the basic option for small businesses.

The Plus version, which costs $66, already provides the ability to work with project accounting, materials and finished product management, budgeting, payroll, and taxes. This version is suitable for a more advanced business that requires at least one senior accountant on a full-time basis, or access to an external CPA accountant.

Finally, the Advanced version, which costs $140 per month, is designed for medium-sized businesses that are managed by a team of professional accountants and includes the most comprehensive functionality necessary for multi-level access by financial specialists.

What should you choose for your company? Be sure to consult with **Affordable Accounting Solutions**. Our specialists with experience in small business accounting will advise you on the optimal product for your needs and help set up the accounting system, teach you or your accountant how to work with it, and, if necessary, will maintain accounting for your company on an ongoing basis. All of this can be done in our office or remotely using *MS Teams* or *Zoom* software. There are other two dozen accounting programs for small businesses, some of which may well challenge Sage and QuickBooks in the market in the future, such as:

FreshBooks cloud accounting

ZOHO Books

xero

8. Minute Book

The **Minute Book** in a corporation is an official record of all important decisions, actions, and transactions that occur during meetings of the board of directors and shareholders of the corporation. The Book contains written records of these meetings, as well as other important documents such as articles of incorporation, bylaws, meeting minutes, shareholder resolutions, and any other important communications. The Minute Book is a legal requirement for corporations in Canada and must be kept at the corporation's registered office.

In addition, the Minute Book also contains important documents related to the company's financial reporting, such as the annual financial report, audit reports, and tax returns. The book also includes records of any changes in the corporate ownership structure, such as share transfers or the issuance of new shares. A Book is a critical tool for ensuring the corporation's compliance with legal and regulatory requirements, as well as ensuring transparency and accountability in the corporation's activities.

In Canada, corporations are required to maintain their Minute Book following the Canada Business Corporations Act (CBCA) and the applicable laws of the jurisdiction in which they are registered. The CBCA requires corporations to keep a Minute Book that is easily accessible for inspection by directors, shareholders, and other authorized parties. The Book must be kept up-to-date, and all entries must be made on time.

Improperly keeping corporate records can have serious consequences for corporations in Canada, including:

- <u>Legal and regulatory violations</u>: Failure to properly maintain the Minute Book can result in the corporation not complying with the legal requirements set out in the CBCA and other relevant legislation. This can lead to sanctions, fines, and other legal actions against the corporation.

- <u>Loss of trust</u>: Poor record-keeping can make it difficult for corporations to demonstrate their compliance with the law and their commitment to transparency and accountability. This can damage the corporation's reputation and undermine the trust of shareholders, creditors, and other stakeholders.

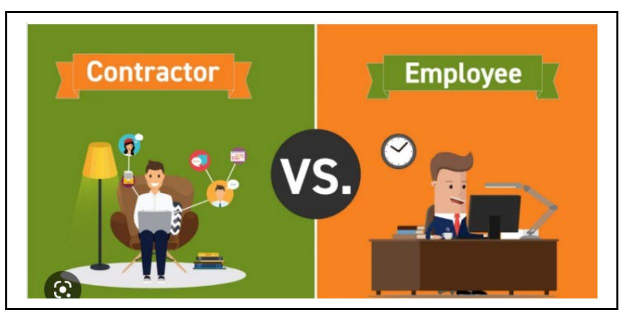
- Decision-making problems: a Minute Book is an important tool for decision-making in the corporation. Inaccurate maintenance of the Book can lead to the inability to easily access relevant information and make informed decisions.

- Legal proceedings: poor protocol keeping can lead to disputes among shareholders, directors, and other interested parties. This can result in costly and lengthy legal proceedings.

The cost of maintaining a Minute Book in Canada can vary depending on several factors, such as the size and complexity of the corporation, the number of registered meetings and transactions, and the services offered by the provider. Generally, corporations in Canada can expect to pay anywhere from **$100 to $500** or more for minutes-keeping services. The cost may be higher for larger corporations with more complex transactions and a greater volume of meeting minutes. Some minutes-keeping providers may offer packages that include additional services, such as registered office services, corporate seal creation services, and annual declaration filing services, which can increase the cost. It is important to note that although the expense of maintaining a minutes book may seem like an additional cost, it is an important investment in long-term success and compliance with corporate requirements. Proper record-keeping helps ensure corporate activities comply with the law, protects the interests of stakeholders, and minimizes the risk of legal violations.

Affordable Accounting Solutions has experience in preparing and maintaining the Minute Book for its clients and offers affordable services to new companies.

9. Hiring Personnel



After registering your company, the question will arise as to whether you will hire assistants or plan to work alone. Before deciding whom, you would like to hire, it is important to determine the organizational and legal structure for your assistants, namely whether you plan to hire someone for a permanent position or if you only need someone and their knowledge for a specific project. A permanent employee would be called a hired employee, while a temporary employee would be referred to as a contract worker or contractor.

Types of Employment Relationships

In Canada, there are differences between employees and contractors that determine the legal rights and obligations of each party. The main differences are based on the level of control the employer has over the work process of the hired person and the level of independence of the latter in their work schedule.

An **Employee** is a person hired by an employer to work for the company permanently. Such an employee is expected to perform work duties strictly following the guidance and instructions provided by the employer. Hired employees typically receive wages based on an hourly or weekly rate of work, and are entitled to vacation, sick leave, and insurance payments for illness or death.

A **Contractor** is a person hired to perform work while maintaining independence in their actions. The work of such a person is stipulated in a separate document, a contract, and is limited in time, sometimes for 3 months, a year, or until the completion of the project for which the worker is hired. A contractor is considered a fully independent person before the employer and does not have the same benefits as a permanent employee, such as a benefits package. However, the contractor is entitled to compensation for the lost benefits package, ranging from 30% to 80% of the hourly rate.

Legislation requires considering several factors when determining the organizational and legal form of employment:

- <u>Control</u> - the more control the employer has over the employee's work process, such as establishing a work schedule, the more likely the employee should be classified as a permanent employee.

- <u>Chance of profit or risk of loss</u> - an independent contractor has some influence on the ability to generate profit, such as payment for work completed.

- <u>Integration</u> - an employee performs processes that are integrated into the business, and business management is not possible without performing this process. <u>For example</u>, a baker must be a permanent employee of the bakery, as only a baker can create bread.

- <u>Tools</u> - who owns the tools to perform the work process? An independent contractor should work with their drill and saw.

Advantages of Employee Status:

- The employer pays into the unemployment fund (EI) on behalf of the employee. In the event of an involuntary termination of employment, the employee has the right to receive unemployment benefits for up to 50 weeks.

- The employer pays half of the employee's contributions to the government pension fund. When the employee retires, they will be entitled to a pension.

- The employer pays for vacation (4% of earnings), provincial medical contributions (free in Alberta), additional medical insurance (dentist, optometrist, physician), insurance for loss of ability to work, insurance against occupational illness and injury, and contributions to pension funds (group RRSP).

- The employer must pay the employee for overtime worked during their regular shift. For example, for the first 8 hours worked, the regular hourly rate is paid, and for the next 4 hours, the rate is 1.5 times the regular rate. There is no obligation to pay an independent contractor for overtime.

- Termination of the employment relationship between the employee and employer must be carried out in strict compliance with labour laws. For example, an employee cannot be fired for a disciplinary offence before the first written warning. An employee cannot be laid off and immediately replaced by another person in the same position.

- The employer must pay the employee severance pay upon layoff, equal to one week's pay for each year of service with the company. For example, 10 weeks of pay for 10 years of service with the company.

- The employee will receive a tax credit for their tax return under the Canada Employment credit.

The biggest **disadvantage** of being an employed worker is the deduction of higher taxes compared to if the worker were an independent contractor, as employed workers do not have the opportunity to deduct many work-related expenses. Independent contractors are allowed to deduct expenses from their taxable income and there is a chance for legal minimization of tax payments.

Advantages of a Contractor Employee

- Most expenses can be deducted from taxable income, such as expenses for gasoline and parking when travelling to a client for work.
- More freedom in the work schedule, work can be done when you want and can work.
- It is possible to work for multiple clients at the same time.
- Delay in tax payment - income taxes can be paid by April 30 of the following year.
- If the contractor is registered as a Goods and Services Tax (GST) payer, they may be able to claim back taxes under certain conditions.
- Generally, the pay for a contractor is several times higher than that for the same work as an employee.

Disadvantages of a Contractor Employee

- When terminating an employment contract, the employer is not obligated to pay severance pay. The contract can be terminated at any time without prior notice.
- The contractor must make double contributions for themselves as both the employer and the employee to the Canada Pension Plan.
- The contractor often needs to purchase materials, tools, and equipment at their own expense, which can be excluded from taxable income.
- The contractor must pay contributions to the unemployment fund (EI), and purchase disability and/or professional liability insurance themselves.
- In the case of deferred income tax payment, the contractor may have to make tax prepayments (instalments) in the future tax year, which is not very convenient, as they will always have an obligation to remit the prepayment before the deadlines stipulated by law. Failure to do so will result in penalty sanctions.
- The contractor may need to seek the assistance of an accounting company when filling out income tax declarations and other government forms.

- The contractor is at risk of having the CRA classify their business as a Personal Services Business and reject any expenses that reduce taxable income.

Request for CPP/EI Ruling

Why is it important to correctly determine an employee's legal status? Because if the employee is a permanent full-time worker, the company must keep track of their salary and make contributions to employment and pension funds on behalf of the employer, as well as contributions to these funds for the employee, plus income tax deductions. These responsibilities require additional money and accounting costs for payroll management. It is more beneficial for companies to classify employees as independent contractors, shifting all responsibility for contributions and tax payments to them. Employees also benefit from freedom of action and higher pay.

However, tax authorities (CRA) must ensure compliance with tax legislation, and the relationship between the Company and the Contractor often contradicts the laws. Therefore, CRA conducts audits of working relationships and may reject expenses for the contractor, obliging the employer and contractor to pay taxes and penalties. This is an extremely unpleasant situation, so it is important to approach employee definitions carefully and responsibly.

If you're unsure about the legal status of your employee and don't want to take any risks, you can contact the Canada Revenue Agency (CRA) through the **Rulings** process by completing a special form called ***CPT1, Request for CPP/EI Ruling - Employee or Self-Employed***, or by submitting a request through your **CRA Business Account**. The tax authority (CRA), upon receiving a request for a determination, will forward your file to an officer who will contact you as the employer and your employee in writing or by phone, and evaluate your working relationship. The CRA may request additional documents, such as payroll records, copies of the contract with the employee, and a detailed description of job duties. The determination will state whether the person is a permanent employee whose income is subject to unemployment and state pension insurance, or an independent temporary worker who is paid under contract without mandatory tax deductions.

10. Wages and Deductions

When hiring a permanent or temporary employee, you are required to pay their salary weekly or bi-weekly. You also need to determine payroll deductions and remit them to the government. Mandatory deductions from the salary are Income Tax, Canada Pension Plan, and Employment Insurance, which must be paid to the government no later than the 15th of the month following the reporting period.

To calculate salaries and deductions, you will need some time and access to the internet. You can use a paid service from companies that specialize in payroll, such as ADP, or use a payroll calculator if you already have a subscription for online accounting programs (Sage 50cloud, QuickBooks), or use the free CRA calculator.

Payroll, HR and Tax Services | ADP Canada Official Site
Payroll Deductions Online Calculator
Canada's Most Loved Payroll, HR and Benefits - PayEvo (paymentevolution.com)
Payworks - Payroll, HR, Employee Self Service, Time & Absence and More

Affordable Accounting Solutions offers payroll calculation services at the best prices.

When calculating the salary, it is necessary to take into account some nuances:

Canadian Pension (CPP)

You can officially employ your underage child from the age of 13 to 18, and children do not have to pay contributions to the Canadian Pension Plan. The first $3,500 of an employee's earnings are not subject to pension contributions, but for earnings between $3,500 and $64,900, a 5.7% contribution is required.

To calculate pension contributions, it is important to remember that employers must calculate contributions for themselves and an equivalent amount for the employee. The employer's contributions and the employee's deductions from their pay must be remitted to the government (CRA).

To calculate the contribution amount, take the employee's officially designated salary, subtract $3,500, multiply the remaining amount by the annual contribution percentage, and remember that the final contribution amount for an individual cannot exceed the maximum amount. Multiply the resulting figures by 2, and this will be the contribution to the Canadian Pension Plan for one employee.

Maximum earning amounts and contribution percentages are indexed annually and are provided below for reference in case you need to make contributions for previous years.

Year	Maximum Insurable Earning	Rate	Maximum Contribution for Employee / Employer	Maximum Contribution for Self-Employed Person
2023	66,600	5.95%	3,754.45	7,508.90
2022	64,900	5.70%	3,499.80	6,999.60
2021	61,600	5.45%	3,166.45	6,332.90
2020	58,700	5.25%	2,898.00	5,796.00
2019	57,400	5.10%	2,748.90	5,497.80

Employment Insurance (EI)

If you are the owner of a company, then you and your family members employed in the company are not required to pay contributions under the Employment Insurance program. Employers, regardless of whether they are individuals or corporations, are required to make deductions from the salaries of all employees, regardless of age or earnings. Employer contributions are 1.4 times higher than employee contributions in most cases. Self-employed individuals are eligible for unemployment insurance if they earn at least the minimum amount set by the program. Again, the contribution rates are indexed, so it is necessary to refer to the table provided below.

Year	Maximum Insurable Earnings	Employee Rate	Employee Maximum Deduction	Employer Rate	Employer Maximum Deduction	Self-Employed Person Rate	Self-Employed Person Minimum Earning
2023	61,500	1.63%	1,002.45	2.282%	1,403.43	1.63%	8,255
2022	60,300	1.58%	952.74	2.212%	1,333.84	1.58%	8,092
2021	56,300	1.58%	889.54	2.212%	1,245.36	1.58%	7,555
2020	54,200	1.58%	856.36	2.212%	1,198.90	1.58%	7,279
2019	53,100	1.62%	860.22	2.268%	1,204.31	1.62%	7,121

Income not subject to Employment Insurance:

- Income of an employee who owns more than 40% of the company's shares;
- Income from employment not formalized by a written or verbal agreement, if such work is not the employee's usual occupation;
- Income from employment resulting from the exchange of services or goods;

- Income from employment in a farm if the compensation is paid in goods, services, or money, but for less than 7 days in the tax year;
- Income from occasional work at exhibitions, parades, circuses, or other entertainment events, provided that the work lasts less than 7 days in a year;
- Income from any work that lasted less than 35 hours in the calendar year.

The calculation rules for Canadian Pension Plan (CPP) and Employment Insurance (EI) contributions have many exceptions, so it's important to avoid errors in calculations that could result in underpayment of contributions and possible penalties during CRA audits, or overpayment, which in turn leads to inefficient use of your company's financial resources. Therefore, it's more reasonable to entrust payroll calculations to accounting professionals.

Occupational Safety and Health

The Worker's Compensation Board (WCB) is a government agency that oversees workplace safety in Canada and administers compensation payments to workers who have been injured in a workplace accident or who have contracted an occupational disease. The goals of this organization are to support employers and employees in the area of workplace safety. Each province or territory in Canada has its WCB that is governed under provincial legislation and regulations. Every employer who provides work in hazardous industries or industries associated with risks to the life and health of workers is required to register with the WCB and pay insurance premiums.

- Registration: All employers in Alberta are required to register with the WCB and pay insurance premiums to cover their employees for workplace accidents and occupational diseases.

- Ensure workplace safety: Employers are required to provide a safe and healthy workplace for their employees and ensure that equipment and tools are in good working order and that materials are safe for employees to use.

- Reporting of injuries: Employers are required to report any workplace injuries sustained by their employees, as well as injuries that occur on the employer's premises, to the WCB as soon as possible and provide all information related to the employee's injury.

- Return to work: Employers are required to encourage and assist employees in returning to work after an injury or illness by providing light duties or reduced working hours while maintaining full pay.

- Cooperation with the Board: Employers are accountable to the WCB during the investigation or evaluation of an injury and are required to follow Board's procedures and recommendations.

- Record-keeping: Employers must keep accurate records of all workplace injuries, accidents, and illnesses and promptly provide these records to the Board upon request.

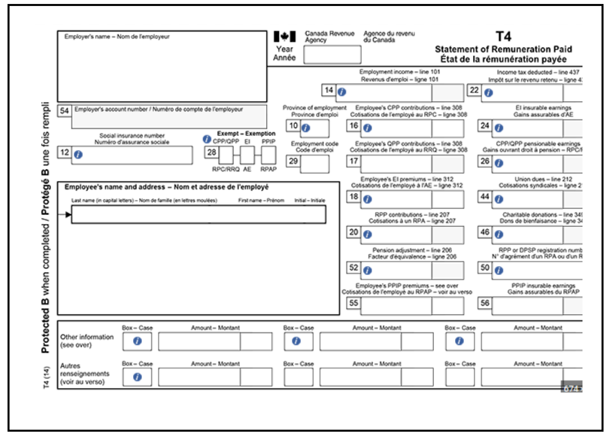
- Premiums: Employers are required to pay insurance premiums on time and inform the Board of any changes in the number of employees to avoid overpayment of premiums and penalty sanctions from the WCB.

- Training: Employers are required to provide periodic training and educational seminars on workplace safety to their employees to avoid injuries and accidents.

Employer contributions are premiums that employers pay for their employees' insurance in case of injury or illness in the workplace. The amount of the supplement that the employer pays depends on their industry classification and the size of the payroll fund. Contributions are used to finance the Board's activities and to pay benefits to injured workers. Employers are required to make contributions annually or quarterly, depending on the size of their payroll fund. Insurance contribution rates change every year and may vary depending on the Board's financial position and the level of benefits provided to injured workers.

The insurance contribution rate is reviewed and adjusted annually by the WCB, and employers may also be subject to rate adjustments if there is an exceptional level of claims against them. The contribution rate varies depending on the employer's industry, payroll, and claims history. The WCB also provides a range of services and support to employers to help reduce the number of accidents and injuries in the workplace, which in turn can help reduce their insurance contribution rate.

Statement of Remuneration T4


Canada Revenue Agency / Agence du revenu du Canada
Year / Année
T4
Statement of Remuneration Paid
État de la rémunération payée
Employer's name – Nom de l'employeur
54 Employer's account number / Numéro de compte de l'employeur
12 Social insurance number / Numéro d'assurance sociale
28 Exempt – Exemption: CPP/QPP, EI, PPIP / RPC/RRQ, AE, RPAP
Employee's name and address – Nom et adresse de l'employé
Last name (in capital letters) – Nom de famille (en lettres moulées) / First name – Prénom / Initial – Initiale
14 Employment income – line 101 / Revenus d'emploi – ligne 101
22 Income tax deducted – line 437
10 Province of employment / Province d'emploi
16 Employee's CPP contributions – line 308 / Cotisations de l'employé au RPC – ligne 308
24 EI insurable earnings / Gains assurables d'AE
29 Employment code / Code d'emploi
17 Employee's QPP contributions – line 308 / Cotisations de l'employé au RRQ – ligne 308
26 CPP/QPP pensionable earnings
18 Employee's EI premiums – line 312 / Cotisations de l'employé à l'AE – ligne 312
44 Union dues – line 212
20 RPP contributions – line 207 / Cotisations à un RPA – ligne 207
46 Charitable donations
52 Pension adjustment – line 206 / Facteur d'équivalence – ligne 206
50 RPP or DPSP registration
55 Employee's PPIP premiums – see over / Cotisations de l'employé au RPAP – voir au verso
56 PPIP insurable earnings / Gains assurables du RPAP
Other information (see over) / Autres renseignements (voir au verso)
Box – Case / Amount – Montant
Protected B when completed / Protégé B une fois rempli
T4 (14)

The **Statement of Remuneration** Paid, also known as a **T4 slip**, is a document that shows the total amount of income an employee received from their employer during the previous tax year. The Canada Revenue Agency (CRA) requires employers to provide it to their employees and the CRA by the end of February each year. The T4 slip shows the gross amount of income received, deductions for taxes, contributions to the Canada Pension Plan (CPP) and Employment Insurance (EI) premiums, as well as any other deductions made from the employee's pay. Employees use the T4 slip to complete their tax returns and determine whether they have overpaid or underpaid taxes.

The boxes in the T4 form are used to provide specific information to the Canada Revenue Agency (CRA) for tax purposes. The fields in the T4 form typically include:

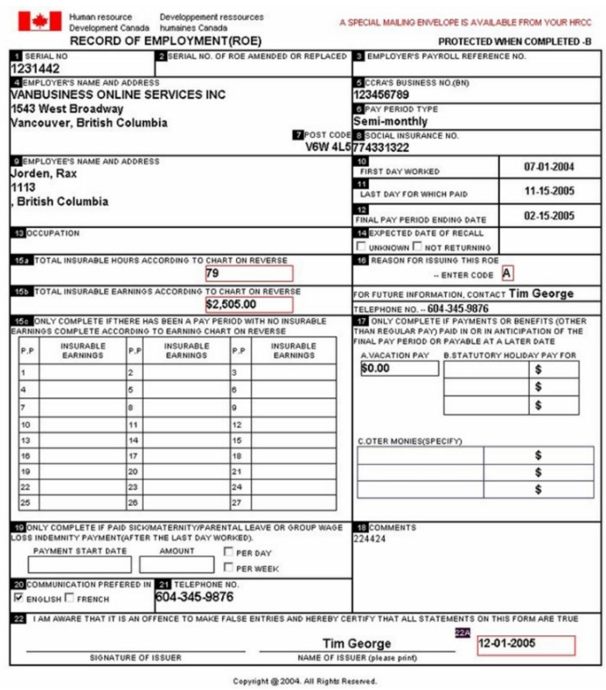
- Box 14: Employment income
- Box 16: Total taxable benefits
- Box 18: Total deductions
- Box 22: Employment Insurance (EI) premiums
- Box 24: Canada Pension Plan (CPP) contributions
- Box 26: Total taxable income
- Box 40: Total income tax deducted
- Box 42: Total other deductions

These fields are used by CRA to calculate an employee's taxable income and the amount of taxes owed. The information in the fields on the T4 form is also used to determine an employee's eligibility for government benefits, such as Employment Insurance (EI) and the Canada Pension Plan (CPP).

11. Record of Employment

The **Record of Employment** (ROE) document verifies employment and is used when an employee applies for Employment Insurance (EI) benefits through Service Canada. The information provided in the document is used by Service Canada to determine if the employee is eligible for EI benefits, the amount of benefits to be paid, and the duration of the period during which benefits will be paid.

As an employer, you are required to issue a Record of Employment each time you dismiss an employee, regardless of the reason for dismissal. Copies of the document must be sent to Service Canada, given to the employee, and kept on file.


Human resource Development Canada / Developpement ressources humaines Canada
RECORD OF EMPLOYMENT(ROE)
A SPECIAL MAILING ENVELOPE IS AVAILABLE FROM YOUR HRCC
PROTECTED WHEN COMPLETED -B
1 SERIAL NO 1231442
2 SERIAL NO. OF ROE AMENDED OR REPLACED
3 EMPLOYER'S PAYROLL REFERENCE NO.
4 EMPLOYER'S NAME AND ADDRESS
VANBUSINESS ONLINE SERVICES INC
1543 West Broadway
Vancouver, British Columbia
5 CCRA'S BUSINESS NO.(BN) 123456789
6 PAY PERIOD TYPE Semi-monthly
7 POST CODE V6W 4L5
8 SOCIAL INSURANCE NO. 774331322
9 EMPLOYEE'S NAME AND ADDRESS
Jorden, Rax
1113
, British Columbia
10 FIRST DAY WORKED 07-01-2004
11 LAST DAY FOR WHICH PAID 11-15-2005
12 FINAL PAY PERIOD ENDING DATE 02-15-2005
13 OCCUPATION
14 EXPECTED DATE OF RECALL ☐ UNKNOWN ☐ NOT RETURNING
15a TOTAL INSURABLE HOURS ACCORDING TO CHART ON REVERSE 79
16 REASON FOR ISSUING THIS ROE -- ENTER CODE A
15b TOTAL INSURABLE EARNINGS ACCORDING TO CHART ON REVERSE $2,505.00
FOR FUTURE INFORMATION, CONTACT Tim George
TELEPHONE NO. -- 604-345-9876
15c ONLY COMPLETE IF THERE HAS BEEN A PAY PERIOD WITH NO INSURABLE EARNINGS COMPLETE ACCORDING TO EARNING CHART ON REVERSE

P.P	INSURABLE EARNINGS	P.P	INSURABLE EARNINGS	P.P	INSURABLE EARNINGS
1		2		3	
4		5		6	
7		8		9	
10		11		12	
13		14		15	
16		17		18	
19		20		21	
22		23		24	
25		26		27	

17 ONLY COMPLETE IF PAYMENTS OR BENEFITS (OTHER THAN REGULAR PAY) PAID IN OR IN ANTICIPATION OF THE FINAL PAY PERIOD OR PAYABLE AT A LATER DATE
A.VACATION PAY $0.00
B.STATUTORY HOLIDAY PAY FOR $ $ $
C.OTER MONIES(SPECIFY) $ $ $
19 ONLY COMPLETE IF PAID SICK/MATERNITY/PARENTAL LEAVE OR GROUP WAGE LOSS INDEMNITY PAYMENT(AFTER THE LAST DAY WORKED).
PAYMENT START DATE / AMOUNT / ☐ PER DAY ☐ PER WEEK
18 COMMENTS 224424
20 COMMUNICATION PREFERED IN ☑ ENGLISH ☐ FRENCH
21 TELEPHONE NO. 604-345-9876
22 I AM AWARE THAT IT IS AN OFFENCE TO MAKE FALSE ENTRIES AND HEREBY CERTIFY THAT ALL STATEMENTS ON THIS FORM ARE TRUE
SIGNATURE OF ISSUER
Tim George
NAME OF ISSUER (please print)
22A 12-01-2005
Copyright @ 2004. All Rights Reserved.

It is very important to fill out the document correctly, as errors can lead to disputes with the dismissed employee. For example, a mistake in calculating the insured salary or the number of insured working hours may result in a reduction of benefits, and an incorrect reason for dismissal may result in a denial of benefits. The employee may file an appeal, and you will be the ultimate respondent, so it is important to consult with professionals when filling out this document or to entrust this task to **Affordable Accounting Solutions**.

12. Shareholder's Loan

Shareholder's Debt

If you have incorporated a business and are making enough money to cover the basic expenses of the business, you have the opportunity to use the company's money for personal needs in addition to paying yourself a salary and dividends. The company's money used for personal purposes becomes a Shareholder Loan. In Canada, there are no restrictions on the use of money in a company where you are the primary shareholder. The only condition for such loans is the mandatory repayment of the money back to your company within two years or the transfer of the shareholder loan in the form of dividends to yourself as the primary shareholder. If you decide to take the money for two years, you are required to pay the company a small percentage, which is provided by the tax administration. Usually, this percentage is significantly lower than what banks require of their borrowers.

It should be remembered that shareholder loans are not permanent! The money borrowed from the company must be repaid by the end of the year following the year in which the money was borrowed, otherwise, the loan will be treated as hidden income. This money must be included in the shareholder's taxable income, at best as dividends, or as salary in a less positive outcome. Why less positive? Because dividends are taxed at a lower rate than bonuses, which we will discuss in detail below.

If the end of the corporation's fiscal year falls on December 31, the shareholder capital must be paid out as salary with the payment of employee and employer portions for the Canada Pension Plan (CPP) and Employment Insurance (EI). Additionally, income taxes must be deducted from the salary. Deductions and taxes must be paid to the government no later than January 15 of the following year. The amount of the shareholder loan, less the CPP & EI contributions, will be deducted from the corporation's balance sheet, meaning that the shareholder does not owe the company any money. Of course, the shareholder will not receive the money itself because it has already been spent in the previous year when it was recorded as a shareholder loan.

The repayment of a shareholder loan in the form of dividends is only possible if there is enough accumulated profit from previous years of the company's operation. As a reminder, dividends are payments of profits to shareholders after expenses and taxes are deducted. Dividends are paid out of profits obtained in the reporting year or previous years. If the company did not make a profit in the past and showed losses, then there is no source from which to pay dividends, and the shareholder loan will have to be repaid only as a salary or a bonus.

When paying out shareholder capital in the form of dividends, the accountant will carry out a transaction that will clear the shareholder's debt from the company's balance sheet. Again, cash will not be affected, as the loan was taken out to resolve the issue of the previously invested money.

It is possible to repay the shareholder loan by accruing a bonus with a deferred payment within 180 days after the end of the company's fiscal year. This bonus is the same salary that has CPP and EI contributions, as well as income tax, but must be taxed at the maximum tax rate. The ability to defer repayment essentially allows the shareholder to close the loan on favourable terms in the third year.

Corporate Debt

A shareholder loan is not just the money that a shareholder owes to a company, but it can also be the money that the company owes to the shareholder for the capital invested in founding and developing the business. A shareholder loan is considered a form of corporate financing and is typically used to provide the corporation with additional funding for its operations or specific projects. In some cases, shareholder loans can also be used as a way for shareholders to take advantage of tax benefits associated with the loan. In Canada, shareholder loans are subject to the Canadian Income Tax Act and other relevant laws. These laws regulate the terms of the loan, including the interest rate, repayment terms, and any collateral that may be required. The loan may be secured by the corporation's assets, such as real estate, inventory, or equipment, or it may be unsecured. The terms of the loan are typically defined in an agreement between the shareholder and the corporation.

The main advantage of a shareholder loan is that it provides a corporation with access to capital without incurring debt. This can be advantageous for companies that want to grow or expand but cannot secure traditional forms of financing, such as a bank loan or other credit institution. Shareholder loans are also flexible and can be structured to meet the specific needs of the corporation.

However, there are also potential risks associated with shareholder loans. One of the main risks is the possibility of corporate default. If the corporation is unable to repay the loan, the shareholder may lose their investment. This can be particularly devastating for shareholders who have invested a significant amount of their funds in the corporation.

One additional risk is the potential for conflicts of interest between a shareholder and the corporation. If a shareholder also serves as a director or executive of the corporation, they may be perceived as having an unfair advantage when it comes to making decisions that affect the corporation. This can lead to a loss of trust and authority among other shareholders and stakeholders.

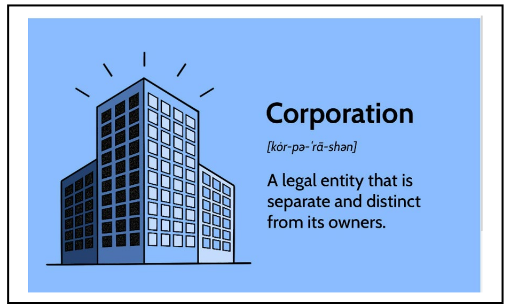
To reduce these risks, it is important for shareholders to fully understand the loan terms and carefully consider their investments before providing a loan to the corporation. Shareholders should also consult with a qualified financial advisor or tax specialist to determine the potential tax implications of the loan and ensure that it is structured in a way that aligns with their investment objectives.

13. Corporate Tax Rates

Before examining the table of corporate taxes in Canada, it is necessary to explain several terms and concepts that are present in the jargon of accountants.

Corporations

There are four types of corporations in Canada. The first are government corporations, which do not pay taxes. The second are large corporations whose stocks are traded on stock exchanges, often called Public Corporations. The third category are small corporations owned by a single shareholder or a group of private or legal entity shareholders. Such companies are called Canadian Controlled Private Corporations (CCPC).



It is this type of corporation that is owned by the majority of small and medium-sized entrepreneurs in Canada. The fourth type of corporation is owned by public corporations or foreign residents.

Canadian Controlled Private Corporation

A Canadian Controlled Private Corporation (CCPC) is a type of private corporation in Canada that is controlled by Canadian residents. The term “controlled” means that more than 50% of the voting shares in the corporation are owned by Canadian residents. The CCPC status provides Canadian businesses with several advantages. Firstly, CCPCs are entitled to the Small Business Deduction (SBD), which is a tax reduction that applies to the first $500,000 of active business income earned by the corporation. This reduction can result in a significant reduction in the corporation's overall tax bill. In addition, CCPCs can also access a range of other tax benefits, such as the Capital Gains Deduction, which provides tax benefits for corporation owners who sell shares of small corporations upon retirement, for example.

Another advantage of CCPC status is that it provides a level of protection against hostile takeovers. Since the majority of voting rights belong to Canadian residents, it is more difficult for a foreign legal entity to gain control of the corporation. This provides a certain level of security for Canadian businesses, ensuring that they remain under Canadian control and ownership. In addition to these benefits, the CCPC status also offers flexibility regarding the corporation's structure. For example, a corporation can have multiple classes of shares with different voting rights, allowing for different ownership and control structures. Such flexibility can be particularly useful for enterprises with complex ownership structures, as it allows them to adapt their corporate structure to their specific needs.

Small Business Deduction

Depending on the type of corporation, the taxes levied can also be different. The best tax climate for small corporations is due to the application of a tax break called the **Small Business Deduction** (SBD). The essence of this deduction is that a portion of the corporation's income is taxed at a reduced rate, which gives the small corporation more money after taxes for dividends to the company's shareholders or for reinvestment. The company's income can come from conducting entrepreneurial activities in the production and sale of goods and services. A company that engages in active, risk-related activities is considered to earn Active Business Income, which deserves a tax break. The first $500,000 of such active income is taxed at a rate of **9%** federal tax and **2%** Alberta provincial tax, while a larger corporation, not eligible for the Small Business Deduction, will pay **15%** federal tax and **8%** provincial tax (**23%** in total).

Investment Income

Small corporations that earn profits and invest in their development or pay dividends to shareholders undoubtedly benefit from such a tax break. However, business owners should remember that the tax break applies to companies with active income. If the company starts investing money in financial securities or acquires real estate and rents it out, there is a risk of losing the tax deduction, as income from the sale of securities or rental income is not considered active income. Corporate investment income is subject to a federal rate of **38.7%** and a provincial rate of **8%**, which together is a tax of **46.67%.**

Furthermore, because investment income is subject to such a high tax, there is a chance that investment income will exceed 10% of the company's total income, and a company with less than 90% active income can no longer use the Small Business Deduction (SBD) and will pay a tax rate of **23% plus**.

Personal Services Business

Sometimes employers prefer to hire workers as independent contractors through existing legal entities owned by small corporations, choosing to pay the worker and their corporation for their work and letting the worker handle contributions to the Canadian Pension Plan, Unemployment Insurance, and Income Tax. Workers register their own companies under the impression that they are opening a simple small corporation and will pay reduced taxes thanks to the Small Business Deduction on income that remains after deducting other business expenses, such as automobiles, offices, restaurants, and cafes.

Corporations that have income from only one client, where the corporation's main shareholder is an active employee, may be prohibited from deducting business expenses, other than salary expenses. Such corporations are considered ineligible for the Small Business Deduction (SBD) and their income is subject to federal tax at a rate of **33%** and provincial tax at a rate of **8%**, resulting in a total tax rate of **41%**. These corporations are considered to have been created for the convenience of parties and are therefore not welcomed by tax laws. If you have received a letter from the CRA stating that your company is at risk of being classified as a **Personal Services Business** (PSB), immediately contact us, **Affordable Accounting Solutions**, for a consultation that will help you avoid the consequences.

Corporate Tax System

The corporate tax system in Canada is aimed at encouraging business growth and investment while generating revenue for the government. The tax system is designed to stimulate companies to invest in their businesses, create jobs, and contribute to the economy. In addition, corporate taxes help fund various government services, including healthcare, education, and infrastructure. One of the key advantages of the Canadian corporate tax system is that it provides a relatively low tax burden for businesses. This has made Canada an attractive location for foreign investment and encouraged businesses to open operations in the country. Furthermore, the tax system is designed to be transparent and predictable, helping to create a stable business environment.

2022 Corporate Tax Rates	General Rate	CCPC Rate	Income Limit	CCPC Investment Income Rate
Federal	15%	9%	$500,000	38.7%
Alberta	8%	2%	$500,000	8%
BC	12%	2%	$500,000	12%
Manitoba	12%	0%	$500,000	12%
New Brunswick	14%	2.5%	$500,000	14%
Newfoundland & Labrador	15%	3%	$500,000	15%
Nova Scotia	14%	2.5%	$500,000	14%
Northwest Territories	11.5%	4%	$500,000	11.5%
Nunavut	12%	3%	$500,000	12%
Ontario	11.5%	3.2%	$500,000	11.5%
Prince Edward Island	16%	3%	$500,000	16%
Quebec	11.5%	4%	$500,000	11.5%
Saskatchewan	12%	0%	$600,000	12%
Yukon	12%	0%	$500,000	12%

However, the Canadian corporate tax system is not without problems. In an effort to address these issues, the Canadian government has made several changes to the corporate tax system in recent years. For example, the government has introduced new measures to prevent corporations from using tax loopholes and has made changes to the tax system to ensure that large corporations pay their fair share of taxes. Additionally, the government has launched new initiatives to simplify the tax system and reduce the administrative burden on businesses.

Some critics argue that the tax system is too complex, making it difficult for businesses to understand and comply with the rules. This can create a significant administrative burden for businesses, especially for small companies that may not have the resources to navigate the complex system of tax regulations. By turning to **Affordable Accounting Solutions**, entrepreneurs can find a reliable partner in the complex jungle of tax rules and accounting transactions.

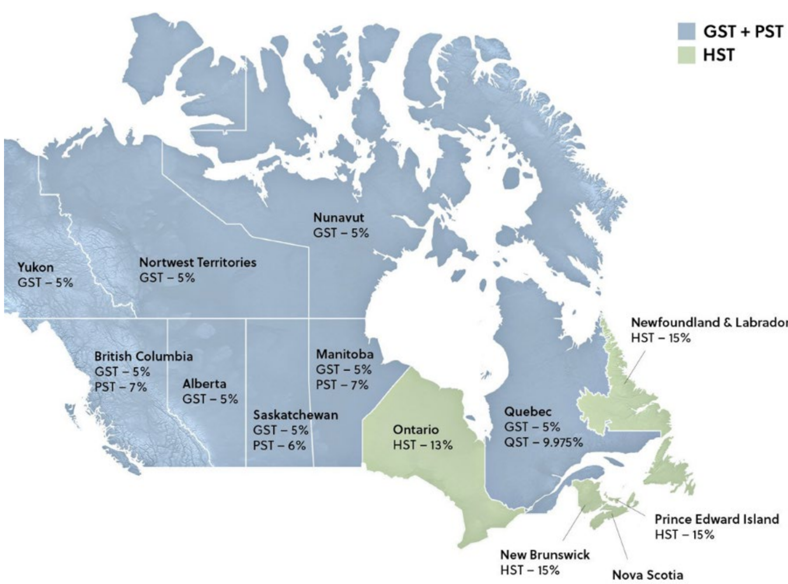
14. Sales Tax GST/HST

Goods and Services Tax

When paying for most goods and services in Canada, below the price to be paid, you may see a **Goods and Services Tax** (GST) of 5% of the total order amount. In some Canadian provinces, federal sales taxes are combined with provincial sales taxes, for example in Ontario, where you will see a 13% Harmonized Sales Tax (HST). In provinces such as British Columbia or Manitoba, in addition to the GST, you may see a separate line item for the Provincial Sales Tax (PST) of 7%. Any business, whether it be a sole proprietorship without incorporation or a corporation itself, must register for GST payments with the tax administration (CRA), and PST payments with provincial authorities. When conducting business activities, the corporation acts as a tax agent for the CRA and the provincial ministry of finance. For the sale of goods or services, the corporation must collect 5% GST in Alberta and 5% GST and 7% PST in British Columbia.

GST collected by a company on Sales, minus the GST paid by the company when purchased materials, services, and goods that were used in the business, must be remitted to the CRA. If the company has earned little but spent a lot, the company will receive a GST Refund. If the company sells goods and services outside of the province, for example, to another province, then tax may be collected for those provinces and there is an obligation to pay tax where they are collected. If the company sells goods and services outside of Canada, then sales tax may be regulated by agreements between Canada and those countries. Therefore, it is very important to seek assistance from qualified professionals when filling out GST tax forms.

Taxes on Sales in Canadian Provinces and Territories in 2023



Tax Exemptions

Most goods and services produced or sold in Canada are subject to sales taxes. However, the following goods and services are exempt from taxation or are taxed at a rate of zero.

- Basic food products in stores;
- Medications prescribed by a doctor;
- Most products produced by farms, including live and slaughtered animals;
- Medical devices for the hearing-impaired, dental prosthetics;
- Women's hygiene products;
- Housing on the secondary market, i.e. housing sold by an owner who already purchased the property from a developer company.
- Rental housing for a term of not less than one month;
- Payment of housing maintenance fees;
- Most services provided by doctors and dentists;
- Payment for childcare services for children up to 14 years old;
- Payment for crossing bridges, ferries, and toll roads;
- Private tutoring services for school subjects;
- Payment for music or art teachers;
- Payment for financial organization services, including loan processing services;
- Payment for insurance company services for processing insurance policies;
- Most goods and services that are provided by charitable organizations.

15. Tax Declarations for Corporations

Declaration Deadlines

You are required to complete and submit a tax return to the CRA (Canada Revenue Agency) no later than 6 months after the end of your corporation's fiscal year, provided that the corporation does not owe any taxes to the government. However, if the corporation owes taxes, the deadline for filing the return is 3 months. Failure to meet the filing deadline may result in penalties in the form of fines imposed by the CRA.

For example, if your corporation's fiscal year ends on June 30th, the corporate tax return must be filed no later than December 31st (6 months), or preferably by September 30th (3 months). The fiscal year begins on the date of your company's registration and must consist of 12 calendar months. It is possible to change the corporation's fiscal year if desired, for example, to align the financial reporting with personal taxes and make the end of the year December 31st for convenience.

For filing the Sales Tax (GST) declaration, if your corporation is required to pay taxes monthly, the deadline for filing the declaration is the end of the following month. When filing the annual report, you have three months to submit the declaration. Even if you have ceased trading or are certain that you have spent more than you earned, it is still necessary to submit the tax declaration. In practice, many clients come to us with unfiled declarations for several years. Expert and timely assistance can save you from headaches forever.

Steps in Filling Corporate Tax Declaration

1. Get the necessary forms. To complete a corporate tax return, you need to obtain (download from the website) the corporate income tax return and relevant schedules, forms, and guides from the Canada Revenue Agency (CRA).

2. Collect all the necessary information. Gather all financial and tax information about your corporation, such as financial statements (Income Statement, Balance Sheet), receipts, invoices, and other tax documents.

3. Fill out the tax declaration. Start by completing the basic information in the declaration, including the corporation name, address, business number, and end of the tax year. Then fill out each section of the declaration following the instructions provided by the CRA

4. Fill out the necessary schedules: Depending on the nature of your business, you may need to complete additional schedules to provide specific information. These may include T2SCH 1: Balance Information, T2SCH 100: Schedule 100 - Part I: Business Income, and T2SCH 125: Schedule 125 - Part IV: Investment Tax Credit.

5. Calculate your taxes: Based on the information you provided in the declaration and schedules, you will need to calculate the total amount of tax due from your corporation.

6. Submit a tax return. After filling out the tax return and calculating your taxes, you can submit it electronically or by mail. If you owe taxes, you will need to fully pay them when submitting your tax return.

This is a rough algorithm for filling out a tax declaration for a corporation in Canada. Naturally, it will be almost impossible for an untrained person without a good education to correctly fill out all 100 pages of the declaration and calculate all taxes correctly. Therefore, business owners turn to us, **Affordable Accounting Solutions**, and we take on all the complex work.

General Index of Financial Information

In order to file a tax declaration, it is necessary to fill out electronic financial reporting forms, which use special identification codes for each line of reporting. These codes are called the **General Index of Financial Information** (GIFI). For example, cash has the code 1001, office expenses have the code 8810, and so on. Each line of financial reporting is assigned a separate four-digit numerical code. If you or your accountant use computer programs for accounting, the GIFI codes are likely already pre-installed, and all you need to do is transfer the electronic financial reporting from the accounting program to the tax program. It is highly likely that the GIFI codes of the accounting program are initially different from the GIFI codes of the tax program, in which case, manual information transfer is necessary, which may take some time and that may be prone to errors.
Therefore, we recommend that you contact **Affordable Accounting Solutions**, and our specialist will set up the GIFI codes for your accounting program. Filling out and submitting a corporate declaration to the CRA must be done electronically, using special tax programs. For example, with Intuit's products, QuickBooks for accounting, it is easy to import data into the Profile T2 program and work with tax forms.

Provincial Corporate Taxes

Provincial corporate taxes are administered by CRA, except for the provinces of Quebec and Alberta. Therefore, in Alberta, two corporate tax packages need to be prepared, one for the CRA and one for the provincial Treasury Department.

The Alberta Revenue Authority is an online platform designed to help Albertans manage their taxes. It provides taxpayers with a secure and convenient platform to access information, file tax returns and make payments.

The self-service platform is available 24/7 and allows users to:

- View tax bills and access information about taxes due, view payment history and notifications.

- File tax returns and make payments for a variety of taxes, including personal income tax, corporate income tax, and provincial carbon levy.

- Manage and view tax-related correspondence and receive email notifications of important tax news.

- Get information about tax credits and deductions, tax forms and guides to complete, and helpful resources for tax planning and reporting.

- Request refunds, amend tax returns, and access other tax administration services.

With Alberta Revenue's client self-service, residents can quickly, easily and securely manage their taxes, saving time and hassle of traditional tax administration.
Tax and Revenue Administration Client Self-Service (TRACS) | Alberta.ca

Tax Instalments

In Canada, corporations are required to make payments for corporate tax as prepayments throughout the year, rather than paying the entire amount of tax owed in a lump sum at the end of the year. Prepayments are based on estimates of tax liabilities for the current year and are usually due on the 15th of each quarter (March 15, June 15, September 15, and December 15).

Corporations must make these prepayments if their estimated tax liability for the current year exceeds $3,000. If a corporation's estimated tax liability is less than $3,000, it is not required to make a prepayment, but it still must file a corporate tax return and pay any remaining balance due by the designated due date.

Corporate tax payments in Canada refer to periodic payments that corporations are required to make to the Canada Revenue Agency (CRA) to pay their federal and provincial/territorial taxes. These payments are typically made quarterly and are based on the corporation's estimated tax obligations for the current fiscal year. The amount of each payment is determined by the corporation and must be equal to or greater than the lesser of the following values:

1. 25% of the corporation's estimated tax obligations for the current fiscal year,

or

2. The corporation's tax obligations for the previous fiscal year.

If a corporation does not make mandatory payments in advance, interest and penalties may be imposed on the unpaid balance. The CRA also has the right to demand a security deposit or issue a Notice of Assessment to collect the outstanding amount.

Fines and Penalties

The Canada Revenue Agency (CRA) imposes penalties on individuals and businesses who do not comply with tax laws. Some common penalties include:

- Penalty for late submission of tax declaration. If an individual or legal entity fails to submit their tax declarations on time, they may face a penalty for late submission of tax declaration in the amount of 5% of the outstanding balance plus an additional 1% for each full month of delay, up to a maximum of 12 months.

- Failure to pay a fine: If an individual or legal entity does not pay taxes within the established time, they may face a fine of 2% of the amount due, plus an additional 1% for each full month of payment delay, up to a maximum of 22 months.

- Penalty for gross negligence. If it is established that a physical or legal person acted with gross negligence, for example, deliberately understated income or overstated expenses, they may face a fine of 50% of the amount of taxes owed.

- Penalty for inaccurate reporting: If it is found that an individual or legal entity has made a false statement or omitted information in their tax return, they may be fined 10% of the amount of taxes owed, plus an additional 2% for each full month from the time the false report or omission is discovered, but not exceeding 50% of the taxes owed.

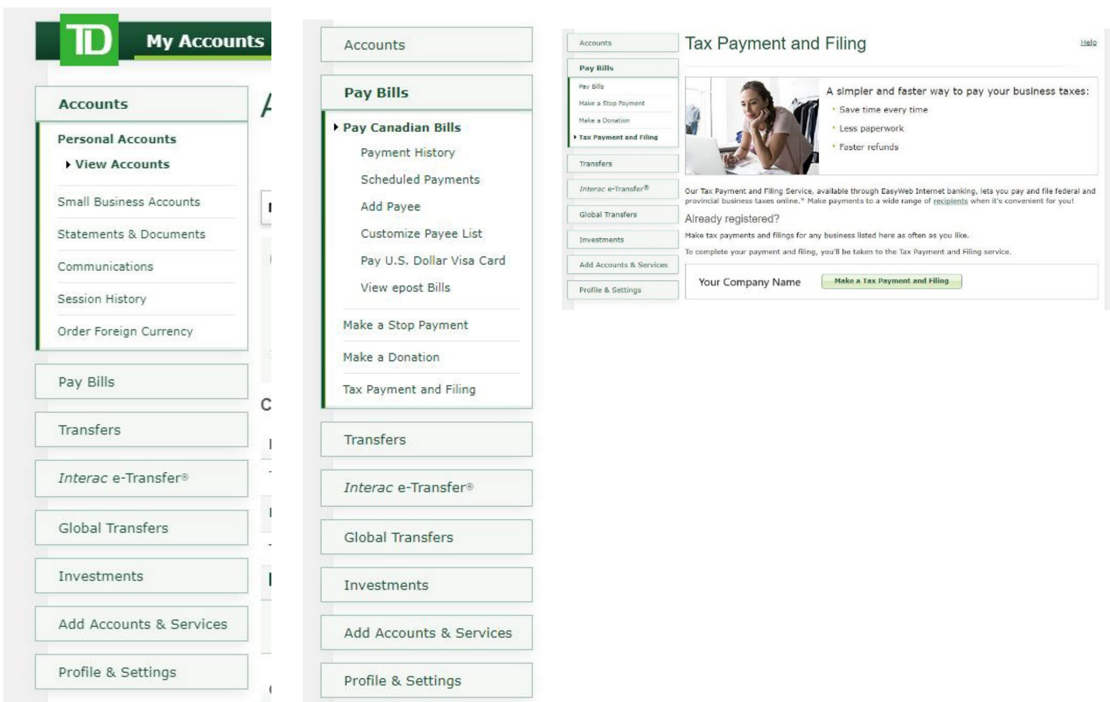
- Interest payments. If an individual or a legal entity owes taxes, they may also face interest payments on the amount due, which accrue until the taxes are paid.

16. How to Pay Income Tax and GST

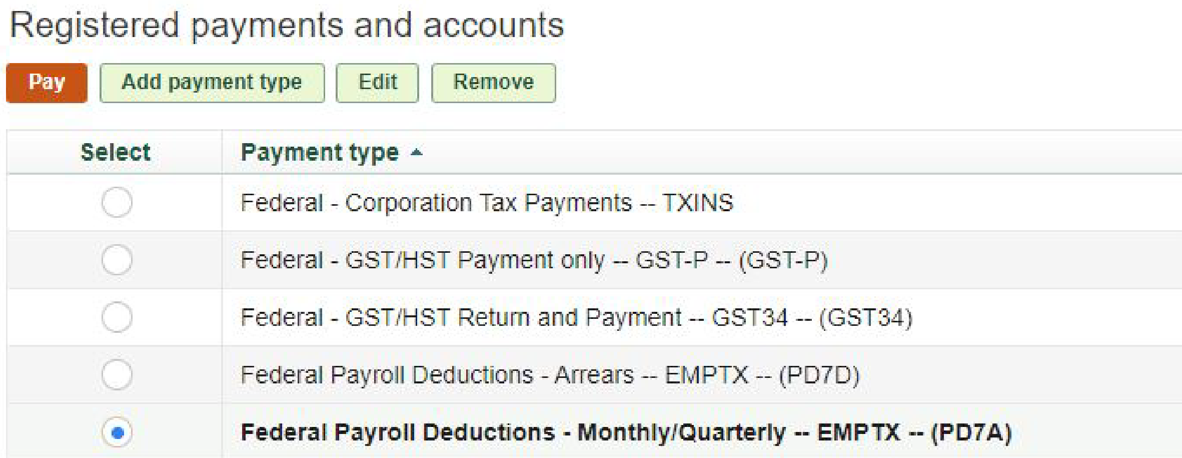
To pay your corporate tax, Goods and Services Tax (GST), and payroll taxes, you need to use the CRA My Payment online portal or your bank's online portal. Below, we will discuss these methods in more detail:

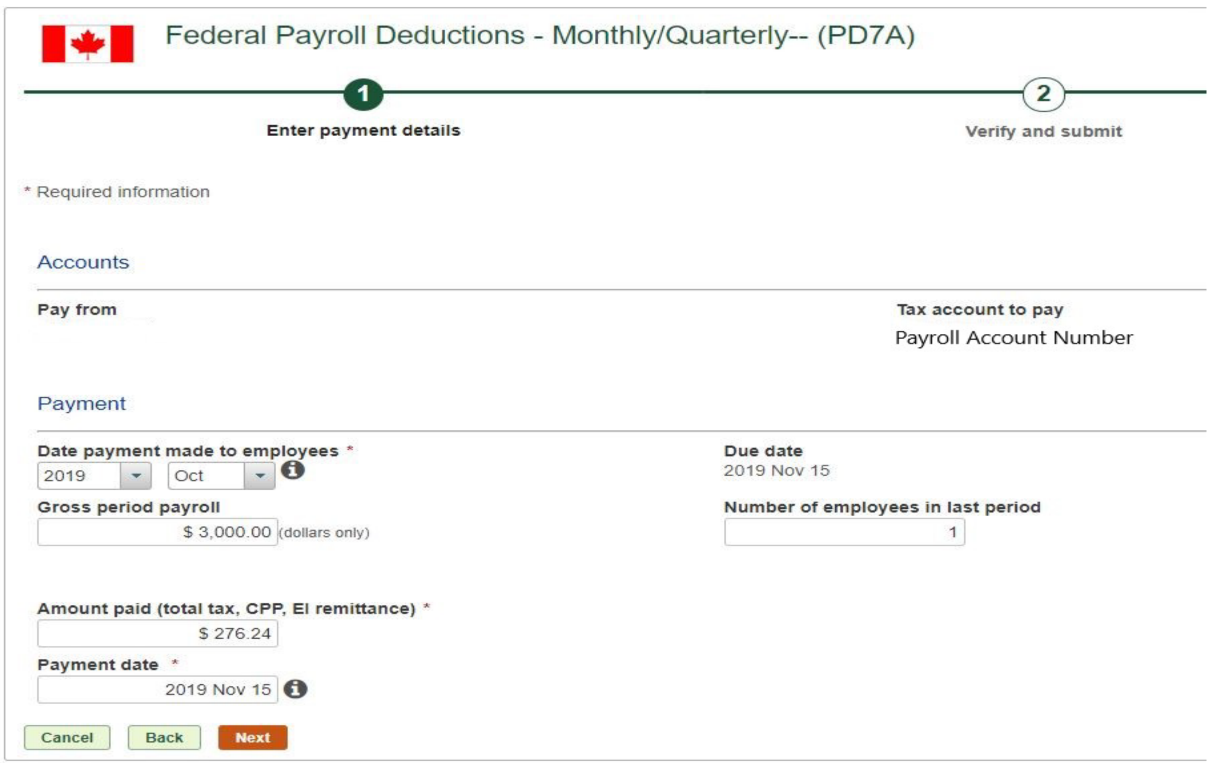
In the online service **My Payment**, you can pay corporate taxes using bank and credit cards completely free of charge. [Select payment type (cra-arc.gc.ca)]

Using the **online portal of your bank**, such as **TD Bank**, on the right side of the screen, open the Menu > Pay Bills > Taxes and Filing > Pay Taxes.



For **payroll tax payments,** select Federal Payroll Deductions - Monthly/Quarterly—EMPTX—(PD7A).





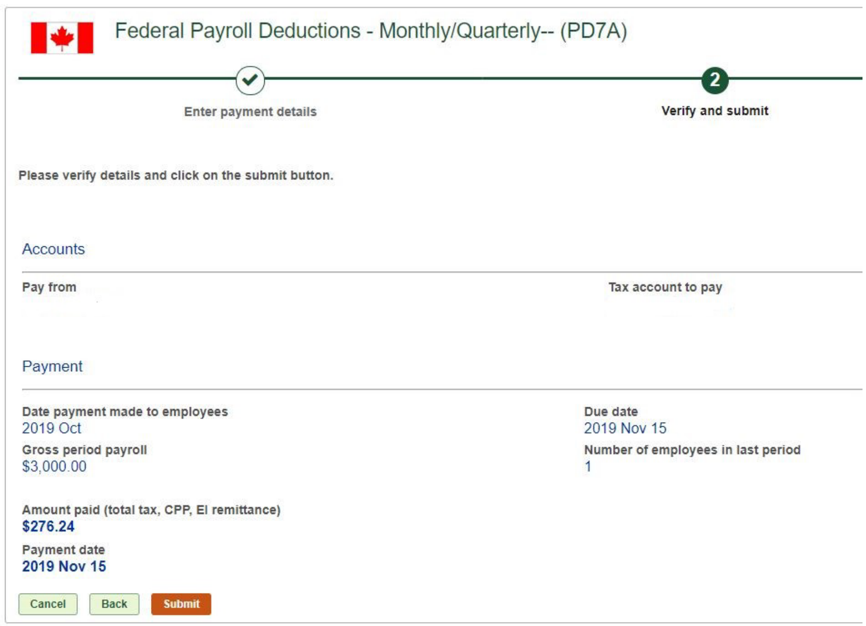
You need to enter the following information:

- **The payment date for the employee** - if you are making payment for May, specify the year and month (May).
- **The total amount of payroll for the period** - this should be the total amount of payroll for all employees for the entire month of May.
- **Number of employees in the period** - indicate the number of employees in the reporting month.
- **Amount to be paid** - include the full amount of deductions for CPP (employer and employee portions), EI (employer and employee portions),

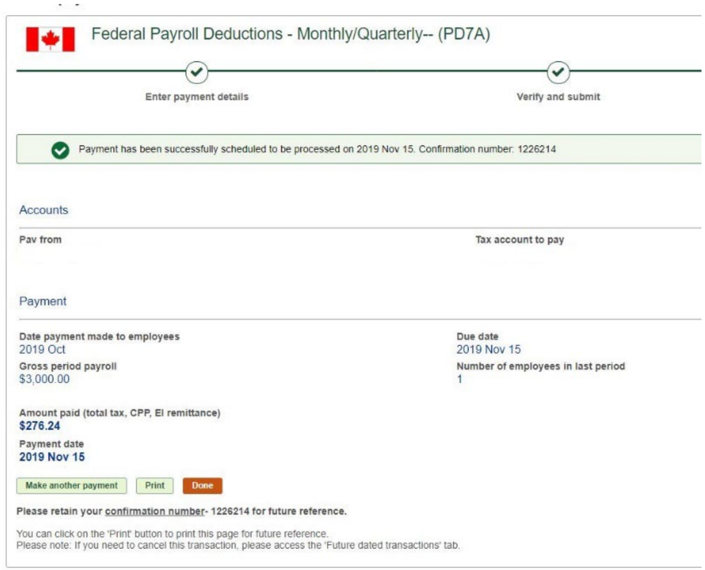
and income tax calculated from the salaries of all employees in the reporting month.

- **Payment date** - enter the date when you want to make the payment. Remember that the payment must be made by the 15th of the month following the reporting period. If May is the reporting period, the money must be paid no later than June 15.

Then click the **Confirm** button.



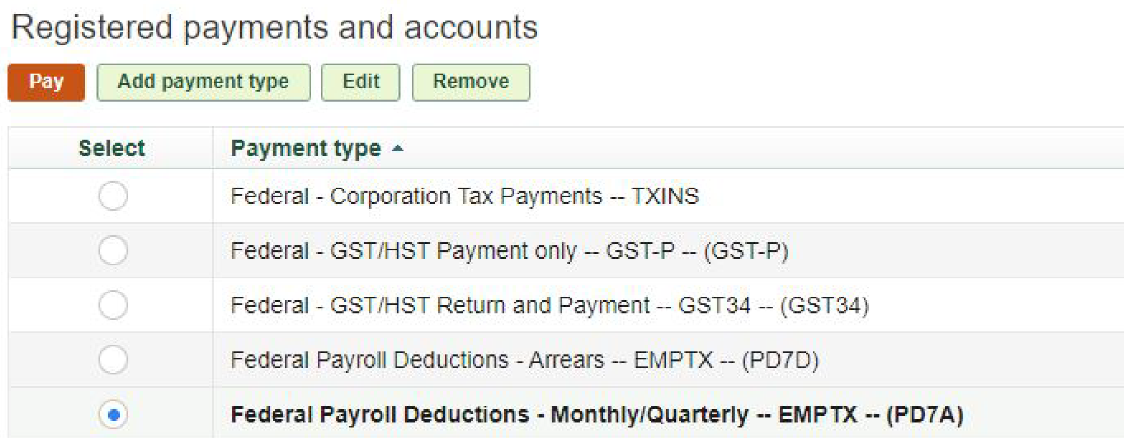
The payment of deductions from the salary has been successfully processed:



If you need to pay **federal corporate tax**, select Federal > Corporate Tax Payment > TXINS

To **pay GST**, please follow these steps: Federal > Pay GST/HST > GST-P-(GST-P)

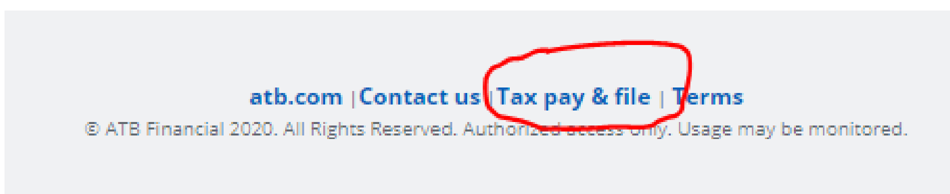
For **provincial corporate tax in Alberta**, select: Alberta Finance > Corporate Tax > ABCIT - (AT 1)

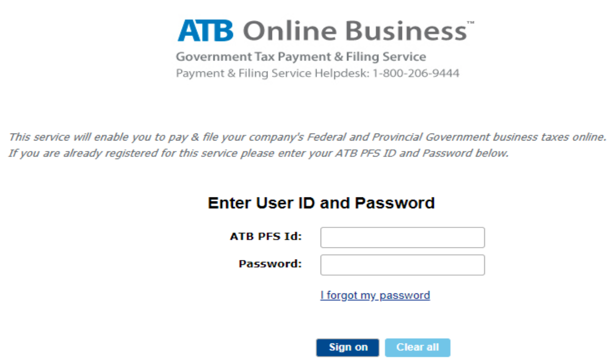

Registered payments and accounts

Pay | Add payment type | Edit | Remove

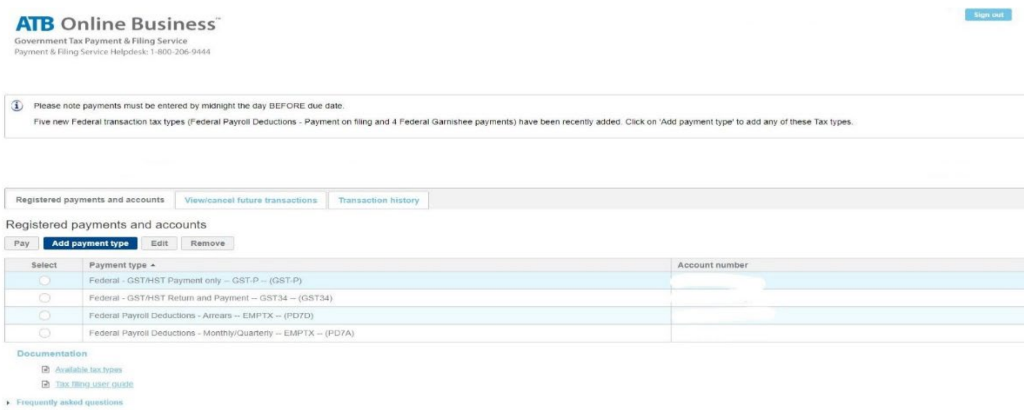
Select	Payment type
○	Federal - Corporation Tax Payments -- TXINS
○	Federal - GST/HST Payment only -- GST-P -- (GST-P)
○	Federal - GST/HST Return and Payment -- GST34 -- (GST34)
○	Federal Payroll Deductions - Arrears -- EMPTX -- (PD7D)
●	**Federal Payroll Deductions - Monthly/Quarterly -- EMPTX -- (PD7A)**

If your **bank is ATB**, log in to your business account and at the bottom of the page, select "Pay Taxes and Send



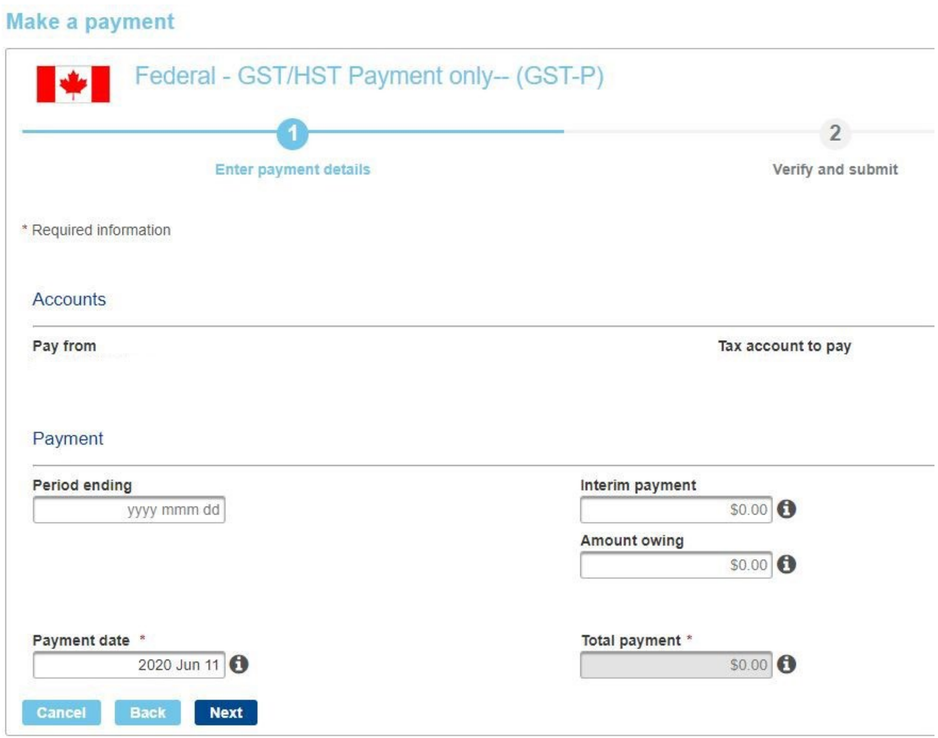


You will find yourself on the same menu as before.



<u>To make a payment for GST, you need to fill out the following information:</u>

- **The End Date** is the final date of the GST payment period.
- **The Intermediate Payment** is the period for which you make a prepayment for GST (enter 0 if there is no prepayment).
- **The Amount Due** is the amount of GST that needs to be paid.
- **The Payment Date** is the day on which the payment needs to be made.



Then select: Next > Submit > Done

For other banks, the procedures are similar to those described above. If you have any questions, please call the business account support service or visit the nearest branch.

Taxes can also be paid through online services such as **Paysimply** and **Plastiq**, https://www.paysimply.ca/; https://www.plastiq.com

Payment can be made at any bank by presenting the **Payment Remittance** that the CRA (Canada Revenue Agency) sends to taxpayers by mail (or by requesting it from the CRA by phone at 1-800-959-5525).

Payment can also be made through the CRA website. Make a payment for a business - Payments to the CRA - Canada.ca

17. Allowable Business Expenses

We would recommend business owners remember that business expenses and personal expenses should always be kept separate as much as possible. When you come to your accountant for help and bring receipts for business expenses, there must be no receipts for personal expenses among them.

First of all, it is in your interest, as it is easier and faster for the accountant to calculate commercial expenses and allocate GST from organized receipts, rather than examining each document and guessing where to apply it. The accountant's fast work is a guarantee of low prices for their services. Secondly, allowed commercial expenses are a guarantee of no CRA claims during and after the audit, which is very important.

So what expenses are allowed to be used when determining taxable income? A lot depends on the organizational and legal form of your company (self-employment, corporation, partnership), sometimes it also depends on the geographical location, and even where your customers are located. Most expenses that you incur for conducting business activities are allowed, and if you use part of your home for your business, you can allocate a portion of your mortgage and utility payments to business expenses. Below we will look at the main types of expenses:

- **Advertising** - in newspapers, TV, the Internet (Google, Facebook), business cards, marketing materials, websites, website materials, and other expenses are fully deductible.

- **Car expenses** - depending on whether the car is owned personally or by the company. Partial deductions for expenses are possible in the case of using personal transport.

- **Eligible Capital Property** is intangible property of your company that arises from buying a business. This type of property includes Goodwill. Goodwill is the positive difference between the money spent on buying a business and the net present value of all tangible assets of the purchased company. Goodwill has no expiration date, but it adds economic benefit to the company and is therefore partially written off as depreciation.

- **Irrecoverable debts** - this is the amount owed to you by your customers that cannot be collected. Keeping track of such debts is costly, and if you are confident that you will not be able to collect the debt peacefully from your customers, it is recommended that you write it off. This debt will reduce your income and taxes.

- **Business start-up costs** are expenses that you incurred before the commencement of your business activities. These include services such as business analysis for the development of a business plan, marketing services for the creation of market research, legal and accounting services associated with the purchase or registration of the company, financial services for banking financing, advertising, office, transportation, salaries for yourself and key employees. All of these expenses occurred before the registration of the company and cannot be written off immediately but must be depreciated and written off in parts.

- **Payments** - annual corporate taxes, fees, and payments for permits to conduct commercial activities, and other authorized expenses can be excluded from the company's income.

- **Fuel expenses** - if fuel (gasoline, diesel, propane, motor oil) is used directly for business purposes and not for personal vehicle maintenance. These expenses are fully deductible.

- **Office maintenance expenses** - if you maintain your company's office at your home, then you can pay for some of the expenses related to your home from the company. For the company, this will be a fully deductible office maintenance expense, and for you, it will be a reimbursement for the expenses related to your residence.

- **Insurance expenses** - you can deduct all ordinary commercial insurance premiums for policies covering your buildings, equipment, tools, and transportation used in carrying out your company's business activities. Insurance expenses for cars should be classified as automobile expenses.

- **Financing costs** - interest on a bank loan and bank fees for obtaining a commercial loan can be deducted from the company's income.

- **Professional expenses** - this category usually includes expenses spent on the work of lawyers, tax attorneys and accountants. Expenses are fully deductible from the company's income.

- **Maintenance and repairs** - expenses in these categories are fully deductible if such work was done to keep your buildings, vehicles or equipment in working order. But, if work has been done to increase the economic life or improve productivity, then such expenses qualify as capital costs and should be deducted over the economic life through the depreciation procedure.

- **Food and Entertainment** - expenses for trips to the restaurant and entertainment events are subject to a partial write-off, provided that the expenses are paid for the refreshment of the company's client. Since such expenses usually consist of personal components, only 50% of the actual expenses are subject to write-off. For some categories of business, 80% of expenses are subject to write-offs. If you met a client in a cafe and paid for a meal, then on the back of the receipt you should write the name of the client and the subject of the conversation to be able to prove to the tax administration in the future that such an expense existed and was related to the business.

- **Medical Expenses** - Dentist and dental hygiene expenses, doctor's prescription medications, chiropractor and masseur can only be used to reduce a company's income if the company has a special insurance policy called a Health Spending Account.

- **Real estate taxes** - payment of taxes on real estate, which is on the company's balance sheet, is fully deducted from the company's income. If you use part of your personal property (house, garage) for the business activities of the company (house for office, garage for warehouse), then a proportional part of personal property taxes is refundable to you, and the company is deducted from income.

- **Office expenses** - these expenses include inexpensive office supplies such as pens, paper, calendars, toners, and calculators. You should know that printers, computers, tablets, armchairs, furniture, and other items that will generally be useful over several years should be written off in part through depreciation.

- **Rental expenses** - if you are renting a building for office or industrial premises, then the monthly payment is deducted from the income of the enterprise. You can also include here the payment for the rent of the premises that you use for business if they belong to you based on personal ownership.

- **Salary** - the cost of paying employees, as well as related taxes and deductions (CPP, EI, WCB).

- **Consumables** - the cost of materials that a business uses indirectly in the production of goods and services. For example, medicines in a veterinary clinic, or cleaning products for an auto mechanic.

- **Utility Expenses** - Payments for electricity, water, heating and garbage disposal for your office and production facilities are fully deductible from the company's income.

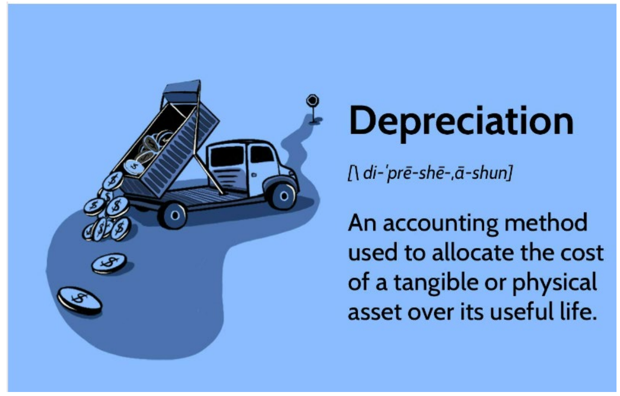
- **Telecommunications costs** - Internet and mobile communications for you and your employees are fully deductible from the company's income.

- **Travel** - gas expenses for trips to the client and to the company's office, trips to professional meetings or presentations dedicated to your business can be covered 2 times a year, for example, a trip to an animal husbandry exhibition in Holland, or even Hawaii. The expenses for this category are fully deductible from the company's income.

- **Prepaid expenses** are payments for services that are due after the due date. Typically, these services are consumed shortly in the normal course of business. Examples include prepaid rent, ongoing insurance, and payroll advances. Expenses can be deducted from the company's income only those that have benefited in the reporting period.

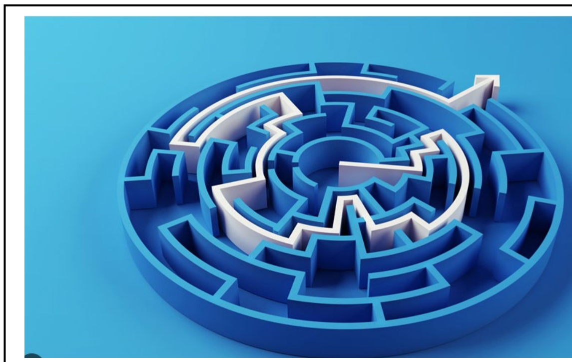
18. Depreciation and Capital Cost Allowance

Depreciation is a systematic decrease in the value of long-term assets due to their aging, wear and tear and obsolescence. The asset depreciation process is used by businesses to allocate the value of long-term assets over their useful lives. This helps businesses reflect the true value of an asset in their financial statements and make better business decisions.



Depreciation is calculated based on the estimated useful life of the asset and the depreciation method used, such as straight-line depreciation, reducing balance depreciation, or sum-of-years depreciation. Asset depreciation is an important tool for companies to manage their financial reporting and make informed decisions about their capital expenditures. By accurately tracking and reflecting the value of assets over time, companies can better understand the true cost of ownership and make more informed investment decisions.

Capital Cost Allowance (CCA) is a non-taxable expense that the Canadian government allows businesses to claim as a means of recovering the cost of capital assets such as machinery, equipment, and buildings. The allowance is calculated as a percentage of the asset's cost and is spread out over several years as determined by the Canada Revenue Agency (CRA). The purpose of the CCA is to allow businesses to recover the cost of their capital assets over time and reduce their tax obligations. By claiming CCA, <u>businesses can reduce their taxable income</u>, which in turn reduces the amount of taxes they must pay.



The CCA rate for various assets is determined by the CRA and is based on the estimated useful life of the asset. The Capital Cost Allowance (CCA) rate may vary depending on the type of asset, with some assets having a higher CCA rate than others. The Canada Revenue Agency determines the capital cost allowance rate for each asset class. These rates may be changed and are based on the estimated useful life of assets in each class. The current rates for major asset classes are provided below:

Class 1: Buildings and improvements of leased property - 4%
Class 8: Industrial and processing machinery and equipment - 30%
Class 10: Office furniture and equipment - 50%
Class 12: Computer equipment and system software - 55%
Class 13.1: Passenger cars - 30%
Class 15: Ownership of scientific research and experimental design - 100%
Class 16: Environmental control systems - 50%
Class 17: Agricultural equipment and breeding livestock - 20%

CCA rates are used to determine the deduction that a company can claim as tax-free expenses each year. Companies must keep accurate records of their capital assets and calculate their Reserve based on the class and rate for each asset. There are several special rules for calculating the Allowance for capital expenditures:

- **Half-Year rule**: Companies are allowed to claim Allowance only for capital assets that have been purchased and made available for use during the year. This means that companies can only claim half of the deduction for assets purchased in the last half of the year.

- **Declining Balance Method**: companies can use the declining balance method to calculate the Allowance, which allows for a higher rate of depreciation to be used in the early years of the asset's life and a lower rate in the later years.

- **Terminal Loss**: if a company sells an asset, it may claim the difference between the asset's book value and the proceeds from the sale as a final loss and subtract it from the company's overall income, reducing its tax liabilities.

- **Undepreciated Capital Cost** (UCC) represents the sum of the initial cost of assets in a class that has not yet been claimed as Capital Cost Allowance. UCC is used to calculate the maximum amount of CCA that can be claimed in a given year.

- **Recapture**: If a business sells an asset for an amount that exceeds its UCC, it may be required to return a portion of the Reserve previously claimed for the asset. This return is added to the business's taxable income in the year of the sale, increasing its tax liabilities.

It is important to note that these rules are complex and may be subject to periodic changes, so it is necessary to consult with tax specialists.

19. Shareholder's Rewards

Starting a business, often in the first few years, you work at a break-even point or even at a loss. Business expenses can sometimes take up the lion's share of your income, and you won't even have enough money to pay yourself a decent salary. You may not feel comfortable meeting with friends and former colleagues who work weekends and take vacations for a good salary, while you work like a dog. But over time, your life will even out, your income will stabilize, and the company will start to bring in a stable profit. You'll want to treat yourself after years of hard work. Here the question arises of how to use your money, as the company belongs to you, whether it's for a new home for your family or a family vacation in Mexico.

Since the company is yours and you legally own all the company's assets, including cash in the bank account, you will have a strong temptation to withdraw or transfer money to a personal account or pay from the company's account. Yes, you may do this, and most entrepreneurs will spend the money on personal needs. We have already considered the possibility of borrowing money from your corporation, and all the benefits and risks of this maneuver. The benefit is access to money, and the risk is paying deferred taxes. Nevertheless, there are other ways to obtain money from the corporation legally. Below, we will discuss these methods and advice on how to proceed more effectively.

You can receive income from your company as a salary (or bonus) or as dividends from profits after paying taxes. If you receive a salary, your corporation will pay less tax. However, the salary is included in the shareholder's income, and tax is paid at a tax rate that is almost always higher than the dividend rate.

Salary

The owners of a corporation can pay themselves and their family members a salary. The salary of a shareholder in the company is effectively limited only by the income of the company and the rationality of tax payment. The salary of family members, spouses, children over 13 years old, and parents is limited by the concept of reasonableness. The payment for the work of relatives should not exceed a reasonable rate; otherwise, the tax administration (CRA) may object to such a business expense. The reasonable payment for the work of relatives should not exceed the payment they would receive if they were doing this work on the outside. For example, your wife may do accounting work, and you are free to pay her $50 per hour, but the CRA may object if you pay your wife $300 per hour. Or your son may clean your garage for $20 per hour but not reasonable for $100.

In the case of paying a spouse's salary, the income earned from such work must be documented with the payment of taxes and contributions to the government's pension plan (CPP). The contribution to the Employment Insurance (EI) may not be paid, as the business owner and spouse of the business owner are not eligible for unemployment benefits. The first $15,000 of the spouse's salary is not subject to income tax thanks to the personal credit. The next $35,000 will be subject to tax in the first tax bracket (15% federal and 10% provincial for Alberta).

If your child, who works for your company, is over 13 years old but under 18 years old, then deductions for pension (CPP) and unemployment (EI) are not made, as earnings of children at this age are not subject to insurance. Thus, by entrusting a part-time job to your child for 15 hours a week at $20 an hour, you will pay $15,000 in salary per year. For a child earning under 18 years old, it would be more reasonable to fill out a separate tax return, and thanks to the tax credit, the child will pay zero tax

As the owner of the company, you are free to set any salary for yourself. You can pay yourself just $50,000 and pay taxes at the first tax bracket, or you may need to set a salary of $200,000, for example, as a maneuver to reduce the company's income if the income is too high to take advantage of the Small Business Deduction (SBD). Remember that the first $500,000 of the company's income is taxed at a reduced rate, and if your company's income is over half a million dollars, the corporate tax will already be much higher.

When paying a salary to the owner of the company, it would be ideal to allocate the first $50,000 to cover personal expenses and direct subsequent funds towards investment in a Registered Retirement Savings Plan (RRSP). It should be noted that contributions to an RRSP reduce taxable income, and the investor will receive returns on their investment plus returns on taxes. We would advise reading our first book entitled "**Personal Tax Handbook**," which provides a detailed description of how the RRSP works and how it benefits taxpayers. A copy of the book can be obtained from our website through the following link: https://gettaxes.ca/downloads

Dividends

After payment of the corporate income tax, a company's profit can be used to pay dividends to shareholders. Dividends from the company must be included in the shareholder's taxable income, and income tax is paid from the total taxable income. Shareholders will not pay any tax on the first $22,000 of dividends, thanks to the personal credit and special credit for dividends from CCPC corporations.

Credit for dividends from CCPC corporations is a special tax discount provided to shareholders to protect their income from double taxation, as the company's income has already been subject to corporate tax. The tax discount on company dividends is approximately 11%, essentially returning the corporate taxes paid by the company. As a rule, the payment of dividends carries a lower tax burden for the shareholder than the payment of wages. Shareholders must pay taxes and contributions on both wages and dividends. However, thanks to the tax credit, shareholders can take more money out of the company in the form of dividends.

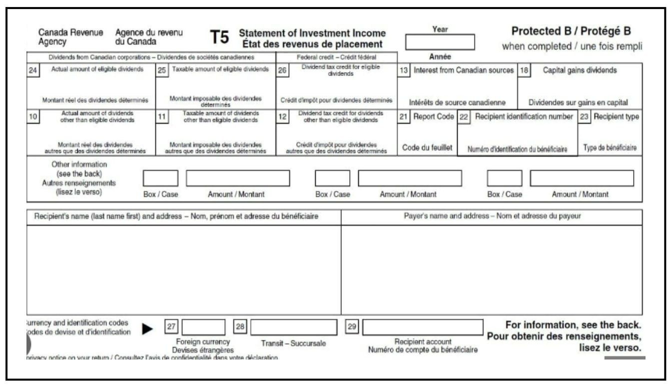
When choosing a strategy for rewarding a company shareholder, it is very important to take into account other factors that may not be immediately visible, for example: paying a salary will create an opportunity for personal pension investment under tax-protected retirement savings plans (RRSP). Alternatively, paying a salary will allow you to demonstrate to a mortgage broker that you have stable, steady employment and are eligible for a mortgage loan. The most optimal solution would be to use a combination of salary and dividends, but this is difficult to determine on your own. We, **Affordable Accounting Solutions**, help our clients solve this problem by modelling scenarios of salaries and dividends that optimally minimize taxes for both the corporation and the shareholder.

Business and Family

Sometimes company owners register corporations with shared ownership within the family. Typically, this is 50% to the head of the family and 25% each to their spouse(s) and adult child. This is a reasonable decision, as the opportunity to involve family members in the family business is very important, and it's also good to have a backup in case of vacation. It's very important to remember that your family members must actively participate in the business activities of your company, and you are required to keep track of their activities for the company, specifically by keeping a record of their work hours indicating the date, type of work, and amount of time spent. In Canada, there are special rules governing the payment of dividends to shareholders in family corporations, and the CRA strictly enforces the provisions of the **Tax On Split Income** (TOSI) and the **Corporate Attribution Rules**.

The rules for distributing income among related shareholders are very complex and require in-depth knowledge of tax legislation, so do not attempt to determine for yourself who and how much percentage of the company's shares to give as a gift, as mistakes can lead to difficulties with taxes when paying dividends, gifting company property, and transferring shares by inheritance. Once again, **Affordable Accounting Solutions** has expertise in this area and can help you determine the ownership structure of your business correctly.

Investment Slip T5


Canada Revenue Agency / Agence du revenu du Canada
T5 Statement of Investment Income / État des revenus de placement
Year / Année
Protected B / Protégé B when completed / une fois rempli
Dividends from Canadian corporations – Dividendes de sociétés canadiennes
Federal credit – Crédit fédéral
24 Actual amount of eligible dividends / Montant réel des dividendes déterminés
25 Taxable amount of eligible dividends / Montant imposable des dividendes déterminés
26 Dividend tax credit for eligible dividends / Crédit d'impôt pour dividendes déterminés
13 Interest from Canadian sources / Intérêts de source canadienne
18 Capital gains dividends / Dividendes sur gains en capital
10 Actual amount of dividends other than eligible dividends / Montant réel des dividendes autres que des dividendes déterminés
11 Taxable amount of dividends other than eligible dividends / Montant imposable des dividendes autres que des dividendes déterminés
12 Dividend tax credit for dividends other than eligible dividends / Crédit d'impôt pour dividendes autres que des dividendes déterminés
21 Report Code / Code du feuillet
22 Recipient identification number / Numéro d'identification du bénéficiaire
23 Recipient type / Type de bénéficiaire
Other information (see the back) / Autres renseignements (lisez le verso)
Box / Case Amount / Montant
Box / Case Amount / Montant
Box / Case Amount / Montant
Recipient's name (last name first) and address – Nom, prénom et adresse du bénéficiaire
Payer's name and address – Nom et adresse du payeur
urrency and identification codes / odes de devise et d'identification
27 Foreign currency / Devises étrangères
28 Transit – Succursale
29 Recipient account / Numéro de compte du bénéficiaire
For information, see the back. Pour obtenir des renseignements, lisez le verso.
privacy notice on your return / Consultez l'avis de confidentialité dans votre déclaration

T5 Statement of Investment Income is a Canadian tax document that indicates the amount of dividends received by a shareholder from Canadian companies during a particular tax year. The T5 is used to provide information to both the taxpayer and the Canada Revenue Agency (CRA) about the received dividends. The T5 provides detailed information about the type and amount of dividends received, any taxes withheld, and other information related to the received dividends. The T5 form is issued by the company's accountant and must be filed with your annual tax return to the CRA.

The T5 Statement of Investment Income contains several cells that provide information on received dividends. Some of the most common ones on the T5 form include:

- **Cell 10** is used to show dividends received from a small business to its shareholders, which is then used to calculate the dividend tax credit;
- **Cell 11** shows the number of dividends increased to determine the dividend tax credit;
- **Cell 12** shows the calculated amount of the dividend tax credit.

It is important to carefully review the information on your T5 statement and ensure that it is correct, as this can affect the amount of taxes you owe or the amount of refund you are entitled to. If you have any questions about the information on your T5 form, you should seek advice from a tax specialist.

Loan to Family

The money you earn in your own company needs to be used wisely. Some of the money will go towards personal expenses, and with the remaining amount after all expenses, it would be wise to invest in personal investment projects such as RRSP or TFSA. See our **Tax Guide** (https://gettaxes.ca/downloads) for more detailed information.

Another investment opportunity is a maneuver in which you can lend money to your spouse or minor child at an interest rate. The borrowed money can be used to purchase mutual funds registered under your spouse's or child's RRSP (TFSA). The money earned from the investment will be tax-free for your family, minus the interest paid to you. This interest, which they are obligated to pay you, should ideally be documented and declared in your tax return, and should not be less than the rate recommended by the tax agency (CRA Prescribed Rate). It is not necessary to consult lawyers to create a loan agreement within your family (legal services in Canada are extremely expensive), as you can turn to **Affordable Accounting Solutions** and our financial specialist will prepare the necessary documents. Do not try to create such agreements on your own, as there are many hidden pitfalls in such deals.

Medical Insurance

Your company can subscribe to private medical insurance for its employees. The company's payment of premiums for the insurance policy is an allowable business expense, and for you as an employee of the company (or shareholder) and your family members, the insurance will be completely free of charge. One mandatory condition for such insurance is that it must be extended to all employees of the company, not just to the management staff. If the insurance is only for "chosen" employees, the tax agency will consider the insurance policy as a taxable benefit and require it to be included in your taxable income.

Corporate Life Insurance

In Canada, life insurance policies are widely available which, in the event of the insured person's death, can cover their debts, and funeral expenses, and provide a financial cushion for family members. There are two types of life insurance policies:

- **Term life insurance** provides coverage for a specific period. For example, if you buy a house and purchase a 25-year life insurance policy, in the event of your death, your heirs will receive a sum of money sufficient to cover the mortgage and provide a financial cushion.

- **Permanent life insurance** provides coverage for the entirety of the insured person's life. However, this type of policy is more expensive due to special extended provisions that allow for payments even if the insured person is still alive.

Not many people know that a corporation can insure the lives of its shareholders, and the corporation itself can be the beneficiary of the policy. Monthly insurance premiums will be treated as allowable business expenses, fully deductible from the company's income. In the event of an insurance claim, the corporation receives tax-free insurance payouts. And now, the most interesting part: the insurance payouts can be included in the category of **Capital Dividends** and paid to the insured person's heirs absolutely tax-free. Capital Dividend Account (CDA) is something from the depths of corporate taxation that only tax specialists know about.

In short, companies sometimes receive income that is not subject to corporate tax. For example, half of the **Capital Gains** are included in the company's income, and the other half is included in a Capital Dividend Account, from which dividends to shareholders can also be paid tax-free. You just need to ask your accountant if your company has a balance in this account, and if there is a balance, you can arrange to receive capital dividends tax-free when filling out your tax return.

Individual Pension Plan

This is a pension plan created for the main shareholder of the company, with the possibility of contributions from the corporation, but the beneficiary of the plan will be the shareholder. Since such a pension plan is not a tax shelter like an RRSP, plan income is taxable, but corporations are allowed to make virtually unlimited contributions, and there is an opportunity to generate significant profits if the money is invested wisely. Such a pension plan also allows for-profit splitting with the shareholder's spouse, at any time after the spouse turns 55 years old. This split can be quite advantageous if the spouse is in a lower personal tax bracket and will pay less tax. Income earned in such a plan is not considered passive income for the company, which means there is no risk of losing the Small Business Tax Deduction.

20. Financial Reporting

In addition to maintaining daily accounting of your company's business activities, you or your accountant will need to prepare financial statements for the company on a monthly, quarterly, or yearly basis. Financial statements need to be prepared for both internal users - shareholders, as well as external users - investors and auditors. The preparation of financial statements is not difficult, and thanks to computerized accounting programs, provided that accounting is done correctly, you can easily create an Income Statement, Balance Sheet, and Cash Flow Statement.

Income Statement

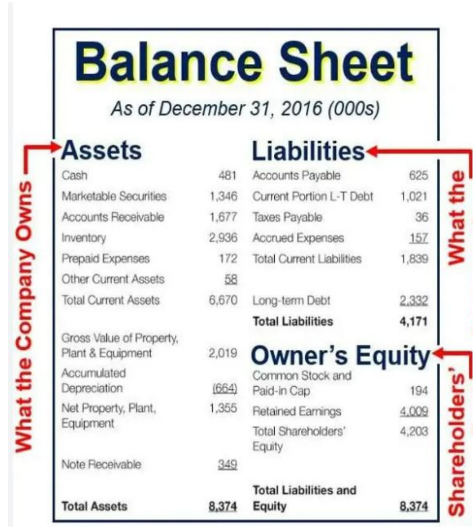
The **Profit and Loss Statement**, also known as the Income Statement, shows the financial status of a company for a specific period, such as the end of a month or quarter. The statement consists of the income section, which lists all the revenue earned during the period. This can be one line item, such as Sales Revenue, or it can consist of five or more line items depending on the categories of income.

COMPANY B
INCOME STATEMENT
For Year Ended September 28, 2019 (In thousands)

NET SALES	$	4,358,100
COST OF SALES		2,738,714
GROSS PROFIT		**1,619,386**
SELLING AND OPERATING EXPENSES		560,430
GENERAL AND ADMINISTRATIVE EXPENSES		293,729
TOTAL OPERATING EXPENSES		**854,159**
OPERATING INCOME		**765,227**
OTHER INCOME		960
GAIN (LOSS) ON FINANCIAL INSTRUMENTS		5,513
(LOSS) GAIN ON FOREIGN CURRENCY		(12,649)
INTEREST EXPENSE		(18,177)
INCOME BEFORE TAXES		**740,874**

The next section of the statement lists all the allowable expenses of the company. Typically, the expense items are totalled at the end to show the total expenses. In more complex statements, the **Cost of Goods Sold** may be listed as a separate line item to calculate income. Separating expenses into those that contribute to creating a product and those that do not can help identify the strengths and weaknesses of a business.

The difference between Gross Revenue and Cost of Goods Sold is called **Gross Income**. The difference between Gross Income and Total Expenses is called **Income Before Tax**. Finally, after deducting taxes, **Net Income** is the final part of the statement. Net Income shows how much money the company earned after expenses, and this money can either be kept in the company or paid to shareholders in the form of dividends based on their ownership stake.



The **Balance Sheet** shows the financial state of a company at a certain point in time. The report consists of **Assets**, which are divided into Short-Term and Long-Term. <u>Short-term Assets</u> are assets that can be quickly converted into cash. This category includes the company's bank accounts, customer debts, finished goods for sale, equipment, and tools.

<u>Long-term Assets</u> include equipment, land on which buildings can be located and used for business, the buildings themselves, and vehicles. All of these types of assets are property that has been used by the company for many years and helps generate income, so when purchasing such assets, they cannot be fully deducted from the company's income, but only proportionally, depending on the useful life of the asset. For example, the cost of a building can be divided by 40 years, and the annual amount can be deducted each year. This process of distributing the cost of an asset is called <u>depreciation</u>. Long-term assets on the Balance Sheet report are usually presented after deducting depreciation, that is, at their accounting value. The accounting value of an asset <u>Book Value</u> is often higher than its market value. On the other hand, land increases in value over time, but as an asset, it is not depreciated. Therefore, it is very difficult to determine the approximate value of a company by evaluating the accounting values of all assets, as the assessment of market value is not conducted.

The next category in the report is **Liabilities**. They are also divided into short-term and long-term. These are the amounts of money that you owe to creditors and the government. This includes loans, bank loans, money owed for goods received, but not yet paid for to the sellers, and taxes owed to the government. Some of the liabilities may be presented net of loans already paid off.

Finally, the third part of the report is **Owner's Equity**. This part consists of the value of all common shares with voting rights that belong to shareholders, usually 100 shares with a par value of $1, or simply $100. Additionally, in more complex companies, this may include non-voting preferred shares (shares given to minor children of shareholders).

And the most important part is **Retained Earnings**. Net profit, after taxes, is kept in the company and serves as a source for paying dividends to shareholders, buying back previously issued shares, or financing the next year. The remaining profits are retained in the Retained Earnings account on the balance sheet.

The Balance Sheet data must adhere to the formula **Assets = Liabilities + Owner's Equity**. Therefore, this report often takes the form of a table where all of the company's assets are listed on the right-hand side, and liabilities + owner's equity are listed on the left-hand side. The total value of assets must match the total value of liabilities and owner's equity. If the right and left sides match, your accountant will be overjoyed, but often it's the opposite - some accounts are incorrectly recorded, and the accountant needs to investigate.

Cash Flow Statement

Finally, the third very important financial statement that needs to be prepared is the **Cash Flow Statement**. The report starts with the total amount of Cash in Banks. Then, a separate line shows the cash earned from operating activities. This is followed by the money obtained from borrowing from the bank or contributed as equity capital, or from the sale of the company's fixed assets. The report displays the sum of all the money received from all sources by the company. Then, the money spent on purchases of materials, operating expenses, payments on bank loans, federal and provincial taxes, and finally dividends is shown. If your cash balance on the statement matches the bank balance at the end of the year, your accountant will be very happy.

EMERSON CORPORATION Statement of Cash Flows (Direct Approach) For the Year Ending December 31, 20X5		
Cash flows from operating activities:		
Cash received from customers		$ 3,000,000
Less cash paid for:		
Merchandise inventory	$1,050,000	
Wages	480,000	
Interest	100,000	
Other operating expenses	270,000	
Income taxes	300,000	(2,200,000)
Net cash provided by operating activities		$ 800,000
Cash flows from investing activities:		
Sale of land	$ 750,000	
Purchase of equipment	(150,000)	
Net cash provided by investing activities		600,000
Cash flows from financing activities:		
Proceeds from issuing stock	$ 80,000	
Dividends on common	(50,000)	
Repayment of long-term loans	(900,000)	
Net cash used in financing activities		(870,000)
Net increase in cash		$ 530,000
Cash balance at January 1, 20X5		170,000
Cash balance at December 31, 20X5		$ 700,000
Noncash investing/financing activities:		
Issued preferred stock for building		$ 300,000

One problem with this report is that it needs to show income and expenses not just from the Income Statement, but only from those accounts that affect cash flow.

I'll let you in on a little secret of accountants - we often look at the Statement of Cash Flows to determine the health, yes, the health of a company, more than the Balance Sheet and Income Statement. We know that as long as a company has cash, it can keep working. Even if the Income Statement shows losses year after year, the company may not suffer much from those losses. There are several accounts that decrease income but do not affect cash flow, such as depreciation expenses.

Notice to Reader

How important are these reports to you as the owner of the company, you will ask? Financial statements are very important to you, first of all, to understand how you (the company) are doing, whether are you losing money, whether should you save money, whether can you afford a new employee, do you have enough money to pay for electricity, should you consider borrowing from an investor or a bank, and finally, what kind of salary you can pull yourself. These decisions must be considered by the owner of the company, the accountant can create reports from a computerized system and correct if something does not converge. But the final decision in the management of the company is yours.

Secondly, if you need to raise external capital to finance the venture, you need to show how the company works. Often, financial statements certified by an independent professional accountant must be submitted to a bank to open a line of credit. And in other cases, if a bank analyst doubts the correctness of the information in your financial statements, the bank may ask you to provide financial statements verified by an independent financial auditor.

Sometimes for small corporations, all primary accounting is kept by the owner himself, or his spouse. If such an accountant is familiar with the basics of accounting for major transactions, then the probability of error is negligible and financial statements can be prepared without recourse to an external accountant. In most cases, an external accountant has to deal with reporting that was created from data that was incorrectly recorded in the system or recorded with data loss. Often, the owners bring all the documents, and the accountant keeps all the primary accounting and creates financial statements based on the data of his work and signs a document certifying that the statements were created by a professional accountant.

Such a document is called a **Notice to Reader** and consists of a letter certifying the work, the standards by which the reporting was created, and other notes that users of the reports need to know. This document is not an auditor's report, since the accountant who prepared the statements does not have the right to issue an audit report. An auditor's review usually costs more money than an accountant's job, so having a good professional in your company's accounting reduces the risk of needing audit reports. **Affordable Accounting Solutions** has the full range of expert skills and knowledge for accounting for small and medium businesses in Canada.

21. Purchase Vehicle for Business

For companies, choosing between leasing or purchasing a vehicle is an important decision, as it can have a significant impact on the company's finances. Vehicles are necessary for enterprises that require transportation for employees, deliveries, or other activities related to business operations. Regardless of whether the company decides to lease or purchase a vehicle, it is crucial to consider factors such as costs, tax implications, and operational requirements.

Leasing Option

Leasing is a type of agreement in which an individual or company (the "lessee") borrows an asset from another individual or company (the "lessor") in exchange for periodic payments (known as "lease payments"). The lessee is granted the right to use the asset for a specified period, typically for a certain number of years, in exchange for the payment of lease payments. At the end of the lease term, the lessee may have the option to purchase the asset, return it to the lessor, or extend the lease agreement.

Advantages of Automobile Lease:

- Lower initial costs: leasing a car requires lower initial costs compared to buying a car. A lease agreement typically requires a down payment, a security deposit, and an acquisition fee. This is often lower compared to the initial costs associated with buying a car, such as a down payment and taxes (GST).

- Flexibility: leasing a car provides greater flexibility compared to purchasing a car. Companies can rent a car for a shorter period, for example, two or three years, and switch to a newer car after the lease agreement expires. This is beneficial for enterprises that require the latest technology or features in their vehicles.

- Lower monthly payments: leasing a car also results in lower monthly payments compared to buying a car through financing. This is because the lease agreement is based on the expected depreciation of the vehicle during the lease term, rather than the full cost of the vehicle.

- Maintenance and repair: leasing a car usually includes maintenance and repair, which can be a significant advantage for businesses. This means that the leasing company is responsible for any expenses related to repairs or maintenance, which can save businesses a significant amount of money.

- Tax benefits: car rental can also offer tax benefits for businesses. In some cases, monthly rental payments may not be subject to tax, which can reduce the company's overall tax bill.

Disadvantages of Automobile Lease:

- Long-term losses: Although leasing a car may result in lower initial and monthly costs, it can lead to higher long-term losses. This is because businesses will have to continually pay for the lease and switch to newer cars, rather than owning the car outright.

- Limited use. Car rental also has limitations on use. Leasing companies often have restrictions on the number of kilometres that a vehicle can travel, and businesses that exceed these limits may be subject to penalty sanctions.

- Lack of own capital. Leasing a vehicle also means that companies do not have any own capital invested in the vehicle. This means that companies cannot sell the car or use it as collateral for a loan.

Financing Option

Buying a vehicle in **financing** is part of the process of obtaining funds for purchase through a loan from a bank, credit union, or other financial institution. The borrower typically makes monthly payments over a set period, with interest added to the total loan amount. Some lenders may also require a down payment. Financing a vehicle can also include leasing options, where the borrower pays only for the use of the vehicle over a set period and is not the owner of the vehicle. The type of financing chosen will depend on the individual's financial situation, credit history, and personal preferences.

Advantages of Vehicle Finance:

- Property right. The main advantage of purchasing a car is that it belongs entirely to the business. This means that businesses can use the car as collateral to obtain a loan, sell it to make a profit, or keep it for as long as they need it.

- No usage restrictions. Buying a car also means there are no restrictions on usage, such as mileage limits. This is advantageous for businesses that require a lot of driving or need to transport heavy loads.

- Reduction in long-term costs. Purchasing a vehicle may result in higher initial costs but can lead to a reduction in long-term costs. This is because businesses only need to pay for the vehicle once and can keep it for as long as they need it without constantly paying for rental or switching to newer vehicles.

- Tax incentives. Purchasing a car can also offer tax incentives for businesses. In some cases, companies may be able to deduct the entire cost of the vehicle in the year it was purchased, which can reduce their overall tax bill.

Disadvantages of Vehicle Finance:

- High-interest rates: buying vehicles in financing often comes with higher interest rates compared to traditional bank loans. This can lead to increased monthly payments, which can affect the overall cash flow of a business.

- Return to ownership: In the event of default, the financing company may repossess the vehicle, which can disrupt business operations and lead to significant financial losses.

- Capital tying: financing a vehicle requires a significant amount of capital, which can limit the amount of funds available for other business operations and investments.

- Long-term obligations: purchasing vehicles on financing typically involves long-term commitments with loan terms ranging from 3 to 7 years. This can be a disadvantage if the business needs to get rid of the vehicle before the loan is fully paid off.

- Strict repayment terms: financing agreements for vehicles provide strict repayment terms, which can be challenging for companies that experience fluctuations in income.

- Additional expenses: purchasing a vehicle on financing may also include additional costs such as insurance, maintenance, and registration fees, which can further increase the cost of ownership.

- Depreciation: Over time, vehicles lose value, and financing a vehicle may result in higher costs compared to buying a used car.

- Credit ratings: companies that provide financing for transportation often require a minimum credit rating, which can be a disadvantage for businesses with a poor credit history or startups.

To make the final decision in choosing the method of acquiring a car for a business, the company owner will have to take into account not only the factors listed above but also conduct mathematical modelling of all possible costs and acquisitions of the process. Many factors will only become known during the decision-making process, such as the bank interest rate for financing, which is specified in the contract, and the bank interest rate for leasing, which is already included in the monthly payment and can be difficult for a non-specialist to determine its cost. It is also necessary to consider the number of depreciation periods during which payments must be made, as well as to understand the difference in payments at the beginning and end of the period, and to know what percentage of tax the company usually pays. Several investment evaluation methods can be used in modelling, such as **Adjusted Present Value** (APV). If you are familiar with financial analysis methods, you can handle the selection of the optimal method of acquiring a car for your business on your own. Otherwise, you can always rely on financial specialists from **Affordable Accounting Solutions** who will help you calculate the right decision.

22. Vehicle Expenses

In Canada, business expenses for vehicles are not subject to tax if they meet certain conditions set by the Canada Revenue Agency (CRA). Some of the usually allowed business vehicle expenses in Canada include:

- Capital Cost Allowance (CCA) is a deduction that can be claimed on the cost of a vehicle over several years. The CCA rate for vehicles is determined by the CRA and depends on the type of vehicle. For example, the maximum value of a regular passenger vehicle is set at $36,000. If you purchase a vehicle for $45,000, you can only claim tax deductions on $36,000 multiplied by the CCA rate of 30%, which equals $10,800 for a regular year of use and half that amount for the year of purchase ($5,400).

- Operating expenses: this includes fuel, oil, insurance, maintenance, repairs, licensing and registration fees, as well as car washes. These expenses must be reasonable and directly related to the business to be deductible.

- Rental Expenses (Leasing): If you lease a vehicle for business purposes, you may be able to deduct a portion of the rental expenses as business expenses. For example, if you rent a car for $1,200, only $950 is allowed to be deducted from the company's income.

- Business Travel Expenses: if you use your car for business trips, you can claim a portion of the expenses, including fuel and maintenance, as business expenses.

- Using a personal vehicle for business purposes: If you use your vehicle for business purposes, you may be able to claim a portion of your operating expenses as commercial expenses. The portion that can be claimed is based on the percentage of the total distance travelled that was used for business purposes.

It is recommended to keep a logbook to record the use of your vehicle for commercial purposes. This logbook should include the date, purpose of the trip, distance travelled, and percentage of the total distance that was used for business purposes. This information is used to calculate the portion of vehicle expenses that can be claimed as commercial expenses.

Sample of a Logbook:

Date	Odometer Start	Odometer End	Business kilometres driven	Purpose of Travel	Travel Details
Jan 15, 2020	12,500	12,750	120	Bank Convention center	Deposit cash, Meet the Client
Jan 16, 2020	12,750	13,100	50	Staples	Office Supplies

23. Personal Vehicle in Business

The use of a personal vehicle for business purposes may have tax consequences. If you use your vehicle for business, you may be entitled to claim a portion of the expenses related to the use of your vehicle as a tax deduction. To claim these expenses, you must keep detailed records of your vehicle's use for commercial purposes, including the purpose of each trip, the distance travelled, and the date of the trip. You must also keep all receipts related to vehicle expenses, such as gasoline, maintenance, and repairs.

There are two methods for claiming expenses for a vehicle used for business purposes: the detailed method and the simplified method. The detailed method requires you to track all expenses related to your vehicle, while the simplified method involves using a standard rate per kilometre for each kilometre driven for business purposes. It is important to note that there are restrictions on the types of vehicles that can be used for business purposes. For example, personal use vehicles such as passenger cars, trucks, or SUVs can be used for business purposes, but vehicles primarily used for commercial purposes, such as a delivery van, may be subject to different tax rules.

Detailed Method

A detailed method for claiming expenses for a vehicle used for business purposes requires you to track all expenses associated with using your vehicle for business purposes. This includes expenses such as gasoline, oil changes, repairs, maintenance, insurance, and other related expenses. To claim vehicle expenses using the detailed method, you must keep track of the total number of kilometres driven for business purposes, as well as the total number of kilometres driven for personal purposes. You must also track the purpose of each trip, the starting and ending odometer readings, and the date of the trip.

After you collect all your vehicle-related expenses and mileage reports for the year, you will need to determine the portion of each expense that relates to business use. This is typically calculated by multiplying the total expenses by the percentage of the year during which the vehicle was used for business purposes. For example, if your vehicle expenses for the year amount to $5,000 and you used your vehicle for business purposes 50% of the time, you may be able to claim a $2,500 deduction on your vehicle expenses on your tax return.

It's important to note that if you choose to use the detailed method, you must keep accurate and detailed records to support your claim. The Canada Revenue Agency (CRA) may request access to these records, so it's very important to keep them safe and organized. Additionally, you can only claim expenses that are reasonable and directly related to your business activities, so make sure your expense and mileage records are accurate and complete (Logbook!).

Simplified Method

The simplified method for claiming expenses for a vehicle used for business purposes allows you to specify a standard rate for each kilometre travelled for business purposes, instead of tracking all your expenses related to the vehicle using the detailed method.
The standard rate per kilometre varies depending on the type of vehicle you use and the number of kilometres travelled for business purposes. Starting in 2023, the standard rate is 61 cents for the first 5,000 kilometres travelled for business purposes in the year, and 54 cents for each additional kilometre.

To use the simplified method, you simply need to track the total number of kilometres travelled for business purposes during the year. You do not need to track any other expenses related to the vehicle. For example, if you travelled 10,000 kilometres for business purposes during the year, you can claim a deduction of $6,100 (5,000 x 0.61 dollars + 5,000 x 0.54 dollars) for vehicle expenses on your tax return.

It is important to note that if you decide to use the simplified method, you cannot claim any other expenses related to the vehicle, such as gas, repairs, or maintenance. Additionally, you must keep accurate records of the total number of kilometres travelled for business purposes, as the Canada Revenue Agency (CRA) may request these records to substantiate your claim.

24. Use of Business Vehicle for Personal Purpose

If an employer provides an employee with a company car for personal use, the employee may be eligible for taxable benefits. The taxable benefits will depend on the value of the vehicle and the amount of personal use. The benefits include the standby charge and operating cost benefit, which must be included in the employee's income on a T4 form, with corresponding deductions taken out for the treasury.

The **Standby Charge** is based on the value of the vehicle and is calculated as a percentage of the original cost of the vehicle. The percentage varies depending on the year the vehicle was purchased and the number of days it was used for personal use.

For example, if the initial cost of the vehicle was $30,000 and it was purchased in 2019 and was available for personal use for 180 days in 2021, the standby charge will be calculated as follows:

Standby Charge = (Initial Cost x Percentage) / Number of days in the year x Number of days of personal use
Standby Charge = (30,000 x 25%) / 365 x 180
Standby Charge = $1,232.88.

In this example, the employee would have to pay a tax on $1,232.88, which is the stand-by charge for the year for using the car for personal purposes.

The **Operating Cost Benefit** is the second part of the taxable benefit for a company car. It is based on personal use of the vehicle and is calculated by multiplying the number of kilometres driven for personal use by a predetermined rate. The predetermined rate for calculating the benefit varies depending on the type of fuel the vehicle uses and the province in which it is used. The rates are determined by the CRA and are updated annually.

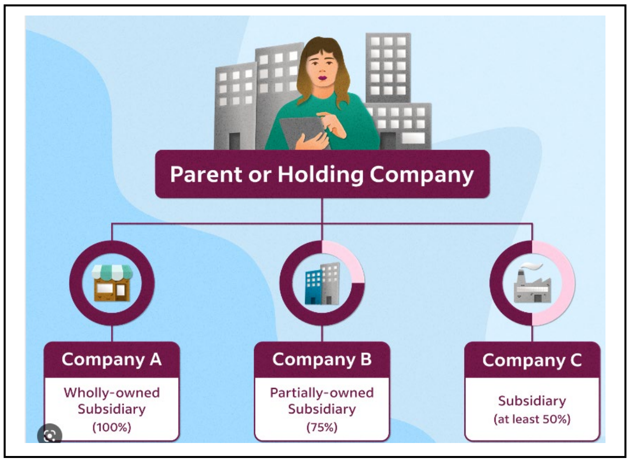
To calculate the Operating Cost Benefit, the employee needs to keep track of the number of kilometres driven for personal use (**use a logbook**!). This includes any personal use, such as driving to the grocery store, visiting friends or family, or using the car for personal errands. Once the distance driven for personal use is determined, the operating cost benefit is calculated by multiplying the number of kilometres driven for personal use by the applicable rate. For example, if an employee drives 2,000 kilometres for personal use in a gasoline-powered car, the benefit of operating expenses would be calculated as follows:

Operating Cost Benefit = personal usage kilometres x local rate
Operating Cost Benefit = 2,000 km. x 28 cents/km
Operating Cost Benefit = $560.

In this example, the employee will have to pay taxes on the $560, which represents the benefit from operating expenses for the year.

It is important to note that both the Standby Charge and the Operating Cost Benefit are **taxable benefits and must be included** in the employee's T4 statement. Employees are required to pay tax on these benefits based on their tax situation. This also applies to a company shareholder who is an employee of the company and uses a company car for personal use.

25. Tax Planning



If you are planning to start a company, you need to seek the help of an experienced accountant, and this will be one of your best investments. An accountant will help you plan the structure of your corporation based on your unique tax situation, making it easier to distribute profits and manage and control your business. For example, by engaging a qualified accountant, it is possible to establish a business structure through a Holding Company or a Family Trust.

Holding Company

A holding company is a business structure used to own other companies and assets. The company does not engage in day-to-day operations or sell goods or services; rather, it owns a controlling interest in the stocks of other companies and receives income from dividends, rent, and capital appreciation. Holding companies can be used for tax planning, estate planning, and creating a separate organization to manage and own investments.

Holding companies are registered following the Business Corporations Act of Canada and are considered separate legal entities from their owners. They are subject to the same tax laws and regulations as other corporations in Canada and are required to file annual financial reports. The structure of a holding company allows for the ownership and management of multiple companies under one roof, providing a certain level of control and asset protection. This structure also simplifies asset and business management, as decisions can be made centrally rather than in each company. Holding companies can also provide flexibility in ownership structure. For example, ownership in a holding company can be divided into shares and sold to different investors, allowing multiple people to have a stake in the assets and businesses they own.

Tax planning with a holding company can become an effective way to minimize the tax burden on a business and its owners. Here are some ways to use a holding company for tax planning:

- Income Splitting: by holding assets and enterprises in a holding company, it is possible to split the resulting income among different individuals, including family members, to reduce the overall tax bill. For example, if the income of the holding company is $100,000, it can be split among several individuals in such a way that each person is taxed at a lower marginal tax rate.

- Tax Deferral: holding companies can be used to defer tax payments by retaining profits within the company. The profits can then be invested in other assets such as stocks, bonds, or real estate, which generate income. This income may be subject to tax at a lower rate than if it were earned directly by an individual or company.

- Capital Gains Tax: holding companies can be used to minimize capital gains tax when selling assets. For example, if an individual sells shares for $100,000, they would be subject to a capital gains tax of 50% of the profit, or $50,000. However, if the shares were owned by a holding company, the holding company could sell the shares and pay the capital gains tax instead of the individual.

- Dividend Tax: Dividends received by a holding company are taxed at a lower rate than other forms of income. For example, if a holding company receives $100,000 in dividends, it may be taxed at a rate of only 15%, rather than at the individual marginal tax rate, which may be much higher.

Family Trust

The family trust is a type of trust that is created in the interests of a family, usually for estate planning and asset management. In Canada, family trusts are often used for tax minimization, asset protection, and transferring wealth from one generation to another.

A family trust is created when the founder (the person who established the trust) transfers assets (such as businesses, securities, or real estate) to the trust. The trust is managed by a trustee, who is legally obligated to act in the interests of the trust's beneficiaries. Beneficiaries can be individuals, such as the founder's children or grandchildren, or they can be organizations, such as charities.

The assets of the trust are held and managed separately from the founder's assets. Income earned from the trust's assets is taxed differently than the founder's income, which can result in significant tax savings. Additionally, because the assets are in a trust, they are protected from creditors and can be more easily passed on to the next generation. A family trust can be a valuable tool for tax planning in Canada. Here are a few ways to use a family trust as part of a tax strategy:

- Income splitting: a family trust can be structured in such a way that the income generated from trust assets is distributed among beneficiaries in lower tax brackets. This can result in a reduction in the family's overall tax bill.

- Capital growth deferral: when trust assets are sold, capital gains can be deferred if the proceeds are reinvested in the trust. This can allow trust assets to grow without immediate tax consequences.

- Estate planning: a family trust can be used to transfer wealth from one generation to the next, which can minimize estate taxes and protect family assets.

- Creditor protection: assets held in a family trust are protected from creditors, which can provide additional security for family wealth.

It is important to keep in mind that tax laws and regulations can often change, and it is important to consult with a professional accountant or tax consultant to ensure that tax planning strategies are being used on a legal basis and are effective.

26. How to Survive a CRA Audit

The audit of the Canada Revenue Agency (CRA) is an examination of a taxpayer's financial records to ensure that they have accurately reported their income and claimed their deductions and credits. The CRA has the right to audit any taxpayer, including individuals, corporations, and other organizations. During the audit, a CRA auditor reviews the taxpayer's financial statements and supporting documentation to verify the accuracy of their tax return. The audit may take place on-site at the taxpayer's home or workplace, or off-site if the taxpayer is required to provide records to the CRA for examination.

The chances of being audited by the CRA depend on several factors, including the type of taxpayer, the nature of their income, and the size and complexity of their tax return. For example, taxpayers who report higher levels of income or use certain types of deductions, such as business expenses, may be more likely to be audited. Additionally, the CRA may select taxpayers for audit based on a random selection process, where taxpayers are chosen randomly for examination. Overall, the chances of being audited by the CRA are relatively low. However, it is important to accurately report your income and claim only the deductions and credits to which you are entitled, as any errors or omissions can result in penalties, interest, or even criminal prosecution.

Recommendations for an Audit

Undergoing a CRA audit can be a stressful and daunting experience, but with some preparation and knowledge, you can increase your chances of a successful outcome. Here are a few tips to help you pass the audit:

- Be organized: the more organized you are, the easier it will be to provide CRA with the necessary information. Keep accurate records and ensure that all supporting documentation is easily accessible.

- Know your rights: you have the right to fair treatment and the right to understand the process. CRA will provide you with information about your rights, so read it carefully.

- Respond on time: make sure to timely respond to CRA's requests for information and documentation. Failure to comply with this requirement may result in fines or sanctions.

- Seek professional advice: if you are unsure about any aspect of the audit process, seek professional advice. A tax specialist can help you understand your rights and obligations and also help you respond to CRA.

- Be honest: it is important, to be honest, and truthful in all respects. If you made a mistake, admit it and work with CRA to correct the situation.

- Keep calm: communicating with CRA can be stressful, but it is important to remain calm and professional. Avoid defensive or confrontational actions and instead focus on providing information.

- Appeal the decision: if you disagree with CRA's decision, you have the right to appeal. There are formal procedures for filing appeals, and a tax specialist can help you navigate this process.

- Understand the audit process: it is important to understand the audit process so that you know what to expect. CRA typically provides you with a letter explaining the audit process and what they will be reviewing. Make sure you have read this carefully and if you have any questions, ask for clarification.

- Maintain good communication: maintain good communication with CRA throughout the audit process. If you need more time to respond to a request, let them know. If you are unsure about something, ask for clarification. Clear and open communication can help ensure a smooth audit process.

- Remember deadlines: make sure you are aware of any deadlines for submitting information or documentation to CRA. Failure to meet deadlines may result in fines or sanctions.

- Review your tax return: before the audit, review your tax return to ensure it is accurate and complete. If you find an error, you should correct it and file an amended tax return. This can help avoid potential fines or penalties.

- Focus on facts: when communicating with CRA, focus on facts and avoid emotions and arguments. Stick to the facts and provide CRA with the information they need to complete the audit.

- Get a second opinion: if you are unsure about your ability to handle the audit process, consider getting a second opinion from a tax professional. They can provide you with guidance and support throughout the process.

Reach out to us at **Affordable Accounting Solutions** and we will help you pass the audit and protect your interests. Remember, a CRA audit does not necessarily mean that you have done something wrong. It is simply a review of your tax return to ensure that you have accurately reported your income and claimed the appropriate deductions and credits. With proper preparation and guidance, you can successfully navigate a CRA audit.

27. Dissolution of Corporation

There are several reasons why a corporation may decide to close in Canada. Here are some common reasons:

- The corporation is no longer generating revenue or profits, and it is no longer feasible to continue operating.
- The corporation is experiencing financial difficulties, and the directors and shareholders have decided to close the business to avoid further losses.
- The owners or shareholders of the corporation have decided to retire or move on to other types of business.
- The corporation has fulfilled its purpose, and there is no need to continue operating.
- The corporation has lost its legal status due to non-compliance with legal and regulatory requirements, such as filing annual reports or paying taxes.
- The corporation has been acquired by another business, and its operations have been merged with the acquiring company.

Before deciding to dissolve a corporation, it is necessary to consult with a lawyer or accountant to ensure compliance with all legal and financial obligations. Closing a corporation in Canada can be a complex process with several stages and tax consequences. During the process of closing a corporation in Canada, shareholders should:

1. <u>Hold a meeting of directors and shareholders</u>. The first step in closing a corporation is to hold a meeting of directors and shareholders. At the meeting, shareholders must vote to dissolve the corporation, and the directors must pass a resolution sanctioning the dissolution. The corporate record book should be filled with a record of the meeting and the shareholders' resolution.

2. <u>Notify the Canada Revenue Agency (CRA)</u>: After making the decision, the corporation must notify the CRA of its intention to liquidate. The corporation must file a request for a Tax Clearance Certificate with the CRA, indicating that all outstanding taxes have been paid, and all tax returns have been filed.

3. File Articles of Dissolution: The next step is to file Articles of Dissolution with the provincial or territorial government where the corporation is registered.

4. Notify interested parties and settle debts: The corporation must notify all interested parties, including clients, suppliers, creditors, employees, and shareholders of its closure. The corporation must also settle any outstanding debts and obligations, including tax debts before it can be dissolved.

5. Cancel business licenses and registrations: The corporation must cancel all business licenses, permits, and registrations it holds. Failure to do so may result in penalties or sanctions.

6. Distribute assets: If the corporation has assets, they must be distributed among the shareholders following the corporation's bylaws or applicable laws.

There are several tax implications to consider when closing a corporation in Canada. Here are some key considerations:

- Tax clearance certificate: As previously mentioned, the corporation must obtain a certificate before it can be closed. The certificate must state that all outstanding taxes have been paid and all tax returns have been filed.

- Capital gains tax: If the corporation has assets such as real estate or securities, they may be subject to capital gains tax upon their sale or distribution to shareholders.

- Income tax: The corporation may be liable for income tax on any income earned before the date of closure. Any income earned after the date of closure will be subject to personal income tax for the shareholders.

- Goods and Services Tax/Harmonized Sales Tax (GST/HST): The corporation must file a final GST/HST return and pay any amounts owing.

- Payroll taxes: The corporation must file a final payroll return and pay all applicable payroll taxes.

In conclusion, closing a corporation in Canada can be a complex process, and it is extremely important to take the necessary steps to ensure the proper closure of the corporation and fulfillment of all legal and financial obligations. Failure to comply with legal requirements can result in sanctions, fines, and other legal consequences. By properly closing the corporation, shareholders can avoid future obligations and ensure the proper distribution of any remaining assets. In addition, closing the corporation can provide a fresh start for shareholders, allowing them to move on to new ventures or exit their commercial activities.

Overall, although the process of closing a corporation may be challenging, it is a necessary step in the business lifecycle, and with the help of professionals in law and finance, it can be successfully completed. It is strongly recommended to seek advice from a lawyer and accountant who can guide you through the process of closing the corporation. They can help you understand the legal and tax consequences and ensure the proper and timely filing of all necessary documents.

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