

An Entrepreneurs' Guide to Basic Taxation Issues



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Agenda

Sole proprietorship vs. corporation taxation

Remuneration options

Common business expenses

Indirect taxes (GST & PST)

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Definitions

- Sole Proprietorship:
 - Unincorporated business
 - Owner pays personal tax on profits from business
- Partnership:
 - Unincorporated business
 - Multiple owners share in profit and liability of business
- Corporation:
 - Legal entity that is separate and distinct from owners
 - Same rights and responsibilities of a person

Sole Proprietorship: An Overview

Advantages



- Losses can be used to lower other personal income.
- Lower administrative costs

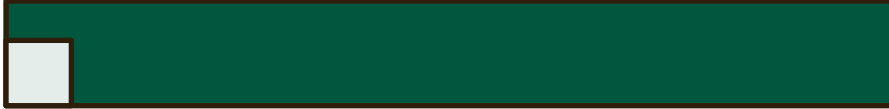
Disadvantages



- No advantageous tax rates
- Personal liability

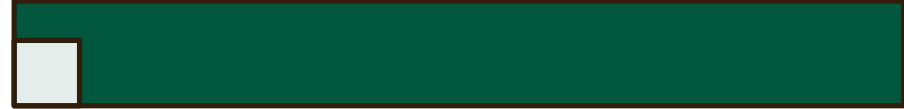
Partnership: An Overview

Advantages



- Risk split amongst partners
- Ability to choose split of profit (%) from year to year

Disadvantages



- Personal liability
- Partnership disputes

Corporation: An Overview

Advantages



- Limited liability
- Favourable tax rates
- Ability to defer taxes
- Easier to sell

Disadvantages



- Higher administrative costs
- Limited use of losses
- Still may require personal guarantees on financing

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Compensation:

How Do I Pay Myself?

- Profits from the business
 - The net of your sales less related expenses in your pocket
- Salary
 - Personal salary (corporation only)
 - Salary to family members
- Dividends (Corporation Only)
 - Do not need to remit CPP
 - Beneficial in established corporations with retained earnings
 - Can facilitate income-splitting

Compensation: How Do I Pay Myself?

- Recommendation
 - Every situation is unique and requires careful consideration

Cash Management:

- Keep business and personal expenses separate
 - Separate bank accounts and credit cards
 - Makes bookkeeping easier
 - Eliminates confusion
 - Have a budget and monitor frequently.

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Common business expenses

Automobiles: Unincorporated Business

- Claim business portion of your automobile expenses:
 - Eligible expenses include gas, repairs and maintenance, license, insurance, interest on car loan, lease payments, capital cost allowance on automobile.



Common business expenses

Automobiles: Incorporated Business

- *Option 1:* Keep vehicle in your personal name and get reimbursed by the corporation on a kilometre basis for business use:
 - Limited to \$0.55 on the first 5,000 kilometres and \$0.49 thereafter (2015)
 - For 2016, rates will change to \$0.54 for the first 5,000 km and \$0.48 per km thereafter
 - Reimbursement does not have to be included in your personal income
 - Deductible to the corporation

Common business expenses

Automobiles: Incorporated Business

- *Option 2:* Keep vehicle in your personal name and get paid a flat monthly allowance for the business use of your vehicle
 - Deductible to the corporation
 - Must be included in your personal income
 - You can claim auto expenses against the income on your personal tax return

Common business expenses

Automobiles: Incorporated Business

- *Option 3: Company owns the vehicle*
 - Company can claim operating expenses and capital cost allowance on the vehicle
 - A benefit will be included in your personal income if the vehicle is available for your personal use
 - Can be quite expensive

Common business expenses

Automobiles: General Guidelines

- Keep a log to support the business use
- Limits on expenses for 2015:
 - Capital cost allowance
 - Addition limited to \$30,000 plus PST and GST
 - Interest expense
 - Limited to the lesser of the total interest paid and $\$10 \times$ the number of days for which interest was paid
 - Lease expense
 - Limited to \$800 per month based on lease signing date

Common business expenses: Home Office Expenses

- Unincorporated business:
 - To claim home office expenses, you must meet one of the following tests:
 - The work space is your principal place of business, or
 - The work space is used exclusively for the purpose of earning income from business and is used on a regular and continuous basis for meeting the clients or customers of your business.

Common business expenses: Home Office Expenses

- Incorporated business:
 - Must be principal place of business
 - Determine business use and charge to corporation

Common business expenses: Home Office Expenses

- Eligible expenses:
 - Heat and light
 - Property taxes
 - Mortgage interest
 - Insurance
 - Rent
 - Repairs and maintenance
 - Capital cost allowance (usually not desirable)

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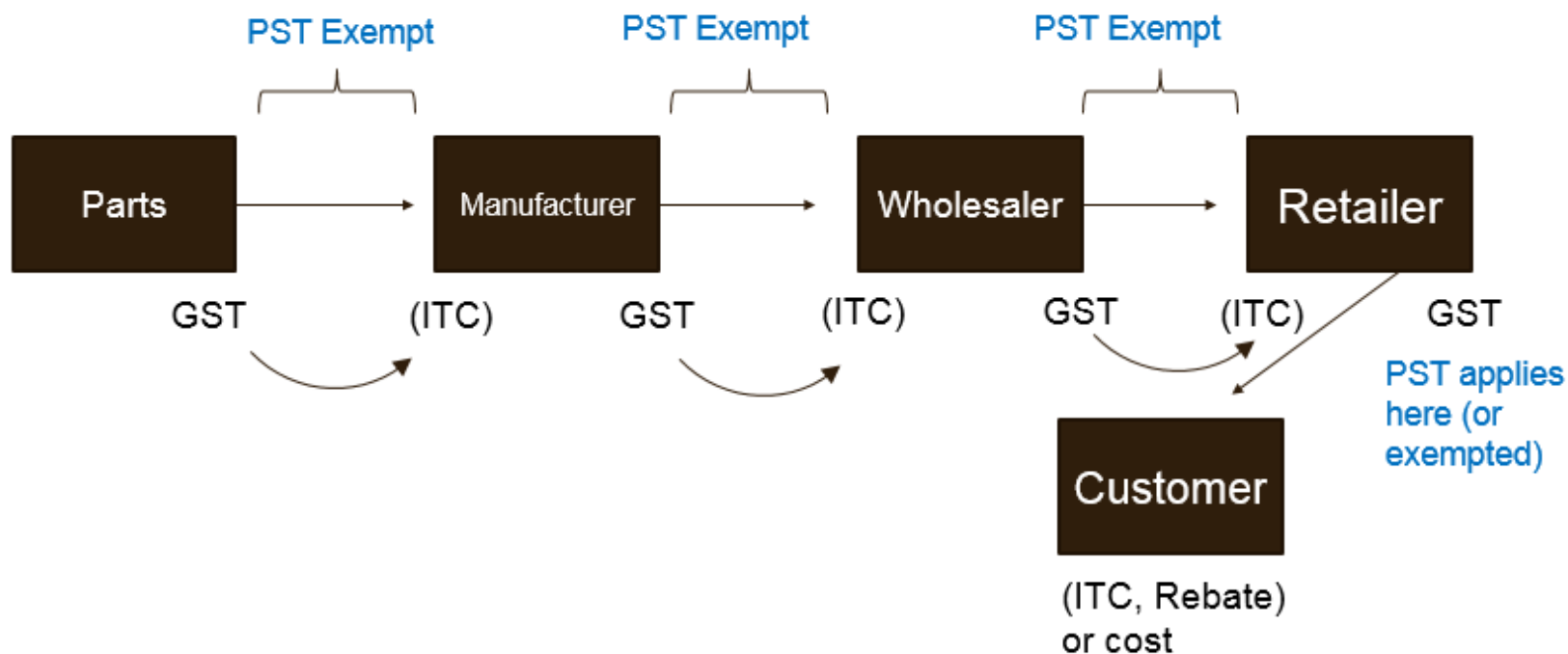
Common business expenses

Indirect taxes (GST & PST)

What is “Indirect Tax”?

- A tax collected by an intermediary (such as a retail store) who bears the ultimate economic burden of the tax (such as the consumer)
- GST – Goods and Services Tax
- PST – Provincial Services Tax
- Both required to be filed either monthly, quarterly, or annually depending on amount collected and/or payable

GST and PST Systems



When to Register for GST

- \$30,000 threshold for businesses in a year - after this point you must register
- May want to register early if the business has high start up capital asset costs
- Non-deductible penalties for late filing – due one month after period end
 - Failure to file penalties
 - Failure to accurately report penalties

GST - <http://www.cra-arc.gc.ca/gsthst-netfile>



Government of Canada / Gouvernement du Canada | Canada.ca | Services | Departments | Français

Canada Revenue Agency

Canada

Individuals and families | **Businesses** | Charities and giving | Representatives

Home → Online services and other e-services → For business → GST/HST NETFILE

Resources

- Online services**
- Forms and publications
- A to Z index
- Enquiries

GST/HST NETFILE

If this is your **first time using the service**, we recommend that you review the links under "Topics for GST/HST NETFILE."

When you are **ready to file your return**, select the "Ready to file" button.

[Ready to file](#)

Topics for GST/HST NETFILE

- [About GST/HST NETFILE](#)
- [Before you start](#)
- [Eligibility](#)
- [Need an access code?](#)

Common GST Deficiencies

- Using payable and receivable account incorrectly
- Mixing up line 108 (ITC) and line 105 (Payable)
- Meals – can only claim 50% GST as well
- Invoices – Not including GST registration number
- Incorrect rates – out of SK the GST/HST rates differ

PST

- As soon as a business exists PST must be charged unless the business is PST exempt
- PST Vendor license is obtained through the Ministry of Finance
- PST is due 20 days after period end date
- PST is filed through an online system known as SETS

PST - <https://www.sets.gov.sk.ca>



FINANCE

Saskatchewan Electronic Tax Service

Box 200, 2350 Albert Street, Regina, SK S4P 2Z6

Tuesday, February 23, 2016

[Help](#) | [Contact Us](#)

WELCOME TO SETS!

Choose one of the following business-related tax forms to file, pay, view or renew:

- | | |
|--|--|
| <ul style="list-style-type: none"> <input checked="" type="radio"/> PST, Liquor, Fuel, BCP, CCT, IPT or Tobacco Tax <input type="radio"/> Propane Vendor Refund <input type="radio"/> Farm Fuel - Fuel Tax Exemption Permit <input type="radio"/> Complete an Audit Survey | <p>IFTA - International Fuel Tax Agreement</p> <ul style="list-style-type: none"> <input type="radio"/> Quarterly Fuel Consumption Report <input type="radio"/> Annual License Renewal <input type="radio"/> Order Additional Decals
(only after an annual renewal has been filed) |
|--|--|

You can electronically file tax returns and/or make payments for the following taxation programs:

- Beverage Container Program
- Corporation Capital Tax
- Insurance Premium Tax
- International Fuel Tax Agreement (IFTA)
- Liquor Consumption Tax
- Manufacturer's Fuel Tax
- Propane Fuel Tax Rebate
- Provincial Sales Tax (PST)
- Tobacco Tax

E-file/Access Code:

OR

User ID:

Password:

Login

Login

To use this service, your business must have received one of the following from Saskatchewan Finance:

- a tax return with an **E-file/Access Code** printed on it
- a **User ID** and **Password** (passwords are **case sensitive**)

Common PST Deficiencies

- Forgetting to self-assess on out of province/country purchases or self-assessing incorrectly
- Assuming there are PST ITCs
- Forgetting to capitalize PST on assets purchased

Questions?

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Appendix 1

- Personal tax brackets:

2015	
\$0 - \$11,327	0%
\$11,328 - \$15,639	15%
\$15,640 - \$44,028	26%
\$44,029 - \$44,701	28%
\$44,702 - \$89,401	35%
\$89,402 - \$125,795	39%
\$125,796 - \$138,586	41%
Over \$138,587	44%