Top Tax Tips for Small Business

Take Advantage of All Strategies

There are actions you can take with your taxes that would bring huge growth to your savings and investment strategy. A year-round tax plan will provide the greatest benefit since you're able to take advantage of all available options, not just those that happen at tax filing time.

To keep tax liability to the legal minimum requires careful planning and knowledge of the very complex Income Tax Act.

Our Best Tax Tip...Keep Good Records

In order to fairly consider what tax strategies are available, complete and organized records are essential. In any tax assessment, CRA is right and you are wrong, unless your records prove otherwise.

Plus, keeping good records will:

- Get you back to work sooner in event of an audit
- Help you avoid fines: If CRA deems that you have bad records, you can be fined
- Ensure you collect the money that is owed to you

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Rules for Good Bookkeeping

Books, records and supporting documentation must be:

- Reliable and complete
- Able to assist in fulfilling tax obligations and calculate entitlements
- Inclusive of other documents, such as appointment books, logbooks, income tax and GST/HST returns

As a general rule, all records and supporting documents must be kept:

- 6 years (starting at end of tax period)
- For each business
- Accessible to CRA
- In Canada

Realities of an Audit

As an example of how good records can help, here are some stats on how an audit affects the average business owner.

61.6 Hours Average amount of time spent complying with CRA auditors

9.8 Days of lost productivity

12.6 billion spent by small businesses every year on tax compliance

Small and medium-sized businesses are often flagged for audit projects. And the CRA is not just looking at your documents so it's best to make it as easy as possible to review your business by controlling the part you can: your records.

The Top 10 Tips for Small Businessess

1. Always file a tax return and file on time.

There are benefits even if you don't owe tax such as recovering overpaid tax, taking advantage of refundable tax credits and creating contribution room in RRSP/TFSAs. By filing on time, you'll avoid late-filing penalties. Plus consistent late filings can be an audit trigger.

2. Time capital gains and losses to reduce your overall tax burden.

If you incur a capital gain early in the tax year, you can choose to recognize capital losses towards the end of the year to offset the gains.

3. Keep business and personal finances separate.

Combining loans and comingling businesses can lead to a legitimate expense being overlooked or over-claimed. Planning ahead can save time, money and audit fees.

4. Make mortgage interest tax deductible.

Refinance or take out a second mortgage on your home and use the funds in an investment with potential to earn income. Any interest on the amount used as an investment is tax deductible.

5. Get the facts before you rent out a portion of your home.

Aside from the legal implications, there is a tax implication to consider: capital cost allowance (CCA). Claiming CCA on a portion of your home against rental income is permitted and may have short-term gains. However, the long-term implication is that your principal residence will attract capital gains tax upon sale.

6. Use spousal RRSP to split income.

Move reportable income to the spouse in a lower tax bracket so less tax is paid on the same income upon retirement.

7. Invest in a TFSA.

Interest earned or capital appreciation is not included as income. Contribute up to $5,500 in the 2014 tax year and up to $31,000 since 2009.

8. Plan your RRSP contributions.

The tax deduction of the RRSP may be better used in years when you anticipate having higher net income, while TFSAs may be better used in lower income years.

9. Have a risk management and succession plan.

Make sure you protect your farm from unforeseeable market circumstances with risk management planning. This could include federal and provincial programs such as AgriStability and AgriInvest. Also, consider your long-term future through succession planning to minimize tax implications.

10. Always keep good records!

Organized records save you time when filing income tax and HST remittances but they also allow you to efficiently deal with CRA. Delays in follow-up requests are an audit trigger. Good records will also help you understand your business health, improve your odds of securing capital, identify sales trends and control spending. It can be overwhelming so know when to get help.