

Worry Less about Paying Taxes by Planning Now to Reduce Taxes

by Colin Wilson

The New Year can herald an abundance of business opportunities – along with an abundance of bills and taxes. By using the first few months of 2008 to do some tax planning and organizing however, you can reduce your spring income tax bill. You might even generate enough savings to develop those business opportunities.

Review your tax returns from prior years to identify any unused tax deductions or credits that you may be able to use this year.

If your business had a loss last year or in any of the previous three years, you can apply this loss against other sources of income, including investment income, capital gains or employment income.

Many business expenses go unclaimed because owners forget to record expenses as they spend money. Make recording expenses and saving receipts a daily habit. And keep in mind that even if you don't have receipts for incidental expenses such as parking meters and cab fares, you may still deduct these expenses at tax time, provided they are reasonable and you have documented them.

The following expenses are also often overlooked so be sure to collect receipts and claim them at tax time: auto expenses, bad debts, books, subscriptions, cellphone, depreciation for computer, education/training, entertainment and meals, gifts, membership dues, parking, seminars, conventions and trade shows, cab and transit fares, and travel.

If you take out a business loan and the lender requires that you purchase a life insurance policy as security for the loan, deduct the cost of the premiums to the extent the debt covers the policy.

Hire one or more family members. By paying a salary to your spouse or children who pay income tax at a lower marginal rate than yours, you will reduce your business income as well

as taxes for your family. Keep in mind that salaries must be reasonably relative to the services performed by the employee.

Claim the relevant capital cost allowance (CCA) for any capital purchases you made last year, such as a computer, phone, copier or furniture. CCA is a discretionary deduction so, in some cases, depending on your income level, it might make sense to not claim CCA and carry any unused amount forward to offset future income taxes.

Maximize your charitable donation tax credit by making donations of at least \$200, which are eligible for a combined federal and Ontario tax credit of about 40% (versus 21% for amounts below \$200).

Contribute the maximum amount to your RRSP; for 2007, this is \$19,000 or 18% of your 2006 earned income, less pension adjustments plus any unused contribution room from previous years. If your business is incorporated, you are in your mid-forties or older, and earn at least \$100,000, consider establishing an Individual Pension Plan (IPP). This will enable you to make contributions that are significantly greater than what you can contribute to an RRSP.

Claim the portion of all deductible automobile expenses related to business use. These include license and registration fees, insurance, maintenance and repair, fuel, oil and lubricants, washes and parking fees. You can also claim capital cost allowance (on the first \$30,000 of the cost of the auto, plus GST and PST) if you purchased the vehicle; interest expense (to a limit of \$300 per month) if you have an auto loan; or lease payments (for the first \$30,000 of the cost of the auto or \$800 per month, plus GST and PST) if you lease your vehicle.

Consider establishing a Private Health Services Plan for your business, which allows you to deduct your personal and family health and dental expenses against business income. When your business has no full-time employees other than you,



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you can deduct up to \$1,500 each for yourself, your spouse and other family members who are at least 18 years of age and \$750 for each member of your household who is under the age of 18.

If you are self-employed, you can deduct the employer's portion of earned income contributions for the Canada Pension Plan as well as premiums paid for coverage under Ontario's Workplace Safety and Insurance Board.

If your business is incorporated, decide what amounts of income to draw from the corporation as salary, dividends or bonus in order to achieve the best tax results. Consider paying yourself sufficient salary to maximize your RRSP contribution and your family's child care deductions.

Make your quarterly income tax instalment payments on time to avoid interest penalties.

Feel your tax worries lifting? Ask your accountant what else you can do this winter to increase your tax savings this spring. ☞

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