

## 8 ideas for lowering net income to save on tax:

1. Keep all receipts – any receipts that are lost are expenses that cannot be claimed. If there is no explanation for an expense from your business bank statement and no receipt it becomes an owner's withdrawal or shareholder's withdrawal.
2. Keep a kilometer log for your vehicle. If you are using your vehicle regularly for business 90% or more as it is part of your business you are required to keep a log for the first year and for 3 months of each year after that. If you don't use your vehicle regularly for business but occasionally, keep a kilometer log. Those kilometers add up. Also, if you have an employee or spouse or someone else running around in their vehicle for your business tell them to keep a kilometer log and reimburse them for the kilometers driven at the rate for your province or territory.
3. Look at the assets in your business. What assets are wearing out? Which ones need replacing? If you need to replace an asset buy that asset in the last 6 months of the year. Amortization, or Depreciation as it used to be called, is cut in half in the first year of buying an asset. Therefore buying an asset in the second half of the year gives you half the depreciation but you've only had it 6 months or less so you are not losing any depreciation. The best idea is to buy it on the last day – one condition on this though is that you have to ensure that it is delivered and being used on the last day of the year in order to claim it. You cannot just buy assets to use at a later date for a tax break.
4. What supplies do you use up regularly in your business? Stock up at year end. Be careful with this one as if you stock up too much it is considered inventory until it is used up. Stock up only what you will use up in the first 3 months or so.
5. If you have employees you can give them up to \$500 per year in gifts. This is tax free to them and lowers your tax as it is an expense of the business. There is a catch though, the gifts have to be actual gifts, the gifts cannot be cash, a check or gift cards as the employee will be taxed for those items.
6. Bonuses to your employees at year end are taxable to the employee but a good incentive for them and a tax savings for you as that is also an expense.
7. If you own a corporation and do not give yourself a paycheck in regular payroll each month but give yourself dividends, look at giving yourself a paycheck each month. Payroll is an expense of the business where dividends are not. Weigh the options of giving yourself a paycheck ; compare the tax savings of the corporation to the amount of remittance you will pay each month less the refund you may receive in your personal tax.

Example:

\$5000 per month paycheck – remittance each month is \$1416.  $\$1416 \times 12 \text{ months} = \$16992$ .

\$950/month is tax; \$466 is CPP. There will be a maximum to CPP for the year and you will have contributed that. Therefore: total remittance for the year will be \$16560.

Minimum refund amount for single person and no deductions would be \$291.

\$60,000 per year = \$9000 in tax savings for the corporation.

Total payout each year  $\$16560 - 291 - 9000 = \$7269$ .

- Now you have to make a decision – doing payroll for yourself would enable you to contribute to CPP each year and also increase your amount of contribution room to your RRSP. If these things are something you want to ensure happen then payroll may be the answer. If you are contributing to RRSPs then your refund will be larger as well.
8. If you are a sole proprietor – do not pay yourself a paycheck as you are already taxed on the net income of your business. Looking at your net income though, what other options do you have to lower that for year end? Talk with your tax preparer and ask them what potentially could be your tax bill and then ask them about income splitting with a spouse, how much contributions to RRSPs could lessen your tax and any other tax savings they could recommend? Do this before year end – after year end you only have the RRSP option for two months.