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## Applebaum Commisso Tax Tips

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### Tax Tips Corporate:

#### Tax information everyone should know:

##### Small business deduction:

The effective tax rate for a corporation that is defined as a Canadian Controlled Private Corporation is 15% on the first \$500,000 of active business income for 2016. Above that amount is 26.5%.

##### Capital gains exemption:

If you own shares in a Qualified Small Business corporation, you may utilize an \$800,000 capital gains exemption if you sell your qualified shares. The result of the exemption is that you get to sell your shares tax free on the first \$800,000 of the capital gain.

Note: Although it is tax free, you may be required to pay personal minimum tax, which will be carried forward and used to reduce your personal tax liability in the future.

##### Tax rates:

There has been a change in the tax rates charged on eligible and non-eligible dividends. This results in perfect integration between taking salary of dividends. The main benefit of having a corporation is tax deferral, i.e., you only pay tax of 15% on the first \$500,000 in income and 26.5% on anything above.

#### Government audit areas:

**In the past few years, the government has begun to focus on certain areas.  
Below is a summary of them:**

**1. Personal use of automobile held in a corporation:**

Could result in double tax situation given government only allows you to capitalize \$30,000 for automobile and the employee must pay a standby charge on the FMV of the vehicle. Also the government has been requesting travel logs of business use of vehicles. If you drive to work and home every day, that would be considered personal use. Keep expensive cars out of the company.

**2. Employee vs. consultant:**

This is determined based on different factors, i.e., who controls work hours, does the consultant have more than one client, is he/she provided with an office? If deemed to be an employee, your company can be responsible for the individual's withholding taxes. It is recommended that all consultants you do business with be incorporated to prevent the liability. Note: The government can retroactively assess, if someone is deemed an employee.



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### 3. Personal service business:

Whether the person is incorporated or appears to be just an employee. Number of employees will be a factor. This is based on total number of clients.

### 4. Other contentious areas:

- a. Meals and entertainment: Make sure you put the name of the client on the back of the receipt to keep track.
- b. Golf membership dues: Are non-deductible and could become a taxable benefit to the recipient.

## Tax planning options to consider:

### Company medical expenses and cost plus options:

You should consider establishing a medical benefits plan in your corporation to allow you to deduct medical expenses against business income. Once established, you can also utilize the cost plus option for one-time expenses that are not normally covered by a standard medical plan.

### Life insurance held in a corporation:

There are benefits to holding life insurance in a corporation. Although in most cases the premiums will not be deductible for tax purposes, please be aware that you will be using pre-taxed money to pay your premiums. When the person dies, the life insurance policy can come out of the corporation tax-free. There are a few things to consider, so please contact someone at Applebaum, Commisso LLP before executing this plan.

### Dividend income to a child over the age of 18:

If you have a child over the age of 18 not earning any income or very little income, you should consider paying a dividend through a trust to utilize his/her personal income tax credits. A person with no other income can receive a \$50,000 dividend tax free. Please contact Applebaum, Commisso about setting up a family trust through a corporate reorganization.

### Employment Insurance (EI) paid on majority shareholder wages:

The owner of a corporation is exempt from paying himself/herself or family members (i.e., spouse and children) EI, which can result in a significant savings to the individual and company.



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### Tax credits and government incentive plans available:

#### Scientific Research and Experimental Development (SRED) tax incentive program:

A Canadian-controlled private corporation (CCPC) can earn an investment tax credit of 35%, up to \$3 million of qualified expenditures for SR&ED carried out in Canada, and 20% on any excess amount. Other Canadian corporations, proprietorships, partnerships, and trusts can earn a tax credit of 15% of qualified expenditures carried in Canada.

Types of SR&ED that would qualify:

- 1) Experimental development
- 2) Applied research
- 3) Basic research
- 4) Support work

If you think you may qualify, please contact Applebaum, Commisso, as we would be happy to assist you in getting the maximum claim.

#### Government hiring subsidies and credits:

The federal budget created a hiring credit for small business, a credit intended to stimulate new employment and support small business. The credit will automatically be given based on CRA's calculation, and no application is required.

The credit is a relief of up to \$1,000 relating to EI premiums paid.

In addition, there is a co-operative education tax credit available to employers who hire students enrolled in co-operative education program at an Ontario University or College. The maximum credit available is \$ 3,000.

For more information see the or CRA's website at <http://www.cra-arc.gc.ca/hiringcredit/>

#### Apprenticeship training tax credit:

The Apprenticeship Training Tax Credit is a refundable tax credit. It is available to employers who hire and train apprentices in skilled trades. The maximum credit per apprentice is \$10,000 per year for four years.

The credit must be claimed on Schedule TDSCH552 and filed with the T2 return. The Ministry of Finances website provides more information: <http://www.fin.gov.on.ca/en/credit/atcc/>



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### **Film, television and media tax credits:**

Tax credits are available for such services and computer animation, film, sound recording and other media-related endeavors.

### **Wage subsidies:**

Available to an employer who hires a broad range of employees. More information is available at: <http://www.canadabusiness.ca/eng/page/2739/>

### **Other tax information to be aware of:**

#### **Penalties on late filings:**

The penalty for late filed T2 returns is the total of:

- a) 5% of unpaid tax as of the due date of the return and
- b) 1% of the unpaid tax as of the due date of the return for each complete month that the return is late (max. 12%)

Penalty is doubled in both regards if there was a previous offence in the last three years and there is a formal demand from CRA for filing the second return. Also the person or corporation is guilty of an offense under the law and may be required to pay an additional fine of \$1,000 up to a maximum of \$25,000 and faces possible imprisonment.

Interest is also charge at the prescribed rates on the penalties that commence on the due date of the return.

#### **Installment payments:**

Installments are required for small business corporations on a quarterly basis. Final payment of tax is due three months after year end. (If in the previous taxation year the taxable income was greater than the business limit, then the corporation is required to pay tax [final installment] within two months of year-end.)

Interest is charged at the prescribed rates, which are subject to daily compounding. (Client has option to early pay the following installment to earn interest from the government, which can be used to offset against interest owing from late payments.)

Note: Interest and penalties are not deductible relating to income taxes.




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<b>Prescribed rates for the 3rd quarter of 2014:</b>
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Tax and Duty	Overdue Remittances	Overpaid Remittances	
		Corporate Taxpayers	Noncorporate Taxpayers
Goods and Services Tax (GST)	5%	1%	3%
Harmonized Sales Tax	5%	1%	3%
Air Travelers Security Charge	5%	1%	3%
Excise Tax (non GST)	5%	1%	3%
Excise Duty (except Brewer Licensees)	3%	1%	3%
Excise Duty (Brewer Licensees)	3%	N/A	N/A
Softwood Lumber Products Export Charge	5%	1%	3%

**Important dates for filing are listed at:**

<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/ll-dts/menu-eng.html>

### CPP changes:

If 65 and working, you will now have to contribute to CPP. If you are between 66 and 70, you can elect to stop contributing to CPP if you are still working. You must submit the form (CPT30) one month before you want to stop contributing to CPP.

### HST things to consider:

Only 50% of HST related to meals and entertainment can be claimed on your HST return as an ITC.

If you are a yearly filer and owed HST in the prior year, you are required to pay installments to avoid interest and penalties on the balance owing in the following year.

Intercompany management and rental fees:

### HST charged on intercompany management fees and rent:

To avoid charging HST on intercompany management fees or rent between companies at least 90% of one corporation has to be owned by the other corporation or a subsidiary of the other corporation. It is important to remember that the election is not available where two corporation are simply owned by the same individual. NOTE: Form GST25 needs to be completed (not required to file).