THE GLOBE AND MAIL

CESTNICK

TAX MATTERS

There is time before year-end for business owners to save taxes

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My friend Mike is a business owner. He says he's had two key goals for 2021. The first was to improve the mental well-being of his employees – he's hired a corporate wellness officer – and the second has been to pay less tax this year.

"And how are you doing with the tax planning?" I asked.

"Well, I've written to the Canada Revenue Agency to cancel my subscription. I asked to be removed from their mailing list, but I'm still getting mail from them – so I guess I'm not doing very well," Mike replied.

Mike was not very optimistic about paying less tax in 2021, so I shared with him some year-end tax planning ideas that can help many business owners. Here's what we talked about.

Determine salary or dividends. If you operate through a corporation, how should you compensate yourself? Salary can provide RRSP contribution room, CPP benefits in retirement and a deduction for your corporation. Dividends can result in lower taxes personally and a potential refund of taxes in your company – but your accountant should do the math first. If you don't need cash to live on, consider leaving your earnings in the company to defer tax a little longer.

Accrue compensation. Consider declaring bonuses to yourself or family members working in the business before the company's year-end. The company gets a deduction as long as the amounts are paid out within 179 days after the company's year-end. This can reduce taxes owing by your corporation.

Minimize passive income. The small business deduction can reduce the tax rate for your Canadian-controlled private corporation (CCPC) on active business income. But if your company earns more than $50,000 of passive investment income this deduction will be reduced. Minimize passive income by deferring the realization of capital gains until after your year-end, investing excess cash in a life insurance policy or setting up an individual pension plan (IPP).

Utilize the LCGE. The lifetime capital gains exemption (LCGE) can shelter the first $892,218 (in 2021) of gains on your qualifying small business corporation (QSBC) shares from tax. Ensure that your company qualifies (substantially all of the assets must be used in an active business carried on primarily in Canada) and if it doesn't, consider taking steps before year-end to allow it to qualify. You can even utilize the LCGE today without selling your business. Speak to a tax pro about it.

Increase cash flow now. If your business is struggling with cash flow, consider improving things by reducing or deferring tax installments (if you're expecting less business income this year), maximize refundable tax credits (like research and development, film, media and digital incentives). Also, consider realizing any capital losses that could be applied against capital gains in the past three years to recover taxes paid in the past, and try to recover any income, sales, or customs tax overpayments from the past.

Plan for retirement. If you have excess cash in your corporation available to save for retirement, consider paying additional salary or bonuses to yourself and contribute those amounts to an RRSP if you have RRSP contribution room. The RRSP deduction will offset the tax on the extra compensation. You can even have your corporation contribute directly to your RRSP, which will avoid any withholding tax on that amount. Also, consider setting up an IPP (mentioned above) to create a pension for retirement.

Make charitable donations. If you have charitable intentions, and your business is looking for more deductions, making donations to a registered charity before year-end is a great idea. A corporation is entitled to a tax deduction for donations, whereas an individual is entitled to a tax credit. A tax credit may save more tax, so speak to a tax pro about how to best structure donations.

Make tax-free withdrawals. If you need more cash from your corporation, consider making tax-free withdrawals this year in the form of capital dividends, a repayment of shareholder loans owing to you by the company, or making a withdrawal of paid-up capital (generally the amount you paid for shares in your company). Your friendly tax professional can help here.

Accelerate asset purchases.
Consider buying needed assets today. If the asset is available for use before year-end, you'll be entitled to claim capital cost allowance (CCA, or depreciation) in the current year. Further, the 2021 federal budget announced that immediate expensing is available for most capital assets purchased by a CCPC until the end of 2023.

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