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CESTNICK

TAX MATTERS

As year-end approaches, business owners should consider these ideas to save tax

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My good friend Danny wanted to create a part-time income from a small business. He settled on clowning and bought himself a very expensive clown costume, which he proudly says is made of poly-jester. That's his newest bad dad joke.

But no joking, he's built a thriving, multi-clown agency. He says his son now wants to take over the business, but he's got big shoes to fill – literally. Danny called me looking for ways to pay less tax. I shared these year-end tips with him this week.

1. Buy it, and use it, before Dec. 31. The proposed Productivity Mega Deduction (PMD) allows a 100-per cent first-year write-off for most equipment, computers and software purchased and available for use after Sept. 14. "Available for use" means a laptop still in its box at year-end won't count this year. Buildings, goodwill and certain vehicles are generally excluded, and if you're unincorporated, the deduction can't create or increase a business loss.

2. Hire your family. Pay a lower-income spouse or kids a reasonable salary for working in the business. The business deducts it, they pay less tax than you, and they build RRSP room and CPP eligibility. Just be careful. Paying your 10-year-old $60,000 to stuff envelopes won't fly. The wages have to be reasonable for the work done.

3. Deduct your health costs. Premiums paid to a private health services plan (PHSP) may be deductible against your business income, within limits (there's no deduction for proprietorships in Quebec). A PHSP can cover eligible medical costs, and the deduction could provide more tax relief than claiming a medical expense tax credit for those same costs paid personally.

4. Don't forget your retirement. No workplace pension? Contribute to an RRSP for yourself, or a spousal RRSP. You could also consider the Saskatchewan Pension Plan, which any Canadian resident can join. You can contribute up to $33,810 for 2026, subject to your RRSP room. Just remember, dividends don't create RRSP room. You'll need $196,611 of earned income in 2026 to make the maximum RRSP contribution of $35,390 in 2027,

so paying yourself additional salary or bonus by year-end could help. Salary also builds your CPP pension.

5. Consider an individual pension plan. An IPP can boost your retirement savings beyond what an RRSP allows. Contributions are deductible to your company, and income earned in the plan isn't caught by the passive investment income rules that can erode your company's small business deduction (see tip 8). Talk to an adviser or actuary familiar with these plans.

6. Consider EI special benefits. If you own more than 40 per cent of your business you're generally excluded from paying employment insurance premiums or claiming benefits. But you can opt in to qualify for maternity, parental, sickness or compassionate care benefits. Expect a 12-month wait before you can claim, so don't leave it late. Once you've claimed, you'll pay premiums for as long as you're self-employed.

7. Think about incorporating. If you earn more than you spend, a corporation can defer tax on earnings you leave in the company. Thanks to the small business deduction, the tax rate on active business income averages just 10.8 per cent across Canada in 2026 and 10.6 per cent in 2027 – much lower than personal tax rates anywhere in the country. This leads to my next tip.

8. Leave cash in the company. If you don't need the money, leaving it in your corporation leaves more after-tax dollars to reinvest. But once passive investment income in your company tops $50,000, your small business deduction (SBD) shrinks by $5 for every $1 over that threshold, disappearing at $150,000. That increases the effective tax rate on your corporate earnings. An IPP, or investing in a permanent life insurance policy, are ways to shelter that investment income from these rules.

9. Sprinkle dividends, but carefully. An adult family shareholder with no other income can receive about $80,700 in dividends tax-free, depending on your province and your company's ability to pay eligible dividends. But the tax on split income rules can tax those dividends at the top rate, unless an exception applies, such as dividends to a spouse when you're 65 or older. By the way, tax rates on non-eligible dividends rise in Ontario in 2027 (and are proposed to rise in Quebec), so consider paying planned dividends before Dec. 31. Watch for alternative minimum tax.

10. Withdraw money tax-free. If your company owes you money on a shareholder loan, draw down that balance when you need funds. It's a tax-free repayment. And if your company has a capital dividend account (CDA) balance, pay out tax-free capital dividends as soon as you can. You never know when the rules could change, or capital losses could erode that balance.

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