

## How to avoid the taxman

The single best way of taking precautionary measures to avoid audits is through compliance and being proactive in your business.

Here are some key steps:

1. Bank deposits over and above the reported revenue should be supported with appropriate source of receipts, mode of receipt and confirmation of transaction.
2. Any loans and/or borrowing from either family or outside sources should have written terms and conditions regarding repayment of loan and rate of interest.
3. Tax and other periodical government returns should be sent on time along with required remittances. In case of financial difficulty, negotiate with appropriate agencies for payment arrangements.
4. Payroll payments to shareholders/directors and their family members are subject to payroll taxes and in some instances require compliance with the WSIB.
5. Business records should be retained for at least eight years.
6. Maintain a log book for passenger cars used for business purposes.
7. Make sure that receipts are kept for all expenses claimed.



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## Knowing what's coming, get's you to where you need to go.

We are pleased to release our 2010 Tax Letter for small business owners. It is our hope that this letter in reaching you in good financial times amidst economic uncertainty. As always, it is our hope that this letter imparts the knowledge with you that will help your business growth through tax savings.

### Audit Focus

In tough economic times everyone is looking where they can tighten their belts, and the government is no different. The Canada Revenue Agency (CRA), particularly in the next few years, will emphasize on compliance. Most business entities end up paying heavily in penalties and interest for late filing or non-compliance with various government agencies like sales tax, payroll tax, WSIB insurance etc. We have briefly touched some precautionary measures and current compliance tips for small business.

Review and audits are commonly conducted in the following categories:

- CRA: Payroll, GST and income tax (T2 and T1)
- Ministry of Finance: PST
- WSIB: Coverage & remittance premiums

### Who is selected for review?

As mentioned earlier, CRA commonly selects taxpayers for audits based non-compliance, late filing of various returns, and/or non-remittance of taxes. In addition to these measures, they will also question unreasonable expenses claim and under reporting of income.

Restaurants, sub-contractors, and construction companies are amongst the highest rated category selected for review by CRA. Tax auditors tend not to only ask for receipts, invoices and bank statements but also look for reasonability of expenses claimed and there relevance to the trade.

Other more common expense claims questioned by auditors are home use for office expenses, benefits received, car expenses and casual help/wage payments to family persons.

To determine taxable income of taxpayers, CRA has also adopted an expenditure approach for self employed individuals. This approach tests the taxpayers net income reported on their T1 tax return against monthly and or yearly personal expenses including rent or mortgage payments and investments.

## Is it really tax free?

The Tax Free Savings Account (TFSA) allows Canadians (18 or older) to invest up to \$5000 per year into a tax-free interest bearing account. The interest the account generates will never be taxable and unlike a RRSP does not provide any tax deductions or penalties on withdrawals. However, within the TFSA a taxpayer can have investments similar to an RRSP. Also, when a person withdraws from the account, or does not contribute the maximum, that exact same amount will be added to the \$5000 limit of the next year.

The TFSA is a financial tool that can help out small business owners tremendously.

Entrepreneurs can save up cash, invest it, and withdraw the funds later on with no penalties. This is especially useful as the account could be used as an emergency source of cash to keep their business ticking along.

A TFSA could also double as a retirement nest egg. Entrepreneurs typically pour all their financial resources into their business, and expect they will build up enough equity to later fund their retirement. This accounts helps them diversify.



## Can-Am understands what small business owners really need to know.

42% of Ontario entrepreneurs say government paperwork and filings are the most specific and challenging part of their job.

The government of Canada has recently introduced Canada's Economic Action Plan. This plan is designed to help Canadians stabilize financial instability in their daily lives.

So what does this mean for small business owners? Take a look below for some of the important features relating to you.

### Small Business Deduction

The small business deduction has increased from \$400,000 to \$500,000 on qualifying business income. This additional deduction room will especially be useful to those individuals who have related corporations.

### CCA

The 50% straight-line accelerated CCA rate for investment in manufacturing and processing machinery/equipment will be extended to 2010 and 2011.

Businesses will also be able to write-off 100% of computer hardware and software. This two year measure expires on January 31, 2011.

### Income splitting

For 2009 the basic personal tax exemption has increased to \$10,320 while the lowest income tax bracket has increased to \$40,726. This allows for greater flexibility to split business income amongst family members. Contact us to see how this benefits you and your business.

### Employment Insurance

The 2010 EI premium rates will remain at the 2009 level of \$1.73. The employer contribution portion will also remain the same.

### CPP

The CPP rates for 2010 will remain the same as 2009. The maximum contribution rises to \$2,163.15 in 2010.

### RRSP Limit Increase

The maximum dollar limit of RRSP that you can contribute has increased to \$21,000. Please check your RRSP limit on your Notice of Assessment for your contribution limit.

### Why contribute to RRSP

RRSP's are an extremely important investment tool for small business owners. It should be one of your "buckets of income" in which you can draw from when you decide to retire. However, you should not aimlessly contribute to RRSP; you should be actively involved in planning your exit strategy.

### Types of RRSP

There are a number of RRSP's available to you, but be careful to analyze your risk factor. Ask your advisor LOTS of questions, and for an unbiased opinion, ask us.



Small businesses should be prepared for CRA's online push. You might have noticed that a number of CRA services, such as obtaining a ROE has moved online. CRA encourages businesses to sign up to their My Business Account service. This service will allow businesses to check their account balances, notice of assessments, transfer payments and make online requests. It's a great service that's fast, efficient, and saves time.

### SOFTWARE Picks



With a 100% CCA rate on computers and software, here are our software picks that get the job done.

1. Microsoft Windows 7
2. Microsoft Office 2007
3. Intuit Quickbooks
4. Adobe Acrobat 9
5. BitDefender Anti-virus
6. Business Plan Pro
7. Google Apps

## HST is a good thing for small business owners

### Harmonized Sales Tax

Starting in July 2010 Ontario will combine the PST and GST into one tax, the HST.

In general, a single tax rate of 13% would apply to all goods and services that are currently subject to GST. On a consumer level, the HST does not look beneficial as you will be adding an additional 8% on purchases where only GST applied to, such as gas.

### How does the HST help?

The greatest benefit to businesses is that the total amount of the HST can be used towards your input tax credits (ITC). This means you now will be able to recoup the full costs of the PST tax you pay on expenses to carry on your business. There will no longer be any tedious PST returns and GST returns. There will be just one tax return where all tax can be applied to.

### How do I save now?

The best way to save on the HST is to be proactive. For purchases and services that only carry GST, get invoiced before July 1<sup>st</sup> 2010. Also, re-negotiate with vendors on the prices you pay for your goods. They are paying a lower cost to do business and should be more willing to now lower prices to remain competitive. The HST brings many new challenges, let us help you get the most benefit.

## What is HST Exempt?

There are a number of goods in which the new HST will not apply to.

HST will not be charged on the following

- ⇒ Basic groceries
- ⇒ Prescription drugs
- ⇒ Some medical devices
- ⇒ Health and education services
- ⇒ Child care
- ⇒ Tutoring/Music lessons
- ⇒ Residential rent/Condo fees

Consumers will not have to pay the 8% provincial portion of the HST for the following:

- ⇒ Children's clothing, footwear and diapers
- ⇒ Children's car seats and car booster seats
- ⇒ Feminine hygiene products
- ⇒ Books (including audio books)
- ⇒ Prepared foods and beverages sold for \$4.00 or less
- ⇒ Print newspaper



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## Can-Am's Commitment

Can-Am Accounting Service is committed to offering its clients proactive solutions to their taxation and accounting needs. Our goal is to help our clients plan for their financial future through comprehensive tax strategies that are uniquely tailored to their individual needs.

- ⇒ Can-Am offers complete solutions to your accounting, taxation, and bookkeeping needs.
- ⇒ Comprehensive payroll services, including, T4, T4A, T5018, ROE, and much more.
- ⇒ Our services include: Audit/Trust Examinations assistance, payroll, regulatory government filings, foreign property ownership, Notice of Objections/appeals, and much more. Please contact us how we can help you in your business.
- ⇒ We can help you incorporate, dissolve, and maintain your business.
- ⇒ Full year around service, open six days a week, at the same location for 35 years.
- ⇒ Convenient location, within 30 minutes from any part of the GTA.

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### Available when you are

February 15 to April 30  
(tax season hours)

Monday to Friday 9 am to 8 pm  
Saturday 9 am to 4 pm  
Sunday 10 am to 2 pm

After April 30

Monday to Friday 9 am to 6 pm  
Saturday 9 am to 2 pm

Email: [info@canamtax.com](mailto:info@canamtax.com)

2010 Tax Letter

**CAN-AM**  Accounting Services  
Est. 1975

“The hardest thing in the world to understand is income tax.”

- Albert Einstein