YEAR-END TAX PLANNING STRATEGIES FOR YOUR SMALL BUSINESS

A TAX READINESS TOOLKIT TO SAVE YOU TIME AND MONEY

NEW VERSION FOR 2022

FBC

ABOUT FBC

For 70 years our focus has always been to bring financial peace of mind to you, Canada's hard-working small business owners.

We unite industry expertise with advanced technology to help you pay less tax today and over the long-term. We support your back-office and administrative needs through affordable bookkeeping and payroll services.

You work hard for your money, we help you keep it.

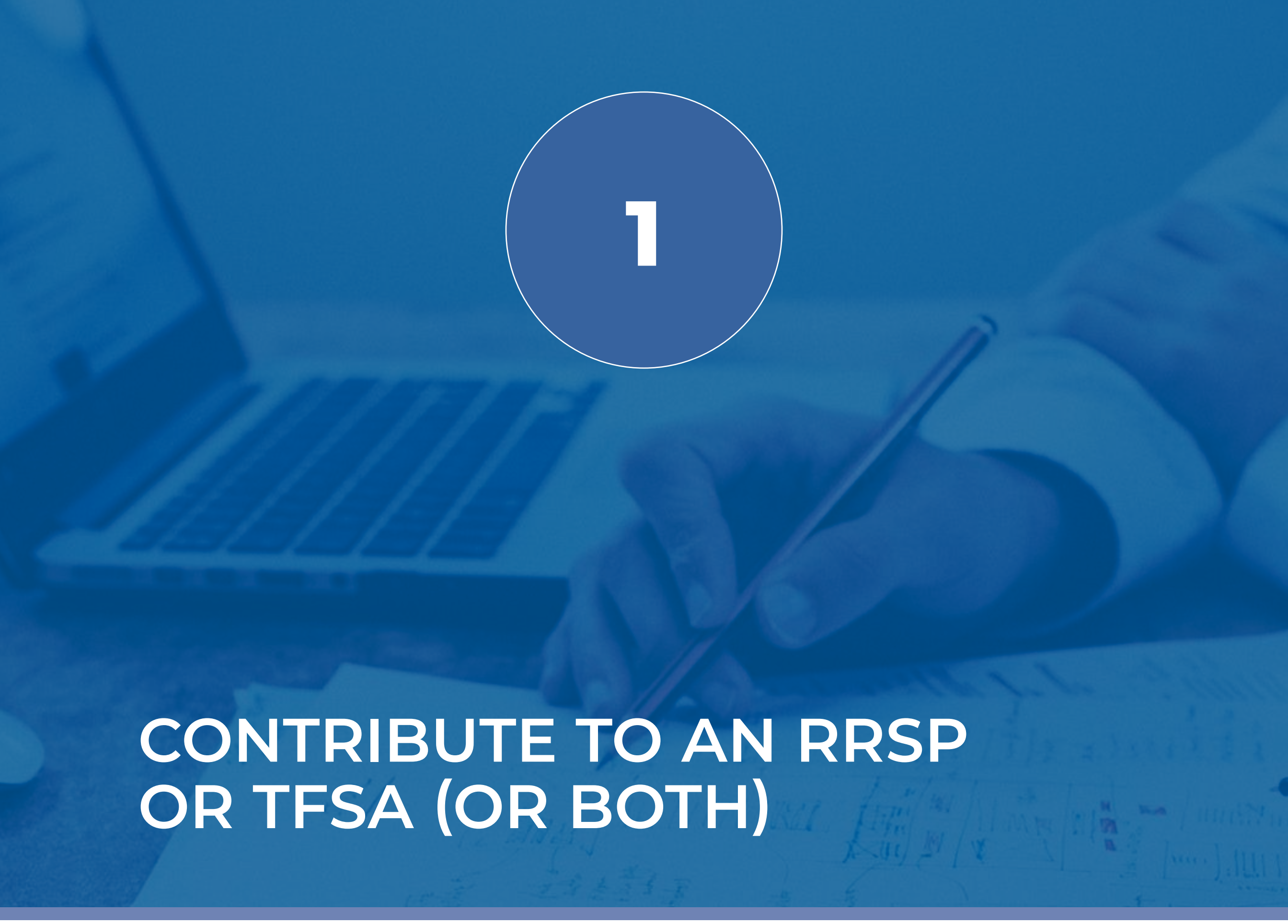
Disclaimer: This material is provided for educational and informational purposes only. Always consult a tax professional like FBC regarding your specific tax situation.

INTRODUCTION

Most small business owners wait until spring to start thinking about their taxes, but this simple act of waiting could cost them thousands.

Fall is actually the best time to start think about your taxes. It allows you to get organized and assess what cost-saving actions you can take before the end of the tax year to lower your future business or corporate income taxes.

Consider this toolkit your roadmap to help you get organized, reduce your tax burden, and keep more money in your pocket. In here you'll find some of the most successful year-end tax planning strategies we employ for our tax Members.



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CONTRIBUTE TO AN RRSP OR TFSA (OR BOTH)

Are you investing in a registered retirement savings plan (RRSP) or tax-free savings account (TFSA)? If you're not, you're missing out on tax savings.

You might be wondering, should I use an RRSP or TFSA? The answer is both if possible—and you should max them out to the best of your ability. Depending on your tax bracket and your personal and business savings goals, however, one may meet your needs better than the other.

We go over the key differences between an RRSP and TFSA below to help you determine which one is right for you.

CONTRIBUTING TO AN RRSP

RRSPs are a tax deferral mechanism. Contributions to an RRSP are deductible against your current income so you receive immediate tax relief and tax-sheltered growth. When you eventually go to withdraw the money in your retirement, it's taxed at that time when you are paying lower taxes.

To maximize the benefits of the RRSP, you should contribute to it when you're in a higher tax bracket and withdraw from it when you're in a lower tax bracket. Contributing to an RRSP can significantly bring down your taxable income.

Let’s look at an example:

- **You make $120,000 in 2022 and contribute $15,000 to your RRSP**
- **The CRA will tax you on $105,000 of income instead of $120,000, since the contribution is tax deductible**
- **You pay tax on the contribution in the year you withdraw it, so if you take out some of the money in your retirement when you have a lower income, you’ll pay less tax**

HOW MUCH CAN I CONTRIBUTE TO AN RRSP?

First, it is important to understand the difference between your deduction limit and your contribution limit:

- Your deduction limit is the amount you’re permitted to put into your RRSP and use as a deduction on your income tax report. For the 2022 tax year, it is up to 18% of your reported 2021 income (to a maximum of $29,210, whichever is less).
- Your contribution limit is equal to the current year’s deduction limit plus any unused deduction room from previous years.

Since most people do not contribute the maximum amount to their RRSPs every year, your deduction limit will be much lower than your contribution limit.

If you have multiple RRSPs, including one for a spouse, your deduction limit (as calculated above) applies to all of them combined.

Here’s an example:

- **Mary’s full-time, pre-tax employment income in 2021 was $80,000. Her maximum *deduction limit* for the 2022 tax year would be calculated as follows:**
  - **$80,000 × 18% = $14,400 (less than the maximum limit of $29,210)**
  - **Mary can deduct up to $14,400 through her RRSP contribution for the 2022 tax year**
- **If Mary contributes $6,000 to her RRSP for 2022 she’ll have $8,400 that she can carry forward in contribution room for the 2023 tax year. Assuming her deduction limit stays the same, she will be able to contribute a total of $22,800 ($14,400 + $8,400)**

If you over-contribute to your RRSP by more than $2,000 in any given year, you may have to pay a tax of 1% per month on the amounts that exceed your RRSP deduction limit.

The CRA keeps track of your contributions so the easiest way to find out what you can contribute for 2022, is to review your latest notice of assessment or notice of reassessment. You can also find it on a T1028 form, which the Canada Revenue Agency (CRA) sends you if there were changes to your RRSP deduction limit since your last assessment.

This RRSP contribution deadline will vary based on the year; however, it will always be 60 days after December 31st of the taxation year.

The deadline to contribute to your RRSP for the 2022 tax year is March 1st, 2023.

CONTRIBUTING TO A TFSA

Tax-Free Savings Accounts (TFSAs) don't give you up-front tax relief, but your money accumulates tax-free, and you won't be taxed on withdrawals.

You can use your TFSAs for investments like Guaranteed Investment Certificates (GICs), stocks, bonds, or mutual funds. Any investment income earned through in your account, and capital appreciation from stocks and bonds, is tax-free.

Unlike an RRSP, you don't need earned income to accumulate the contribution room in your TFSA.

For 2022, the maximum amount you can contribute is $6,000 plus any unused contribution room from previous years.

You will accumulate TFSA contribution room each year (from 2009) even if you do not file a tax return or open a TFSA. You can also withdraw from your TFSA at any time, and withdrawals free up more contribution room for you in the future (see example in Figure 1).

There's technically no deadline to contribute to your TFSA. If you haven't maxed out your TFSA, you can carry any unused contribution room into the next year – it is carried forward on January 1.

If you go over your accumulated TFSA contribution limit, this excess amount will be subject to a 1% per month penalty tax for as long as that excess amount remains in your account. For example, if you over contribute $3,000 in a year, you will pay $30 per month, every month you remain in excess – that's $360 in one year alone.

FIGURE 1

EXAMPLE: If you turned 18 before 2009

- If you've not contributed to a TFSA at all, using the table to the right, your maximum contribution in 2022 would be **$81,500**.
- If you already have **$12,000** in a TFSA, your maximum contribution in 2022 would be **$69,500** *(contribution maximum less $12,000).*
- If you withdrew **$5,000** from your TFSA in 2022, your contribution limit would still be **$69,500** BUT your contribution limit for 2023 would increase to **$81,000**. Here's how:

2022 maximum cumulative TFSA = $81,500	$ 81,500
Less total contribution of $12,000 ($69,500)	– $ 12,000
Plus 2023 contribution limit ($6,500 as the contribution limit has increased from 2022)	+ $ 6,500
Plus 2022 withdrawal that can be added back to your account in 2023 ($5,000)	+ $ 5,000
TOTAL CONTRIBUTION LIMIT FOR 2022	**$81,000**

YEAR	ANNUAL TFSA LIMIT
2009	$ 5,000.00
2010	$ 5,000.00
2011	$ 5,000.00
2012	$ 5,000.00
2013	$ 5,500.00
2014	$ 5,500.00
2015	$ 10,000.00
2016	$ 5,500.00
2017	$ 5,500.00
2018	$ 5,500.00
2019	$ 6,000.00
2020	$ 6,000.00
2021	$ 6,000.00
2022	$ 6,000.00
2023	*$ 6,500.00*

IS AN RRSP OR TFSA BETTER FOR ME?

There are a few questions you should ask yourself before choosing between these two options:

- What is your current tax bracket?
- What do you think your tax bracket will be in the future? Will you have any additional retirement income or benefits, like an employee pension?
- When do you think you will need the income, in retirement or in the near future?
- Could your federal and/or provincial income-tested benefits like Old Age Security (OAS) be affected?

Most people are in a higher tax bracket during their employment years. If this applies to you, investing in an RRSP is your best bet to take advantage of a reduced tax rate when you withdraw the money.

If you're saving for a vacation or a down payment on a home, a TFSA will allow you to contribute up to $6,500 per year in a tax-sheltered investment, free to withdraw at any time.

STILL UNSURE WHAT IS RIGHT FOR YOU?

Below are some scenarios that may help you.

If you're earning less than $50,000:

- A TFSA should be funded first, since you are in the lowest tax bracket and reducing your taxable income won't further lower your tax rate.

If you're earning more than $98,000:

- In this case, your tax rate approaches 40%, therefore investing in a RRSP will benefit you the most by bringing down your taxable income.

If you're earning between $50,000 and $98,000:

- You may want to consider funding your RRSP and TFSA equally until you max out your TFSA.

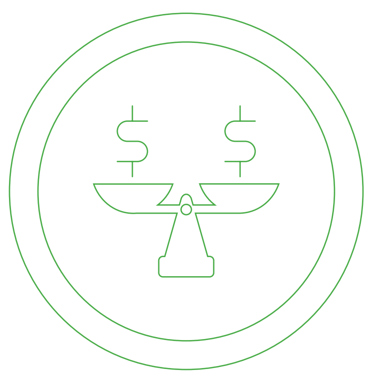
WHEN SHOULD I CONTRIBUTE TO AN RRSP FIRST?

- If you have a matching contribution retirement or pension plan with your employer, maximize your contributions before considering a TFSA.

WHEN SHOULD I CONTRIBUTE TO A TFSA FIRST?

- If you think your income after retirement age will be greater than what you earn now (i.e., you have a pension or some other retirement income), your money should go into your TFSA first. It's better to pay the lower income tax rate on that money now, than the higher rate you'll pay when you take it out later.
- If you think you might need the money before retirement age, TFSAs are more flexible, and you won't pay any taxes upon withdrawal.
- If you're in retirement, and you're close to your Old Age Security claw back amount, consider withdrawing more money from your TFSA as opposed to your RRSP as these amounts won't be added to your income.

To summarize, it's a good idea to contribute to both if possible. If you contribute to each account every year and invest the money, you'll make a big difference to your retirement savings.



COMPARISON OF RRSP AND TFSA

	RRSP	TFSA

Purpose	• Primarily to save for retirement
	• Can also be used to:
	  ◦ Finance your first home under government's "Home Buyer's Plan"
	  ◦ Save for education for yourself or your spouse under government's "Lifelong Learning Plan"
		• Save for any purpose

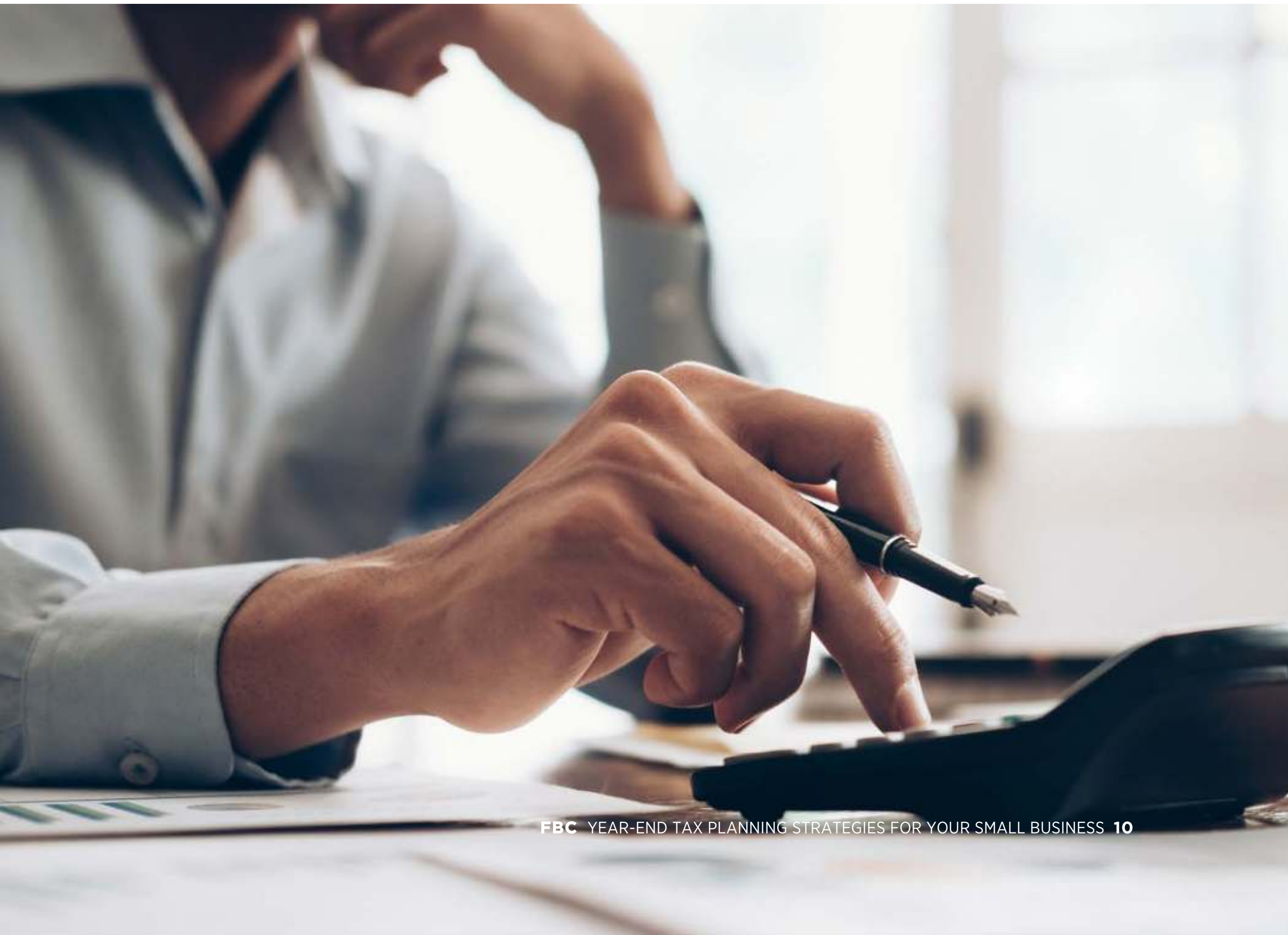
Annual Limit for 2022 tax year	***Deduction limit is the lesser of:*** • 18% of previous year's reported income • Maximum $29,210/year	***Contribution limit:*** • $6,000 • Up to maximum cumulative amount
Unused Contribution	• You may contribute amounts up to and including your previous years contribution limit plus the current year's deduction limit	• You can invest your entire unused contribution amount any time
Contribution Deadline	• March 1, 2023	• Contribution limits are based on a calendar year
Impact on Taxes	• Tax deductible (up to limit)	• Not tax deductible
Withdrawals and Reporting	• Taxed on Withdrawal at marginal tax rate applicable at time of withdrawal • Must report as income on tax return • Earnings are not tax-sheltered • Contribution room is lost for amounts you withdraw	• Not taxed on withdrawal – your contributions are made from net income • Not reported as income tax on tax return • Earnings are tax-sheltered • Withdrawn amounts are added back to your contribution room for the following year • No minimum withdrawal requirements
Plan Maturity	• Matures December 31st of the year you turned 71 • Must start withdrawals by age 71 or open an RRIF (Registered Retirement Income Fund)	• Does not mature
Spousal Plan	• You can contribute directly to a spousal RRSP	• Not applicable

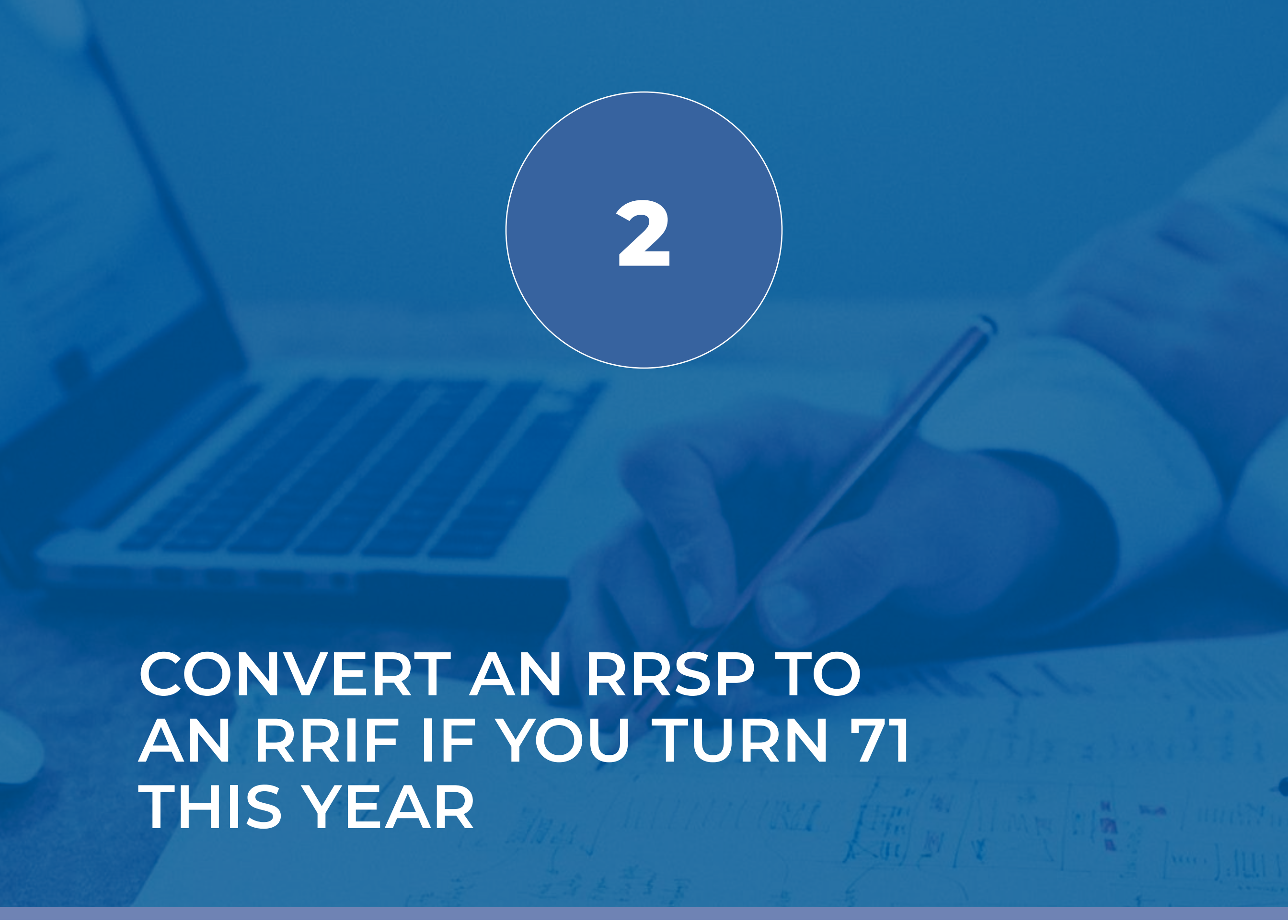
HOW TO START BUILDING WEALTH WITH RRSPs AND TFSAs

Whatever option you choose, the most important thing is to start using RRSPs and TFSAs as part of your long-term wealth building strategy.

Here are some additional savings strategies to consider:

- **Every penny saved counts** – Small business owners may feel they don't have enough money left over after business expenses to make either option worthwhile. Nothing could be further from the truth. Your investments will likely earn compound interest so, over time, even small contributions can add up. It's best to just start saving, even small amounts as soon as you can.
- **Automate regular contributions** – Don't get caught scrambling to meet your RRSP contribution deadline or forget to put money aside for your TFSA. Work with a financial planner to set up automatic withdrawals so you can make contributions easy and painless.
- **Don't lose sight of your TFSAs and RRSPs savings goals** – Whether it's tax deferral or saving for a big trip, there is a bigger financial reason you made these contributions in the first place. Remember, taking out an RRSP prematurely will have tax implications, likewise, there are rules about when you can re-contribute to your TFSA.





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CONVERT AN RRSP TO AN RRIF IF YOU TURN 71 THIS YEAR

If you have an RRSP account, it must be fully withdrawn or transferred to a registered retirement income fund (RRIF) or annuity by December 31st in the year you turn 71. Otherwise, the CRA will include the entire amount of your RRSP in your taxable income that year.

CONVERTING AN RRSP TO AN RRIF

You can take out all the money at once if you want, but it’s a better idea to convert the RRSP to a registered retirement investment fund (RRIF). The RRIF will continue to grow any investment income tax-free, but you’ll be required to make minimum withdrawals from the account each year instead of contributing to it.

You can convert your RRSP to RRIFs whenever you want. However, if you reach the age of 71 in 2022 and still have funds in your RRSP, the federal government requires you to close your account before December 31, 2022.

You can still make a deposit to your RRSP in 2022up to your maximum contribution room to take advantage of the tax benefit.

You also have a lifetime over-contribution limit of $2,000 that you can contribute to your RRSP. You won’t be able to take the tax benefit for the $2,000, but if you have a high-yield investment in your portfolio, the capital appreciation, interest and/or dividends will accumulate tax-free until you collapse the account.

Be careful not to go over $2,000 or you may have to pay a penalty of 1% per month on excess contributions, and it can really add up.

WHAT HAPPENS IF I DON'T COLLAPSE MY RRSP?

If you don't transfer your RRSP to another registered plan, like an annuity or registered retirement income fund (RRIF) before then, the CRA will treat your entire RRSP savings as income in 2022.

The tax hit could be substantial so it's imperative to find the best way to collapse your RRSP so you can minimize your tax bill.

WHEN DO I START WITHDRAWING FROM MY RRIF?

You must start taking withdrawals the year after you open your RRIF. For example, if you open your RIFF in 2022, your minimum withdrawals start in 2023.

Like the RRSP, you won't pay taxes on any money that stays in the account, but RRIF withdrawals are considered taxable income.

Before deciding how much to withdraw in a year, make sure to consider your other taxable retirement income, like Old Age Security (OAS), Canada Pension Plan (CPP), other employment pensions, and/or any part-time income you may still be earning. Having larger income will have tax consequences and could lead to the claw back of certain income-tested government benefits, like OAS.

Depending on your additional sources of income and your expenses, some years it will be best to withdraw more money and some years you may want to withdraw only the mandatory minimum amount.

It's always a good idea to speak to a professional about potential tax consequences before deciding how much to withdraw from your RRIF.

There is a mandatory minimum amount you'll have to withdraw each year based on a percentage of your account balance at the beginning of the tax year, and this percentage increases as you get older.

TWO WAYS REDUCE YOUR TAX LIABILITY WITH RRIFS

OPTION #1: REGISTER YOUR RRIF WITH YOUR YOUNGER SPOUSE TO REDUCE YOUR TAX LIABILITY

Note: This strategy is predicated on a lifetime of contributing to a spousal RRSP plan.

If your spouse is younger, there's a way to reduce your tax liability in the early years of withdrawals from a RRIF.

If you have other retirement income and can live on reduced withdrawals from your RRIF, you can contribute to a spousal RRSP during your lifetime and have your spouse withdraw income from their plan through her RRIF with the CRA based on the age of your spouse if he/she is younger.

For example:

- **If you're 71 and your spouse is 64, by converting the spousal RRSP to a RRIF, the RRIF withdrawals will be divided into 7 additional years and therefore lower payments.**
- **You reduce the annual minimum you're required to withdraw from your RRIF thereby conserving capital and allowing the RRIF to grow.**

OPTION #2: SET UP A SMALL RRIF AT 65 TO TAKE ADVANTAGE OF TAX CREDITS

You can use your RRSP funds to set up a small RRIF at age 65 to take advantage of an additional tax credit, called the Pension Income Amount, of up to $2,000 of qualifying pension income.

By transferring $14,000 from your RRSP to a RRIF at age 65 and then withdrawing up to $2,000 per year from 65 to 71, you can take that $14,000 tax-free if you are in the lowest tax bracket in 2022, or in whatever calendar year you turn 65.

If you have a higher marginal tax rate, there will be a tax cost, but not as high as it would otherwise be.

If you have a spouse that is over 65 and in a lower tax bracket than you, you can split your pension income. Subject to certain conditions, this means you could double your annual RRIF withdrawal to $4,000 per year.

TRANSFER $14,000 FROM RRSP TO AN RRIF AT AGE 65		
Age	**Withdrawal amount**	**Remaining RRIF total**
65	$ 2,000	$ 12,000
66	$ 2,000	$ 10,000
67	$ 2,000	$ 8,000
68	$ 2,000	$ 6,000
69	$ 2,000	$ 4,000
70	$ 2,000	$ 2,000
71	$ 2,000	$ 0

Under this option, it may take many years to wind down your RRIF, but it allows you to either take that $14,000 tax free, or still pay less tax than you otherwise would.

As always, it's recommended you speak to a tax professional to see which option is best for you.

If you have a spouse that is over 65 and in a lower tax bracket than you, you can split your pension income. Subject to certain conditions, this means you could double your annual RRIF withdrawal to $4,000 per year.

3

REVIEW YOUR MILEAGE LOGBOOK AND VEHICLE EXPENSES

If you use your personal vehicle for business-related activities, you can deduct a portion of vehicle use expenses such as fuel and maintenance costs. Make sure you're regularly updating your mileage log—a record of your business travel for the entire year. Without a record of your mileage, the CRA will disallow your vehicle expenses as a tax deduction.

WHAT QUALIFIES AS BUSINESS USE OF VEHICLE?

Simply put, any use of your personal vehicle used to earn business income.

Driving from your home to your place of work (if outside the home) is considered personal travel or a commute and does not qualify as business use of your personal vehicle.

The CRA has stated that in the following situations, driving to or from home would qualify as business use of your vehicle:

- Travel from your home to a client's place of business (or other location to attend a business meeting) and travel directly back home
- Travel from your home to a client's place of business (or other location to attend a business meeting) and back to your office/place of work
- Travel from a client's place of business (or other location to attend a business meeting) and back home

WHAT ARE ELIGIBLE VEHICLE EXPENSES?

You can deduct a portion of the following expenses that are related to using your vehicle for business use:

- Licence and registration fees
- Fuel and oil costs
- Insurance
- Interest on money borrowed to buy a motor vehicle
- Maintenance and repairs
- Leasing costs
- You can claim the cost of the vehicle itself over time through the Capital Cost Allowance (CCA)

You can also deduct the full amount of the following:

- Parking fees related to your business activities
- Supplementary business insurance for your motor vehicle

It's important to note is that the kind of vehicle you own affects the expenses you can deduct. There are different rules (particularly as they relate to Capital Cost Allowance) based on the CRA's definition of "motor vehicles", "passenger vehicles", "zero-emission passenger vehicles" and "zero-emission vehicles."

There are also rules that apply if you jointly own or lease your vehicle.

Talk to your tax professional to ensure you're properly applying your deductions and CCAs.

NOTE: VEHICLE EXPENSES FOR CORPORATIONS

Corporations may deduct all reasonable vehicle expenses (subject to limits imposed through the Income Tax Act). There is some complexity, however, when it comes to shareholders and employee use of vehicles.

A shareholder of a corporation may use a vehicle supplied by the corporation for purposes other than the corporation's business. The shareholder's personal use of a vehicle that is either owned or leased by the corporation is a taxable benefit to the shareholder if the shareholder is also an employee and has access to the vehicle in their capacity as an employee.

If the vehicle is made available to a shareholder who is not also an employee, the value of the benefit is included in the shareholder's income as a "benefit conferred on a shareholder".

If an employee uses a company-owned vehicle for personal reasons or is given an allowance to an employee that uses their own vehicle, the employee may be in receipt of a taxable benefit.

Please visit the CRA website to learn more or speak to a tax professional to get advice specific to your business situation.

HOW DO I TRACK VEHICLE EXPENSES?

You will use your logbook to calculate what percentage of your vehicle was used to earn business income. As such, you need to keep track of your mileage from January 1 to December 31 either by recording your odometer during business use or using a mileage tracking app.

Remember, while most mileage tracking apps use GPS to record your vehicle in motion, but they're not 100% accurate. It's always a good idea to keep a separate record of your odometer with any pertinent notes and receipts as back up.

For each trip, list the date, destination, purpose, and number of kilometres you drive. For each tax year, you must record your total kilometres from the year, and the kilometres you drove while earning business income.

Don't forget to record your odometer reading at the beginning of the tax year, and at the end of the tax year. If you change vehicles, note the dates of the change and the odometer reading for the new or leased vehicle.

Let's look at an example:

- **Your odometer reading at the end of the year was 40,000 km**
- **Thanks to your logbook, you know 32,000 km was for business use**
- **Divide 32,000/40,000 to find out what percentage of the time the car was used to earn business income. This equals 80%.**
- **This means you can deduct 80% of your eligible vehicle expenses as business expenses**

Once you determine your vehicle expenses, you can calculate your vehicle deduction. If you work in transportation, you may be able to claim additional expenses.

You can calculate your vehicle deduction using the same percentage:

- **Let's say your vehicle expenses were $6,000 for the year**
- **If you multiply $6,000 by 80%, you get $4,800, which means you can deduct $4,800 of your vehicle expenses on your tax return**

WHAT IF I HAVE MORE THAN ONE VEHICLE?

If you use more than one vehicle for your business, keep a separate record for each one that shows the total kilometres driven in one year and the business kilometres driven, and all the associated expenses with each vehicle. You'll also have to calculate the expenses separately for each vehicle.

CALCULATE VEHICLE LOANS INTEREST EXPENSES

If you've borrowed money in order to purchase a motor vehicle, zero-emission vehicle, passenger vehicle, or zero-emission passenger vehicle you use to earn business income, you can claim the interest you've paid on this loan.

Make sure to track the total amount of interest you paid in 2022 as an expense when you calculate your allowable motor vehicle expenses.

Please be aware: there is a limit on the amount of interest you can deduct for a passenger vehicle or zero-emission passenger vehicle.

According to the CRA, the amount of interest you can deduct is limited to the lesser of the following two amounts:

- Total interest payable for the year
- $10 × the number of days for which interest was payable in the year. (Use $8.33 for passenger vehicles bought between December 31, 1996, and January 1, 2001. In all other cases, use $10.00)

To calculate the amount of interest you can deduct, complete "Chart B – Available interest expense for passenger vehicles and zero-emission passenger vehicles" on Form T2125 (Statement of Business or Professional Activities).

CALCULATE VEHICLE LEASING EXPENSES

If you lease a motor vehicle in order to earn income, you are eligible to deduct the costs you incur to do so. Include these amounts on line 9281 – Motor vehicle expenses (not including CCA) of your form.

When you use a passenger vehicle to earn farming income, there is a limit on the amount of the leasing costs you can deduct. To calculate your eligible leasing costs, fill in "Chart C – Eligible leasing costs for passenger vehicles" on Form T2042 Statement of Farming Activities.

If the lease agreement for your passenger vehicle includes such items as insurance, maintenance, and taxes, include them as part of the lease charges on amount 20 of Chart C.

Leases typically include taxes (GST and PST, or HST), but not items like insurance and maintenance. You must pay these amounts separately. Include the taxes on amount 20 of Chart C, and list the items like insurance and maintenance on the appropriate lines of "Chart A – Motor vehicle expenses."

For your 2022 fiscal period, use the GST rate of 5% or the HST rate of your specific province to fill in Chart C.

Again, be sure to gather your records together for 2022 so you can easily locate them for your tax filing.

ORGANIZE YOUR VEHICLE EXPENSE RECEIPTS

Aside from a copy of your logbook for the CRA, keep all your receipts for automobile expense deductions organized or, at the very least, get them organized before year-end so you can accurately calculate your vehicle expenses.

Remember, if the CRA challenges your automobile expenses, you'll need to have easy access to the proof. For more tips on organizing receipts, please see the next page.

4

ORGANIZE YOUR RECEIPTS

You want to be in a good position to claim as much as you can when tax season rolls around so it's to your advantage to get receipts organized before year-end.

If you don't maintain records of your transactions and are audited by the CRA, you could face hefty fines and penalties.

Your records should be filed along with cancelled cheques and other vouchers to support your book entries.

Keep in mind that some COVID-related programs require unique calculations and supporting documents that would not have been required before COVID.

The following are some tips for receipt organization.

USE A BUSINESS-ONLY ACCOUNT AND CREDIT CARD

It's easy to lose track of cash transactions. Instead, use a credit card and/or debit card to cross-check your receipts. Make sure to set up a separate business account and credit card, so you don't mix personal and business expenses.

You can also claim any associated expenses with that card or account, if you keep all your transactions business related. For example, the annual fee on a points credit card, or the interest from a balance carried from one month to the next, can be claimed if the transactions are business related.

SPEND TIME REVIEWING YOUR RECEIPTS ONCE A MONTH

You can avoid the last-minute scramble if you sit down for 30 minutes every month to review and categorize your receipts. This keeps receipts manageable as the year progresses, keeps you on top of your spending, and ensures you don't miss out on any potential expense-related tax deductions.

A simple and cost-effective way to organize your receipt is to use an accordion folder. We recommend organizing your receipts by category and year, so finding a specific receipt is a snap in the future.

MAKE NOTES ON THE BACK OF RECEIPTS

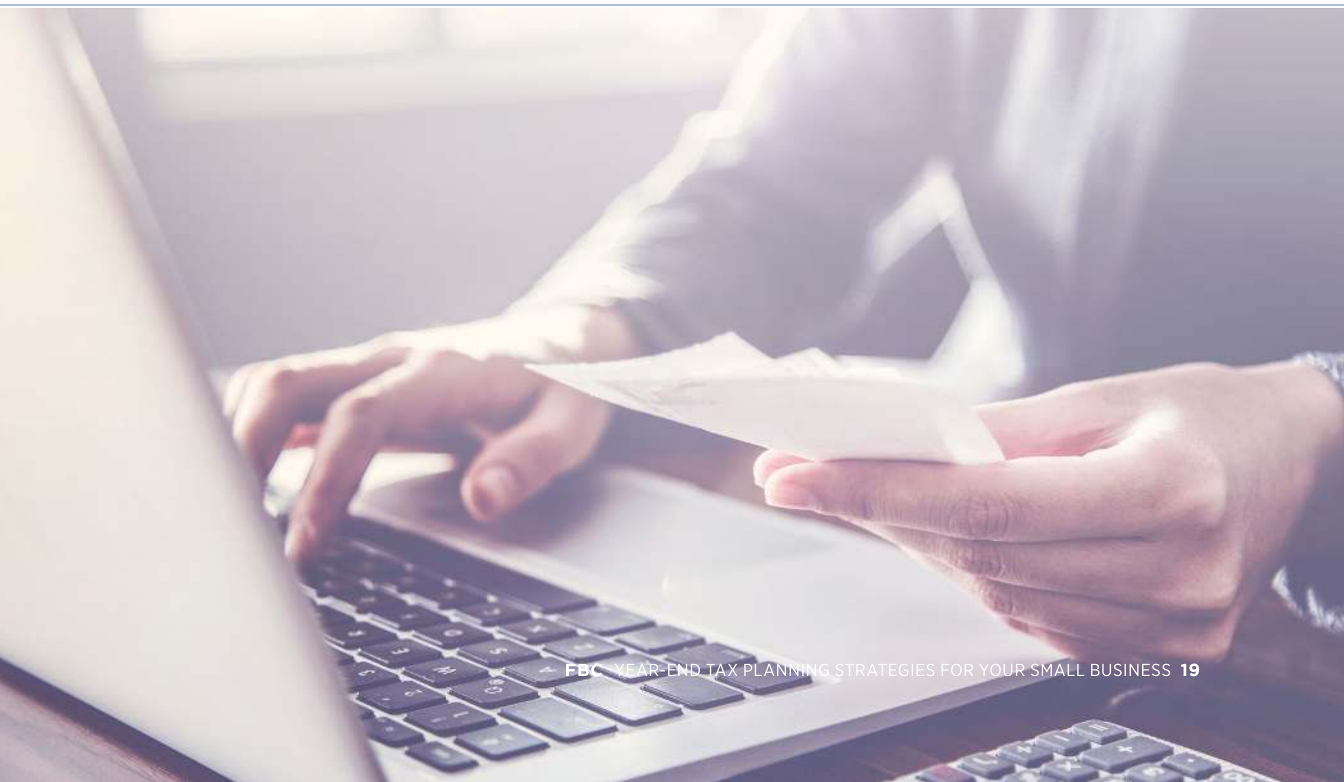
For meal and entertainment receipts, write who you met with and the purpose of the meeting on the back of the receipt right after the meeting. That way you're not struggling to remember details later.

Remember, you can deduct 50 per cent of your total meal and entertainment expenses for business purposes.

BACK UP YOUR RECEIPTS

Since receipts tend to fade with time, we recommend you keep a digital copy of each receipt. A good practice is to snap a picture of each receipt on your phone which you can upload to a central location later.

You can also use an app on your mobile device to take a picture and digitize the receipt on the spot.



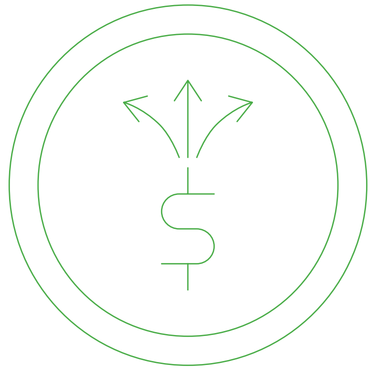
5

USE INCOME SPLITTING STRATEGIES TO REDUCE YOUR TAX BILL

Income splitting is the strategy of moving income from a family member in a higher tax bracket to a family member in a lower tax bracket. Since Canada has a graduated income tax system, the idea is to reduce the overall family tax burden.

The Income Tax Act has attribution rules that prevent Canadians from income splitting, so if you gift your spouse part of your income, they'll attribute it back to you and you'll be taxed at the higher rate. However, there are exceptions to the attribution rules where you can use income splitting to your advantage and grow your family wealth.

Here we outline three strategies you can use to make income splitting work for you.



STRATEGY #1: LEND MONEY TO YOUR SPOUSE

You can lend money to your spouse as long as you follow these rules:

- It must be an interest-bearing loan.
- The interest needs to match the prescribed rate set by the CRA at the time the loan is made.
- Your spouse must pay the interest by January 30 of the following year.
- The prescribed rate* remains fixed for the term of the loan, so if your investment has expected returns higher than the prescribed interest rate, it will be a good way to help bring down your taxable income. Any return is taxed at your spouse's lower rate. Plus, the loan interest expense can be deducted by your spouse.

****The prescribed rate set is quarterly by the CRA. It is currently at 3% and will hold until at least December 31, 2022.***

STRATEGY #2: SPLIT PENSION INCOME

If you're 65 years or older, you can split up to 50% of eligible pension income with your spouse. Eligible pension income includes:

- Lifetime annuity payments under a registered pension plan.
- Registered retirement savings plan (RRSP).
- Deferred profit-sharing plan.
- Payments from a registered retirement income fund (RRIF).

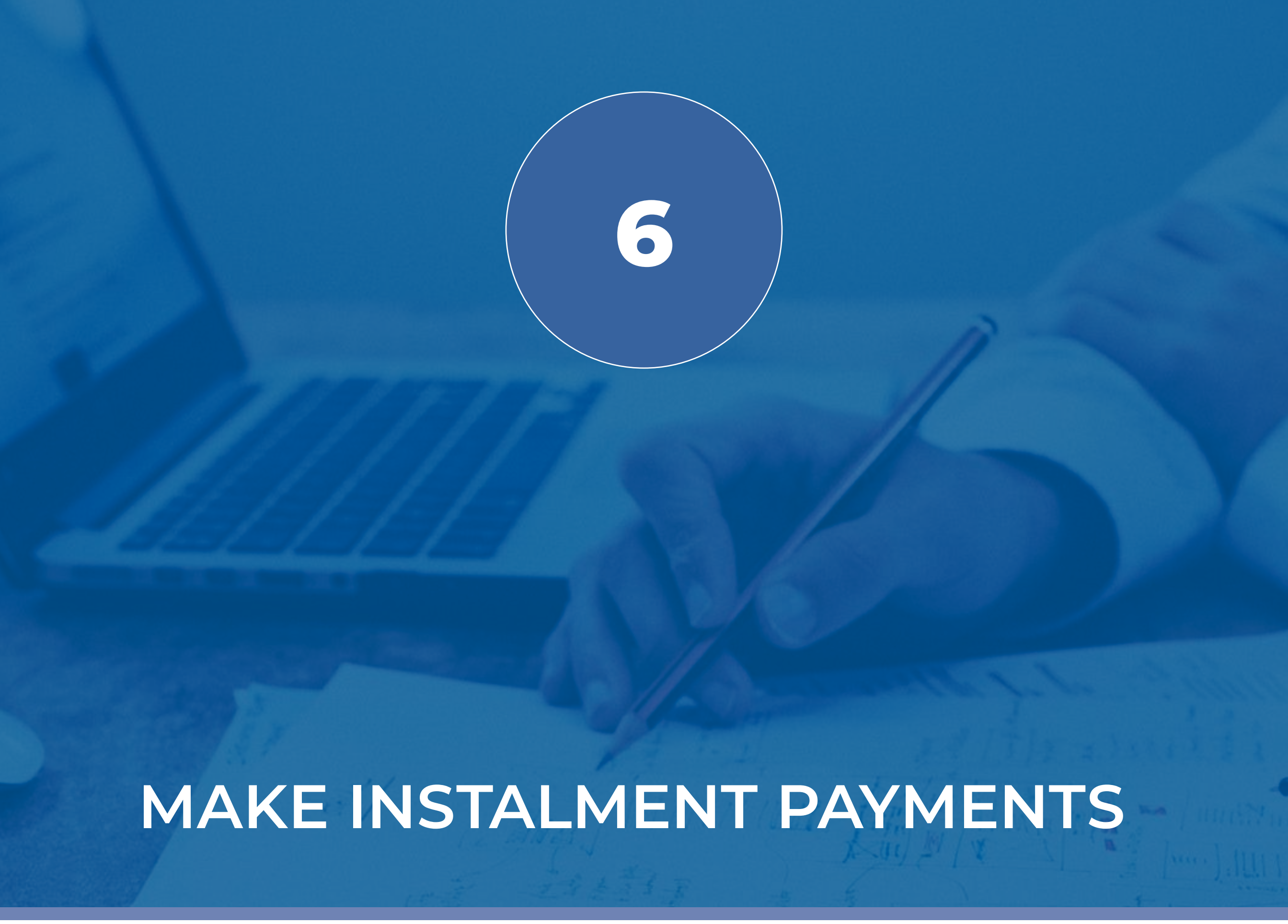
While you'll still receive the actual income, you can split it on your tax return to lower your tax payable.

STRATEGY #3: MAKE CONTRIBUTIONS TO A SPOUSAL RRSP

You can also contribute to a spousal RRSP to help even out retirement savings for you and your spouse if they earn a lower income, since contribution room is based on earned income.

Here's how it works:

- Your spouse would open a spousal RRSP account in their name (separate from their personal RRSP account), and you could contribute to the spousal RRSP.
- Be careful not to go over your RRSP contribution limit. If you max out your RRSP, you can't contribute to the spousal RRSP.
- When your spouse withdraws the money in retirement, they'll pay the tax on the withdrawals at their lower tax rate.



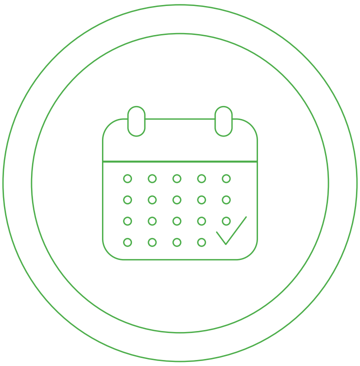
6

MAKE INSTALMENT PAYMENTS

If you earn income that doesn't have tax withheld on it, like self-employed, rental or investment income, or you made a capital gain in the past year, you might have to make instalment payments.

Instalments usually arise if the tax you owe in the previous year is more than $3,000 (before existing instalment payments). By making quarterly payments, you're paying your taxes throughout the year, instead of paying a lump sum by the April 30 filing deadline. That way you're paying your taxes like someone who has taxes withheld from their paycheque.

Paying your instalment amounts can avoid costly or unnecessary interest to the Canada Revenue Agency.



HOW DO I KNOW IF I HAVE TO PAY TAX BY INSTALMENTS?

The CRA will look at your prior-year tax return and send instalment reminders to you. The reminder is based on prior returns.

Quick tips:

- Your instalments will be due quarterly. The due dates are usually: March 15, June 15, September 15 and December 15.
- The CRA will send you reminders when they're due, but it's still up to you to remember to pay them – otherwise you'll face interest and penalties. You can find the amount you owe and the reminders online in your CRA My Account as an individual or as a business.
- If the instalment deadline falls on a weekend or holiday, the CRA considers it to be on time if it's received by the next business day.
- You can pay online on CRA My Account, pay through your financial institution or send the CRA a cheque as long as it's postmarked by the instalment deadline. You can also choose to make pre-authorized payments.

Since your tax instalments are determined by the balance you owe on your tax return from the prior year, if your finances change and you end up making more money throughout the year and owing more tax, you'll still have to pay that amount by April 30 of the following year.

Even if your business is cyclical and your income fluctuates greatly throughout the year, you must meet your instalment obligations. Make sure you have enough money in the bank to make those payments.

HOW DO I CALCULATE MY INSTALMENT PAYMENTS?

There are three methods you can use to calculate your instalment payments.

1. **No-calculation option** – If your income, deductions, and credits are about the same from year to year, the CRA determines the amount of your instalment payments based on the information in your latest assessed tax return.
2. **Prior-year option** – If your 2022 income, deductions and credits will be similar to the prior-year amount, but different from 2020, you can determine the instalment payments based on your tax return for 2021.
3. **Current-year option** – If your 2022 income, deductions and credits will be different from those in 2020 and 2019, you can determine the payments based on the current year net tax owing.

7

IF INCORPORATED, REVIEW YOUR COMPENSATION OPTIONS

If your business in incorporated, you have a few options to consider for your personal compensation. You can pay yourself a salary, dividends, or do a mix of both.

The method you use to pay yourself personally from your corporation has an impact on many different things—and not just your personal income tax owing. While dividends likely create the lowest personal tax liability, they don't allow you to create contribution room in your RRSP, build up CPP or claim WCB if something happens. The form of your personal compensation can affect what you receive from government programs and credits as well as your ability to qualify for loans from lending institutions.

For the purposes of this section, we assume a corporate year-end of December 31.

PAYING YOURSELF A BUSINESS SALARY

If you pay yourself a salary from your corporation, it's reported as personal income. That means you'll be paying the personal income tax rate on your salary, which is higher than the corporate tax rate. However, the salary is considered a business expense for your corporation and lowers its taxable income.

If you decide to pay yourself a salary, you'll need to register a payroll account with the Canada Revenue Agency (CRA). Each time you pay yourself, you'll need to withhold and remit income taxes to the CRA.

You're also required to make mandatory payments to the Canada Pension Plan (CPP) on your income. The CRA establishes an "earnings ceiling" in the CPP every January, and for 2022 that ceiling was set at $64,900 (the minimum amount is frozen at $3,500). The contribution rate is 11.4% of pensionable earnings which is split between the employer and the employee.

If you're a small business owner and your net personal income from self-employment or your business income is more than $3,500, you must pay the full 11.4% - both the employer and employee portion of the CPP. Your maximum contribution amount will be $6,999.60 in 2022.

Since your business salary is counted as personal income, you also qualify for income tax credits, which include childcare and medical expenses.

Paying yourself a salary would be a good option if you rely on mandatory retirement contributions. Your RRSP deduction room is also built using your business salary.

This option, however, is best implemented at the start of your fiscal year to make remittance payments smaller and more manageable over a longer period of time.

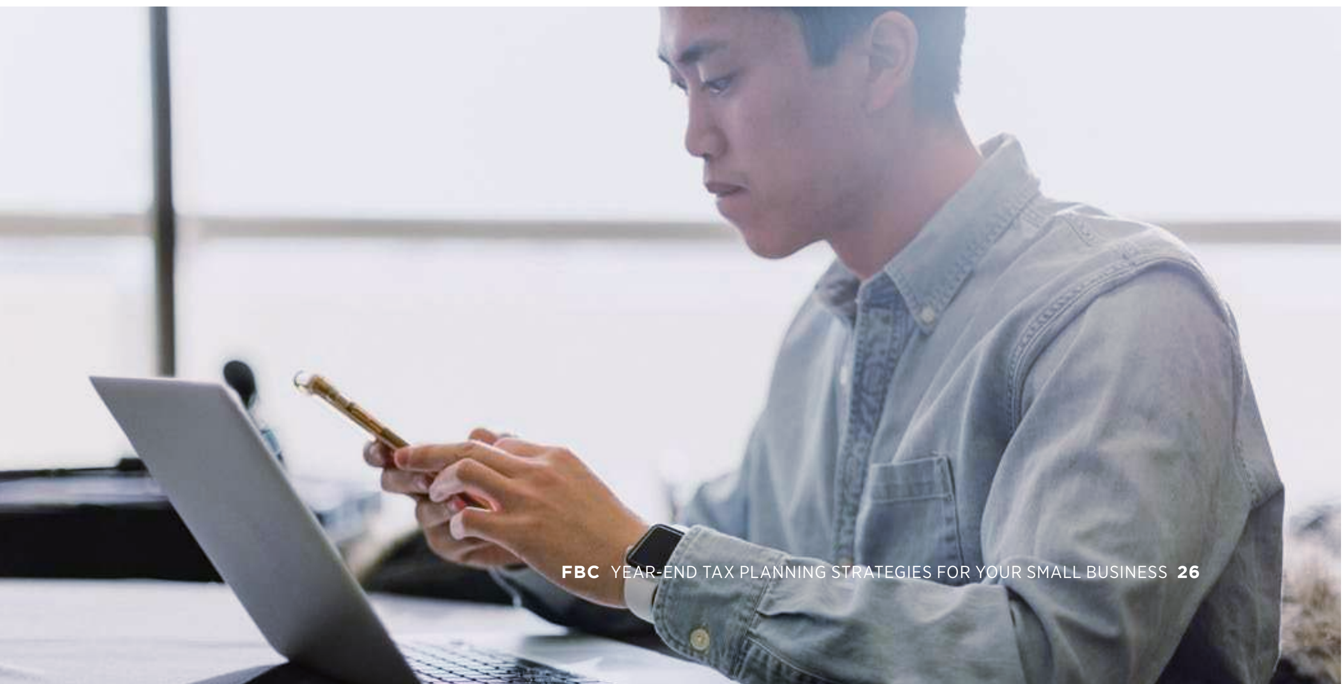
PAYING YOURSELF DIVIDENDS

Dividends are paid to shareholders of your corporation. Dividends are considered investment income instead of personal income. You might pay slightly less tax on dividends than on a salary, since you receive a dividend tax credit that you can help lower your overall tax owing.

Since dividends aren't considered an expense to your corporation, they won't lower your corporation's taxable income.

When you want to prepare dividends for your shareholders, you move the cash from your corporate account to the shareholder's personal account. You'll have to prepare and file T5s to the CRA for anyone who receives dividends. You won't need to register for payroll and remit source deductions if you're the sole owner of your corporation.

Paying yourself dividends could be right for you if you don't want forced CPP contributions. Keep in mind dividends don't build RRSP contribution room, so you'll want to have your own retirement plan in place.



INCOME SPLITTING

INCOME SPLITTING: If your business is incorporated, you can pay dividends to your spouse and children. This strategy offers great flexibility to an incorporated business since the dividends paid can vary from year to year, as can the recipients receiving them. This decision will be based on how much income you want to distribute to lower your tax bracket.

You must first set up your incorporated business to include your spouse and/or children as shareholders. Note, this doesn't have to be done at inception of the corporation as you can amend shareholders throughout the year – remember to update your minute book to reflect the changes. You are then permitted to distribute dividends between family members to reduce your tax burden.

Note: shareholders do not have to employees to receive dividends. But employees can be shareholders and receive both a salary and dividends through the business.

A word of caution: there are limitations and anti-tax-avoidance rules put in place by the CRA regarding issuing dividends to family members who have not invested or worked in the business.

There are additional income splitting strategies available to Canadian taxpayers, but you should consult with a tax professional well in advance of your year-end to ensure it's right for your situation.

HOW SHOULD I PAY MYSELF AS A BUSINESS OWNER?

It depends on your individual business and family situation. Dividends are a more flexible payment option, and you don't have to pay into CPP, so you'll reduce your costs that way. However, you'll need to be careful about contributing to your own retirement savings. And you won't be creating contribution room in your RRSP by issuing yourself dividends.

Also, dividends aren't accepted as salary on loan applications if you're applying for a mortgage or other lines of non-business credit.

There are many other factors like other income sources that can impact whether you should be paying yourself a salary or dividends.

If you're incorporated, you should speak with tax professional well in advance of year-end to choose the compensation option that will optimize your return and lower your taxes.

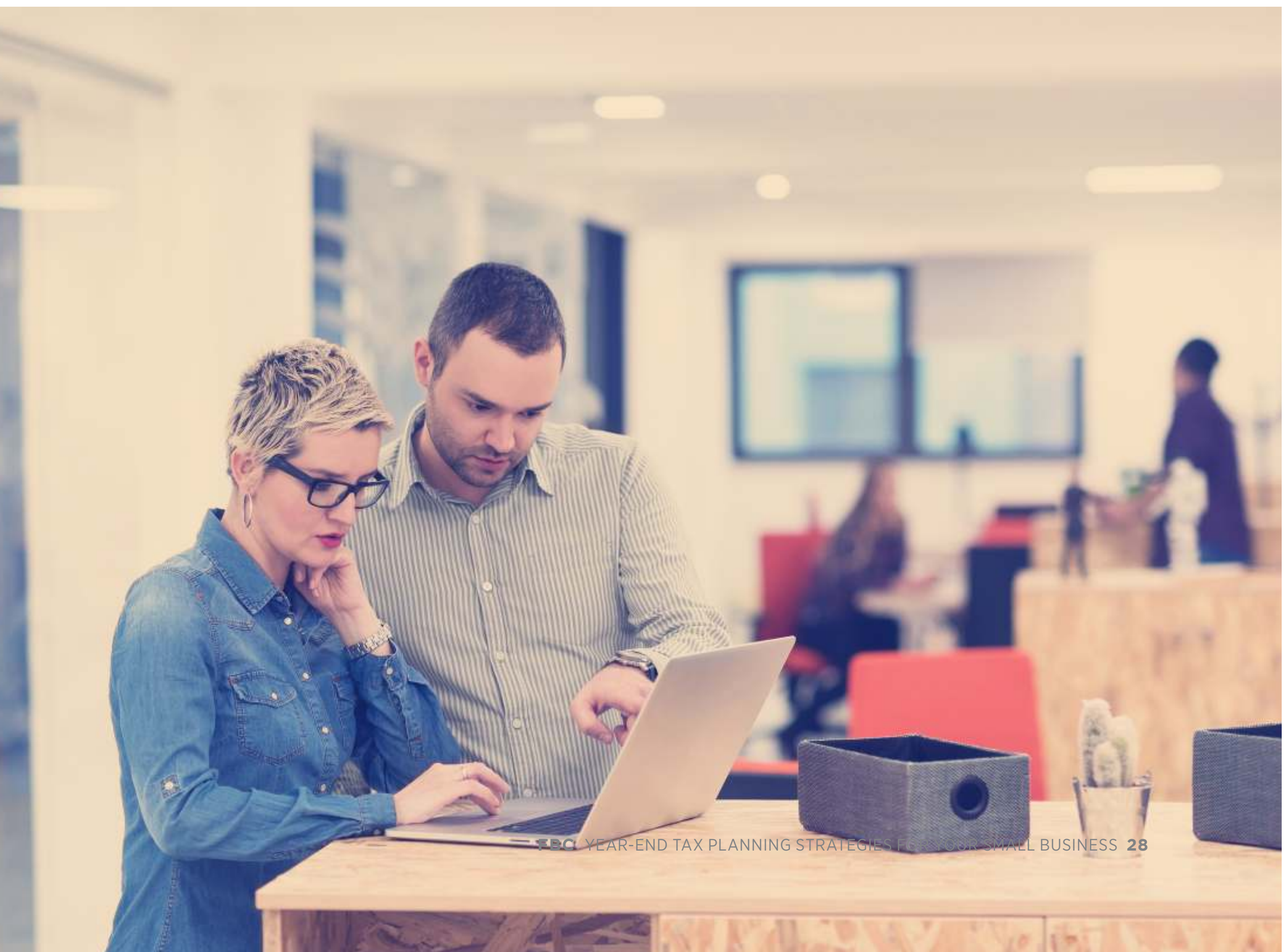
SALARY VS DIVIDENDS SUMMARY

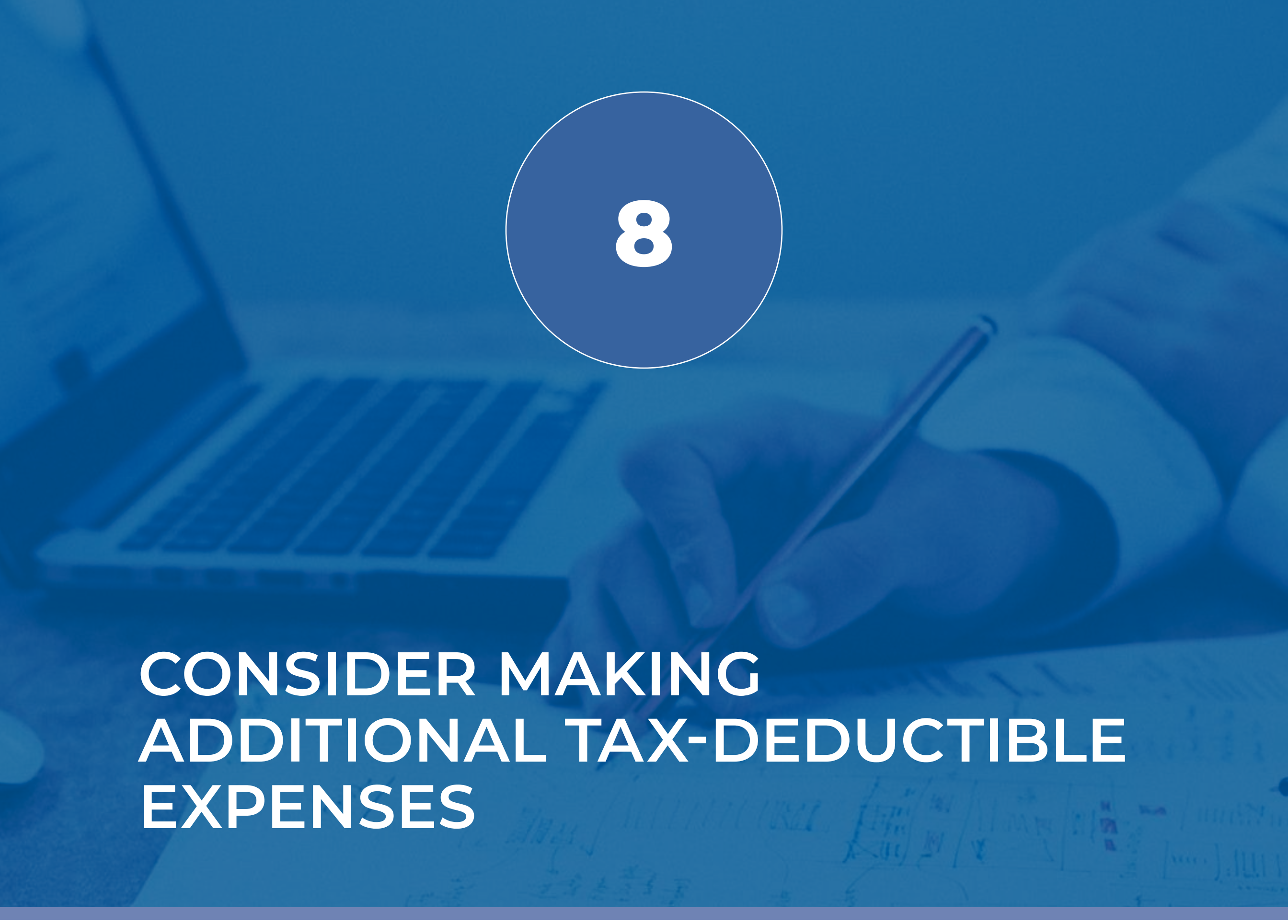
SALARY

- Pay personal income tax rate
- Pay into CPP
- Builds RRSP contribution room
- Requires issuing a T4 for the salary

DIVIDENDS

- Pay corporate tax rate
- No CPP
- Doesn't impact RRSP contribution room
- Requires issuing a T5 for the dividends





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CONSIDER MAKING ADDITIONAL TAX-DEDUCTIBLE EXPENSES

If you've kept on top of your receipts and have a good sense of your cash flow, you may want to take advantage of any additional tax-deductible expenses before year-end.

For example, now may be a great time to finally invest in some marketing materials (like brochures or business cards), make a charitable contribution, or even renew that membership in your trade association.

Below are some additional tax-deductible expenses you can consider.

Please note: This list is not exhaustive. There may be additional tax-deductible expenses for which you qualify, but the expenses below represent those that are easiest to implement within a shorter timeframe before year-end.

ACCOUNTING FEES

Fees for accounting, bookkeeping, tax preparation and finances can be deducted. If you've been thinking of hiring a professional help, why not take advantage of this deduction?

BUSINESS ADVERTISING AND PROMOTIONAL EXPENSES

Some of these expenses include online advertising, advertising on Canadian radio and television stations and Canadian newspapers and magazines, as well as promotional materials like business cards and pamphlets.

Sponsorship of local sports teams, and other branded charitable donations, can be claimed as advertising if the materials include your branding and logo, which could potentially increase awareness of your business.

BUSINESS EXPENSES

If you use a landline or cellphone and internet for your business, you can deduct the cost, along with office supplies.

BUSINESS TAXES, LICENSES AND MEMBERSHIPS

You can deduct annual licence fees (beverage, trade, motor vehicle licenses) and some business taxes (municipal taxes, land transfer taxes, gross receipt tax, health and education tax and hospital tax).

You can also deduct annual dues or fees for trade or commercial associations, as well as magazine subscriptions if they're expenses incurred to earn business income.

Note: You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities such as golf club memberships.

CHARITABLE DONATIONS

Corporations can claim eligible charitable donations to a limit of 75% of net income. The donation must be made within the corporation's fiscal year to be claimed as an expense, but you can carry forward unclaimed donations for up to five years.

Note that sole proprietorships will be unable to deduct charitable donations on their net income from their business but will obtain a non-refundable tax credit for their charitable donations.

MEALS AND ENTERTAINMENT

You can deduct 50 per cent of your total meal and entertainment expenses for business purposes.

TOOLS AND EQUIPMENT

The tools must be used specifically for your job and not for any other purpose before you bought them. Any tools or equipment that cost more than $500, must be deducted over a period of years using Capital Cost Allowance.

Sponsorship of local sports teams, and other branded charitable donations, can be claimed as advertising if the materials include your branding and logo, which could potentially increase awareness of your business.

9

DEFER THE SALE OF CAPITAL ASSETS, OR PURCHASE CAPITAL ASSETS, BEFORE YEAR-END

A good way to lower your tax bill is to make use of the Capital Cost Allowance.

If you need to buy a major capital asset like a building, machinery, or equipment to use in your business, consider buying it before the end of your fiscal year to claim tax depreciation, or Capital Cost Allowance (CCA), to reduce your income on your tax return.

WHAT IS CAPITAL COST ALLOWANCE?

If you purchase a fixed asset with a long-lasting life in your business, you can't deduct the entire cost as an expense in one taxation year. Since fixed assets wear out over time, they are considered "capital" and you can deduct their cost over a period of several years using CCA.

The CCA is the portion of the asset the Canada Revenue Agency (CRA) will allow you to deduct as depreciation on your tax return each year.

If you have depreciable assets to sell, it may be better to wait until the next fiscal year. The delay lets you claim another year of CCA in the current tax year.

However, any gains on the fixed asset will also be included in your income in the following year, and the CCA will be reduced by deducting the proceeds of sale. It's best to speak to a tax professional to strategize on which option is right for you.

HOW MUCH CCA CAN I CLAIM?

It depends on the type of property you own and when you acquired it. The CRA groups fixed assets into different classes, and each class has its own depreciation rate.

You don't have to claim the maximum amount of CCA in any given year. You can claim the amount you'd like, from zero to the maximum allowed for the year. This is a good opportunity to take stock of your tax position and if it would benefit you to claim CCA.

If you don't have to pay income tax for the year, you may not want to claim CCA since it reduces the balance of the class by the amount of CCA claimed. As a result, the amount of CCA available for you to claim in future years will be reduced. In this case, you could save the CCA for future years when your tax bill is higher.

Alternatively, if you're in the market for depreciable assets, buy them before your fiscal year to take advantage of the Canadian government's accelerated investment incentive.

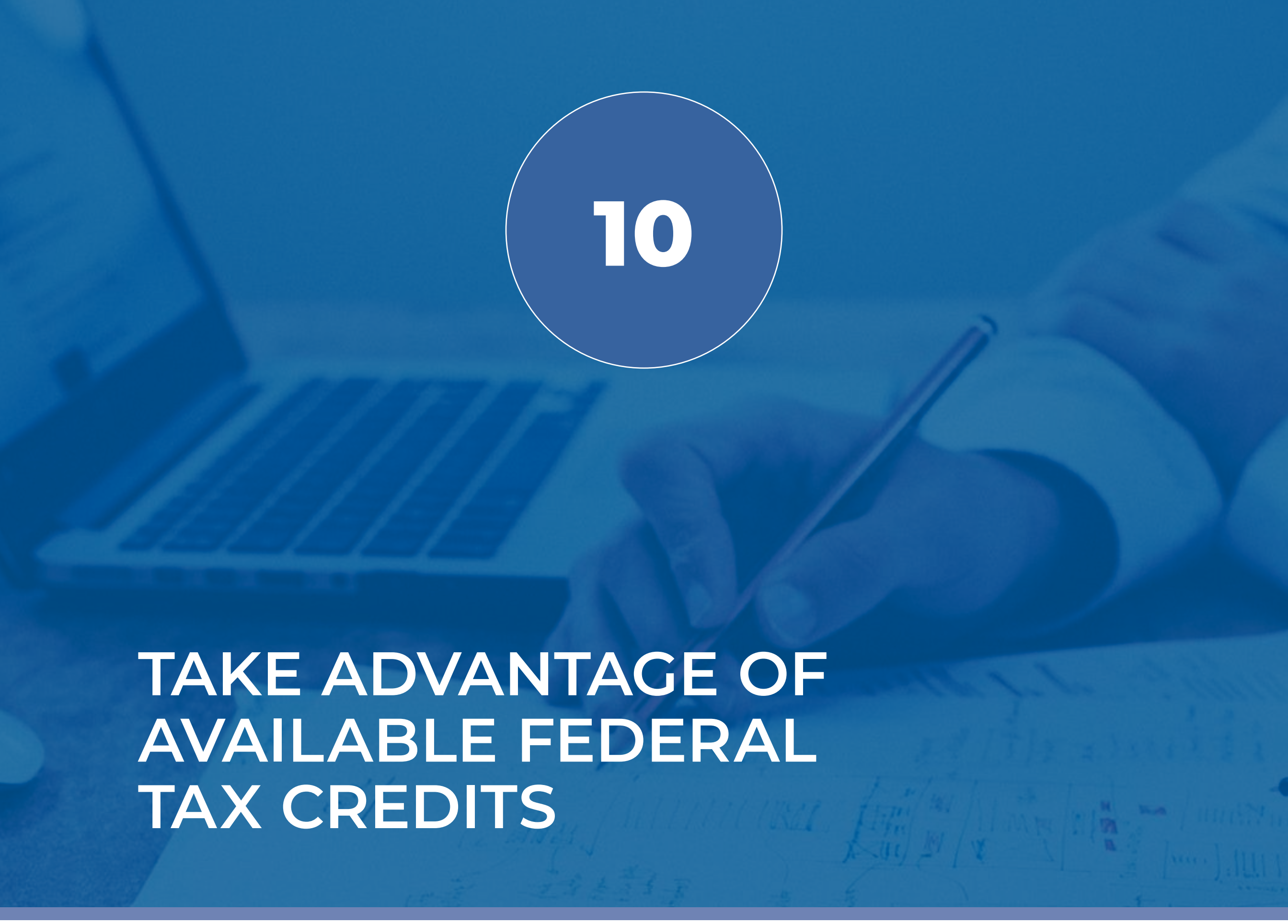
WHAT IS THE ACCELERATED INVESTMENT INCENTIVE?

If the property (qualified equipment or a vehicle) is purchased after November 21, 2018, and available for use before 2024, it's eligible for a higher rate of CCA. You can claim 150% of the normal CCA rate in the year of purchase.

This program is in effect until December 31, 2023.

WHAT IF I NEED TO REPAIR MY FIXED ASSETS?

The cost of a repair that gives a lasting benefit or advantage is a capital expense. For example, if you placed vinyl siding on the exterior walls of a wooden property, you are extending the useful life of your property. This will need to be included in your CCA for that fixed asset.



10

TAKE ADVANTAGE OF AVAILABLE FEDERAL TAX CREDITS

While there are tax credits available at both the federal and provincial level, you may want to take advantage of some of following common federal tax credits for small businesses before the end of the year.

After all, if you're going to spend the money anyway, it may be advantageous to do so before year-end in order to lower your tax bill.

INVESTMENT TAX CREDIT – PROPERTY, MACHINERY, EQUIPMENT

Investment Tax Credits (ITC) allow you to claim tax credits if you invested in your small business, bought machinery, equipment or new buildings.

What if you could have taken advantage of investment tax credits, but forgot to? You can carry forward credits earned in tax years that end after 1997 for up to 20 years. You can also carry back the credit you earn for up to 3 years.

You may be able to claim a refund of your unused ITCs as well.

Since there are eligibility rules and requirements that must be met before claiming investment tax credits on property, machinery, and equipment, it's recommended that you speak to a tax professional to ensure you're following the rules.

APPRENTICESHIP JOB CREATION TAX CREDIT

If you own a small business that has hired an apprentice, you can claim 10% of their wages, up to a maximum of $2,000 per eligible employee.

An eligible apprentice is someone who works for you in a qualifying trade in the first two years of their field of expertise. Any unused credit can be carried back 3 years and carried forward 20 years (to help offset larger tax bills).

SCIENTIFIC RESEARCH AND EXPERIMENTAL DEVELOPMENT (SR&ED) TAX CREDIT

This program encourages Canadian businesses to conduct research and development by providing cash refunds and/or tax credits for your research and development expenditures.

You can pool your SR&ED expenditures and deduct them against your current year income or keep them and deduct them in a future year.

You can also earn the SR&ED investment tax credit (ITC) and use it to reduce your income tax payable. In some cases, the CRA will refund the remaining ITC.

If your SR&ED work is eligible, your investment tax credit will be at least 15% and can be as much as 35% of qualified SR&ED expenditures. If you have any unused ITCs, you can carry them back three years or forward 20 years and apply them against tax payable for other years.

The provincial governments and territories also support SR&ED through additional tax credits and grants.

INPUT TAX CREDIT

You may be able to recover GST/HST paid or payable on purchases and expenses related to your business, by claiming input tax credits but you must have a registered GST/HST number to claim them.

Keep track of GST/HST paid on eligible business expenses so that you can claim them on your GST/HST return. Be sure to keep your receipts should you be required to back up your claims.

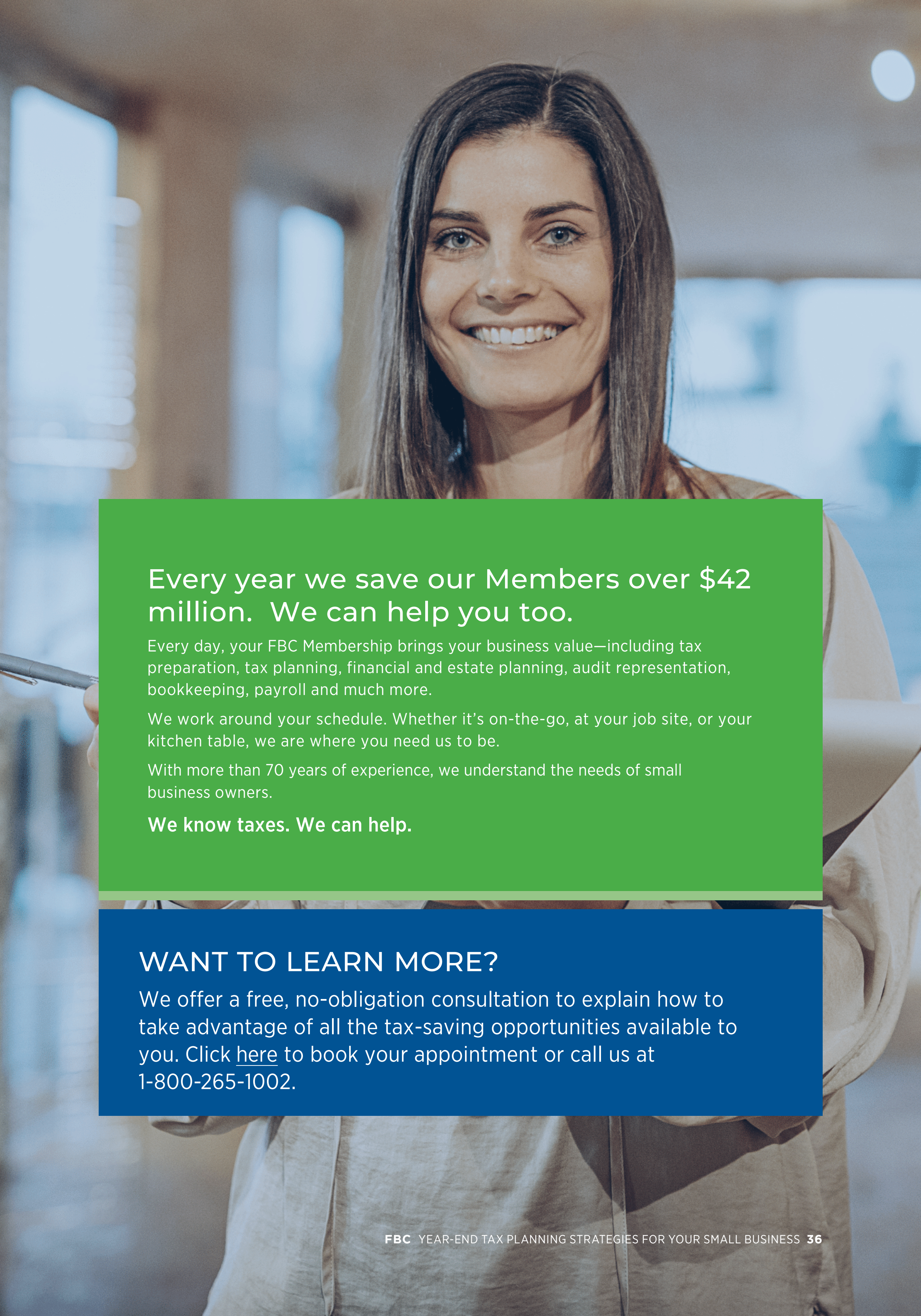
WHAT EXPENSES ARE ELIGIBLE FOR INPUT TAX CREDITS?

To claim an input tax credit, the expense(s) must be reasonable in quality, nature, and cost in relation to the nature of your business. According to the CRA's website, the following expenses may be eligible for input tax credits:

- Business start-up costs
- Business-use-of-home expenses
- Delivery and freight charges
- Fuel costs
- Legal, accounting, and other professional fees
- Maintenance and repairs
- Meals and entertainment (allowable part only)
- Motor vehicle expenses
- Office expenses
- Rent
- Telephone and utilities
- Travel

The following expenses are NOT eligible for the input tax credit:

- Certain capital property
- Taxable supplies of property and services bought or imported to make exempt supplies of property and services
- Membership fees or dues to any club whose main purpose is to provide recreation, dining, or sporting facilities (including fitness clubs, golf clubs, and hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business
- Property or services you bought or imported for your personal consumption, use, or enjoyment



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