Advice for Small Business Owners

Posted on: April 8, 2019

Similar to the situation of individual Canadians, small business owners must deal with a variety of financial challenges in order to grow their businesses. Besides managing issues like cash flow and assets, small businesses must also think about taxes on income.

Without a doubt, tax return filing can be an intimidating experience for many business owners, but the process can be greatly simplified simply by keeping good financial records.

Plan ahead and have an informed estimate on your year-end financial results well in advance of the tax deadline. If you know in advance what your tax exposure may be, you have time to gather the necessary resources to avoid penalties later on. Conversely, if you are eligible for a refund it is better to file your return at the earliest possible time and use the proceeds in your business or to invest in some other manner.

Use Interest Expense to Your Advantage

Interest deductions may be available to business owners, however many companies fail to plan with this in mind. For example, if you own a company, you could consider establishing a line of credit for your business. A secure line of credit is optimum, usually guaranteed by home equity or other collateral. By using your line of credit to pay business expenses rather than cash, the interest on your business line of credit becomes deductible on your tax return. You can then use the cash to pay down other non-deductible debt such as your home mortgage.

Income-splitting can Reduce Your Tax Exposure

You may also consider paying your spouse or child as an employee of your business as long as you actually pay them a reasonable amount of wages and ensure that their duties are necessary to the operation of the business. You should always keep clear and accurate records of these transactions. As they are in a lower tax bracket, you can utilize income splitting to move your higher tax bracket income to the lower tax bracket income of a family member. It is up to the family member to report this as employment income or business income but typically family members do not have to pay EI on employment income received from within the family.

Incorporation of your business is something to consider when operating a small business. There are a number of reasons to do this depending on whether you have enough revenue or profitability to leave some of that money in the business. Leaving it in the business will likely see a **lower tax rate** than if you withdrew the money and added it to your taxable income.

A business tax return is multifaceted but by planning ahead you may just pay less tax and be able to use the proceeds to grow your business. The most important thing to remember is to **never make big financial decisions without the benefit of professional advice.** So whether you are a business owner trying to maximize your tax planning opportunities or an individual trying to make the most of every pay cheque, it is best to always seek out the assistance of either a qualified financial advisor or tax advisor to assist you in assessing all your various options.

Questions about tax strategies? **[1]**

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