

FAQ FORMULA SERIES

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2018 YEAR END TAX PLANNING

Tax Question:

What is our recommendation for 2018 year end tax planning?

Facts:

The federal government released new legislation proposals in December 2017 for Tax on Split Income. This impacts the ability of small business corporations in Canada to split income to family members through dividends (see *FAQ #277—Tax on Split Income*). We believe that CRA will increase pressure on audits for dividends paid in 2018 and going forward which will appear on your T5 slips.

Discussion:

Instead of paying dividends at year end, we recommend that you pay salaries instead. If you are income splitting with your spouse, the salaries paid still need to be reasonable in order to receive a deduction for your corporation. Detailed job descriptions and timesheets for each family member are important to document.

If your corporation has had a profitable year, you may wish to declare a management bonus to defer some of the taxes to the next year, or to reduce income to a level of corporate tax you are comfortable with; for example to the small business tax rate limit.

If your corporation has a July or later year end, you would not have to pay the bonus until the following calendar year. Thus, you would have deferred the personal taxes into the next year. For example, a corporation with a July year end declares a bonus of \$100,000. As this is a deductible expense, a BC Canadian controlled private corporation (CCPC) would be saving tax at 12% or \$12,000. The bonus can actually be paid in January 2019, thus pushing the personal taxes into 2019. You have also deferred paying the related payroll taxes for 6 months.

Management bonuses must be paid within 179 days from your year end date and their relevant payroll remittances paid accordingly. If bonus and payroll deductions are not paid within this time frame, Canada Revenue Agency (CRA) can reassess the return in which the bonus was recorded, denying the deduction, resulting in taxes, penalties and interest. If you declare and record a management bonus in December 2018, the payroll taxes must be remitted by January 15, 2019 in most cases.

Meeting with your accountant is always a good idea for year end tax planning. We can alert you to various issues including shareholder loan accounts which may need to be addressed. For example, you may be unaware that you spent corporate money to pay for personal purchases and now you owe your company money. We will also help you plan your annual bonus to optimize your corporate and personal taxes.

Recommendation:

To help you determine the best strategy for paying management salaries or if you would like to consult on year end tax planning, please contact Gilmour Group Chartered Professional Accountants.



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