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Simplifying Taxes For Small Businesses

What You Need to Know



Taxes are an intricate part of the small business landscape. As a small business owner, it is not necessary for you to become a bona fide tax expert but you should develop a sense of the basics. Tax preparation is a skill, just like any other, and unfortunately, it is one that is necessary and will never go away. *“Why not just outsource?”*, you might ask. This can certainly be part of the picture, but it is unwise to outsource everything. Having a basic working knowledge of filing your taxes is important so that you can make sense of the various tax options open to you. When it comes to outsourcing, working with credible professionals can be smart, but an overreliance on them can leave you feeling powerless. The following six tips will help you navigate the landscape of taxes for small businesses.

Understand How Canadian Income Tax Relates to Your Small Business

The first and most important step in determining how income tax relates to your small business is choosing the correct tax return. If your business is structured as a sole proprietorship or a partnership, then you want to file using a T1 personal income tax form. The other option, for those small businesses that are incorporated, is to use a T2 corporate income tax return.

The next most important piece of the puzzle in getting your taxes right is figuring out which expenses incurred are legitimate income tax deductions. Knowing this will allow you to maximize your deductions, saving you even more money as a business owner. It also is very critical to understand home-based Canadian income tax deductions. These are capital cost allowance (also called CCA or depreciation), RRSP contributions, research and development costs, and gifts to employees. This [government website](#) provides a list of commonly deductible expenses to keep in mind while filing income taxes.

Ensure You Have Not Missed Any Tax Deductions for Your Small Business

Using tax deductions to lower your business's taxable income is a key skill in minimizing the taxes you pay. There are many ways to reduce income paid and sometimes even get a tax refund. Understanding often overlooked deductions is a key strategy for minimizing



your taxes paid. Try to keep in mind the following deductions: home business tax deductions, research and experimental tax credits, allowable reserves (the amount placed in reserve generally has to be paid back the following year), investment tax credits (subtracting some investments acquired from the taxes you owe), private health services plan premiums, hiring a spouse or child for yielding deductions, and the apprenticeship job creation tax credit (if your business hires tradespeople).

Pay Attention to Due Dates

It is important to know when your tax return is due and that depends on which type of business you are operating. If you have a sole proprietorship or a partnership and your business's fiscal year ends December 31st, then your taxes are due on April 30th. This is the case for most businesses. Changing your fiscal year date for reporting purposes is possible; you simply have to fill out a T1139 form. This will affect when you have to file your taxes, and when you receive your GST rebate. This is typically done when an individual's business is seasonal, and they want their reporting cycle to coincide with a slow period in their business. If your business is a corporation, however, and has a balance owing on its corporate income tax, that balance must be paid within two months after the end of the tax year (fiscal year end).

Familiarize Yourself with your T1 Canadian Income Tax Form

Especially if this is your first time filing an income tax return, it is important to understand how to go about filing a T1 Form. It is important to start by gathering all the necessary documents so that you have them in front of you. Make sure you have on hand your business number, your social insurance number, a copy of the Canadian Revenue Agency's Business and Professional Income Guide, and your business records showing your annual totals of sales, cost of goods sold, and business expenses. When completing your T1 Form, make sure to fill out the identification section, then calculate your business income (to do this, you will need a T2125 which is included in the T1 Form package), and finally use your business records to complete the Income and Expenses part of the package.



Understand The Timeline For Receiving Your Tax Refund

It is a good idea to know generally when you will receive your refund, especially if you are expecting to use your refund to fund your ongoing operations. According to the Canada Revenue Agency, paper tax refunds are usually processed within four to six weeks. Income tax returns that are filed electronically are usually returned faster, within two weeks. Realistically, however, you shouldn't expect a return to be processed before March, even if you filed your tax return in January, because the CRA doesn't start to process returns until mid-February.

Pick the Most Appropriate Tax Software for Your Situation

Today's market for tax planning software has many options for the small business owner. If your business is a sole proprietorship or a partnership, then your options are truly varied. If your business is a corporation, then your options are a bit more limited. This is because the rules regarding reporting as a corporation are more stringent, and fewer options have been developed for this type of tax reporting.

The five most common options for filing your income taxes are TurboTax, GenuTax, TaxTron, Cantax, and UFile. TurboTax is the largest of these suites, and offers both online and downloadable products. GenuTax is a free service, offered in the form of a download, offering a simple interview style set of questions for processing your return. TaxTron is a downloadable tax service that allows you free access if your return is below \$31,000. Cantax is a downloadable option offering software for home businesses. Finally, UFile is an option that offers both downloadable and online return processing. The prices for this service start at \$15. These options will all get the job done in a quick and efficient manner, and they are all Canada Revenue Agency approved. It just comes down to personal taste as to which suite you prefer.



Summary

Taxes are a necessary part of the life of a small business. While approaching taxes can seem daunting, managing your small business's taxes is an achievable goal. There is no reason to feel scared about your tax situation. With the above tips, and a little bit of research, even the novice tax-filer can turn their tax problem into a tax solution. For expert advice on your tax situation, contact [Miller Bernstein](#)