



This Month:

- ◆ Balancing the Books isn't always easy
- ◆ First Audit Program for GST/HST
- ◆ Should You Incorporate?
- ◆ Owner/Manager Remuneration
- ◆ Disability Income Insurance

First Audit Program for GST/HST

The focus of this type of Canada Revenue Agency (CRA) audit is on new businesses, and the workload is generated by the first GST/HST return filed with a refund balance. Generally, the start up costs incurred by the business results in a GST/HST refund claim. The purpose of these audits is to establish early contact with the owners and managers of the new business.

The role of the CRA auditor is to:

- ... Ensure the existence of a business;
- ... Ensure the taxpayer is aware of their rights and obligations;
- ... Determine the adequacy of the books and records to support the GST/HST payable, the input tax credits, and in general, all revenue and expenses;
- ... Make recommendations where the books and records are found to be inadequate; and
- ... Provide answers to taxpayer enquiries.

Balancing the books isn't always easy.



Business owners understand the importance of keeping records up-to-date. Unfortunately, paperwork has a habit of piling up – *quickly!*

PADGETT BUSINESS SERVICES now offers a solution -
PADGETT CONNECT

PADGETT CONNECT is an easy-to-use business software applications package that is customized for your business. You don't need to be a computer whiz or an accountant to use this product. New users can start entering their records within a ½ hour of installation on their computer. The package contains the following:

PADGETT CHEQUEBOOK - Makes bookkeeping simple

PADGETT INVOICING - Tracks and reports sales, customers and products

PADGETT PAYROLL - Makes paying your employees a breeze and keeps you in control

For more information on **PADGETT CONNECT**, visit us at www.padgettconnect.ca or contact your Padgett representative .



Should You Incorporate Your Business?

If you own a business, you may have wondered if you should incorporate. Historically the income tax system in Canada has benefited incorporated Canadian small businesses. Although the income and deduction calculations are almost identical to an unincorporated business, the major differences are in the corporate taxation structure and tax planning opportunities. When developing the tax plan for your business, you and your advisor should look for opportunities in the following areas:



- ... Income splitting with family members;
- ... Tax deferral to the future;
- ... Estate planning for you and your family;
- ... Utilization of the capital gains exemption; and
- ... Planning your retirement, including disposing of your business.

Since personal and corporate tax as well as family law issues can make this issue complex, please contact our office to discuss your situation.

Disability Income Insurance

CRA recently noted that where a proprietor purchased a Disability Income Policy, the premium is a non-deductible personal expense. But the receipt of the disability benefits is tax-free.

If a corporation acquires a Policy for the employees, the premiums are generally deductible. If the employee receives the disability benefits they are included in the employee's income. However, if the individual received the benefit because she or he is a shareholder, the premium paid by the corporation would be included in the individual's income, under Subsection 15(1). The premium would not be deductible by the corporation. However, any disability benefits received by the shareholder would be tax-free.

Owner/Manager Remuneration

Recently, Canada Revenue Agency (CRA) was asked whether a shareholder/manager bonus could be considered to be reasonable if it created a non-capital loss that was carried back to the three previous taxation years to reduce the income in those years to the small business deduction limit. The bonus rewards the shareholder/manager for contributing to the successful management of the company and creates the non-capital loss carryback that reduces the corporation's income from an active business to the small business deduction limit.

CRA acknowledged that the proposed payment is within the scope of the CRA policy on "reasonableness of shareholder/manager remuneration". The company is a Canadian controlled private corporation (CCPC) paying a bonus to the active shareholder/manager, who is resident in Canada, to reduce the CCPC's taxable income to the small business deduction limit for the carryback period. The corporation had passed a Director's Resolution that stated a policy of declaring annual bonuses to specific Canadian residents, who are active in the management of the corporation, to reduce the income of the business to the small business limit.

PADGETT BUSINESS SERVICES

WHERE YOUR SUCCESS TAKES ROOT



Padgett Business Services is dedicated to meeting the tax, government compliance, profit & financial reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter.