THE SMALLBIZ BUILDER

PADGETT THE SMALL BIZ PROS

June 2008 | PADGETT BUSINESS SERVICES | Vol. 6, No. 6

This Month:

Voluntary Disclosure Program

If you owe money to any of the tax authorities because you failed to file a return for one or more years, you can make a voluntary disclosure. You will pay only the tax due plus interest. No penalties will be assessed. You have to make a complete disclosure. The information can be less than or more than a year old. Plus you must contact the Canada Revenue Agency prior to the start of an investigation or an audit.

Typical voluntary disclosures include; domestic business income never reported, failure to collect or remit GST and/or source deductions, information returns not previously submitted, foreign wages and benefits not reported, and domestic and foreign dividends and interest never reported.

Relief is determined on a case by case basis.

Withholding Information from Canada Revenue Agency

If you run your own business or you are self-employed, you may be tempted to report only part of your income to the tax authorities. Or you might consider suppressing information about your activities.

If you are audited by the Canada Revenue Agency (CRA) you should consider this. The CRA auditor has access to the Internet. What will show up if the auditor enters your name or your business name in Google or one of the other search engines? Will the auditor discover information about activities that you have failed to report?

A CRA auditor now routinely uses publicly available search engines, Google for example, to discover information about companies and individuals that are being audited. In one recent case, the CRA disallowed a Voluntary Disclosure application because the taxpayer submitted an incomplete disclosure. He failed to provide information about his involvement in certain business activities that showed up during a Web search.

So remember. Everyone is watching you on the Web including Big Brother!

Early CPP

Normally, you would start your retirement pension the month after you reach 65. However, you can begin the CPP as early as your 60th birthday or as late as your 70th.

The amount of the pension is adjusted by 0.5% for each month that you start to receive your pension either before or after your 65th birthday. It is a permanent adjustment, which means that if you decide to take it before you reach 65, it will not be adjusted when you reach 65.

Continued on Next Page

Continued from Previous Page (Early CPP)

Here are some examples. If you commence your pension at age 60, your monthly payment will be 30% (12 months x 0.5% x 5 years) lower than if you wait until age 65. However, by starting sooner, you are more likely to get a pension for a longer period of time. Or if you start your pension at 70, your monthly payment will be 30% higher than it would have been if you had taken it at age 65. However, if you apply for the CPP after age 70, retroactive payments are only payable for a maximum of 12 months.

To qualify for the CPP between 60 and 64, you must do one of the following:

- **Have low earnings.** Your earnings must be less than the current maximum monthly CPP retirement pension ($884.58 in 2008) in the month prior to the month your pension begins and in the month it begins.
- **Stop working.** By stopping work, it means that you are not working by the end of the month prior to the month CPP retirement pension begins and also during the month in which it begins.

Once you receive your Canada Pension Plan pension, you can work as much as you want and it will not affect your CPP payment. Unfortunately, you cannot contribute to the CPP on your future earnings.

Salaries Paid to Family Members

When deciding as to whether a salary should be paid to a family member, or more specifically to one's spouse, numerous questions arise. On one side, there is the question of the risk involved that the salary may be unreasonable and having the expense being disallowed. On the other side, there is the benefit of lower tax brackets, RRSP contribution room and unused credits. In a situation where the spouse contributes nothing to the business but is paid a salary which, if paid to an unrelated employee, would have been much lower based on the work performed, the risk mentioned above increases. However, there are numerous functions that can be performed by family members away from the business premises which are easily overlooked. These functions are summarised below:

- Computer work,
- Banking,
- Answering the telephone and taking messages,
- Purchasing supplies,
- Delivery and pick-ups, and
- Promotional work.

In rendering government decisions to accept salaries paid to family members easier, numerous aspects should be considered such as:

- Having a written contract of employment between the corporation and a family member,
- Salaries commensurate with duties performed,
- The educational background of family members,
- Not being overly aggressive in paying salaries to family members,
- Keep copies of cancelled cheques, and
- If payment is made in cash to family members, have them sign receipts.

The family members' salaries would be reported on T4's (Relevés 1 for Quebec) as they normally would if paid to an unrelated employee.

PADGETT BUSINESS SERVICES

WHERE YOUR SUCCESS TAKES ROOT

PADGETT THE SMALL BIZ PROS