GALLO & COMPANY

CHARTERED PROFESSIONAL ACCOUNTANTS

"Starting Out Right"

Small Business Guide

INDEX

1. The Business Entity

When starting a business, the first big decision that needs to be made is the type of business entity that one is going to operate under. There are three major types of business entities:

1.) **Proprietorship:** When a business is operated as a proprietorship, the business becomes an extension of the individual and his or her affairs. As such, all business income and expenses are reported as part of the individual's personal tax return. This form of business entity will generally have a December 31 year end**.**

2.) **Partnership:** When a business is operated under a partnership, it exists as a separate entity, however the business income and expenses are reported on the individual's or partners personal tax returns. A partnership involves more than one individual and generally has a December 31, year end.

3.) **Corporation:** A corporation, unlike the two forms mentioned above, is a distinct legal entity and reporting is kept separate on what is called a corporate tax return. The individual who may own such an entity is taxed only on funds received from the corporation.

The decision as to which type of entity you should choose to use should bring into consideration several different factors. Below is a quick summary of some of the major differences between the various business forms:

Incorporation	Proprietorship or partnership
Legal liability and creditor protection: When a limited company is successfully sued, the creditors can only access the corporate assets and generally not any of the shareholder's personal assets. (unless there have been personal guarantees or direct personal wrong doing)	A non incorporated entity does not offer any protection in the event a business is sued. In this instance, all personal assets are at stake. (Business insurance can assist in mitigating this risk.)
Legal documents and decisions: When a limited company is formed, the shareholders agree on who has the power to make decisions for the company. The company is not at risk for those who fall outside that authority.	In the case of a proprietorship, only the proprietor has authority to make decisions for the business, in a partnership, any/either partners can make decisions for which the remaining partners may become accountable for.
Tax deferral: If the business is able to generate income in excess of the owner's needs, excess income can be retained within the company at a lower tax rate than would otherwise be paid personally.	Unincorporated owners pay income tax based on the income of the business, regardless of whether it has been used personally, which may result in higher rates of tax being paid than may be necessary.
Pay down business debt: The lower tax rate indicated above will result in more cash being available to pay down corporate debt.	Cash available to pay down business debt may be reduced by higher tax rates.
More administrative costs and burden: Incorporating does bear a one time start up cost and an annual return fee. In addition, separate reporting generally results in higher	Non incorporated entities are easy to start and generally bear little cost. Accounting and administrative requirements are sometimes

administrative, legal and accounting costs.	less resulting in some reduction of costs.
Income splitting: Family members can become owners resulting in the ability to pay dividends on their shares and therefore diverting income. There are attribution rules that make the benefits of diverting such income to children under 18 less attractive.	The only way to split income is for work performed which is generally considered employment income.
Tax savings on sale of business: If the business is sold, the taxpayer may be entitled to shelter $750,000 of the capital gain from tax so long as they are selling shares and the business meets certain requirements. If a couple owns the business, the potential tax savings would be on $1,500,000 of capital gains.	The potential future sale of the business results in a sale of assets which are not eligible for the exemption on the sale of shares.
Name protection: When one incorporates a company and a name is approved, there is a certain amount of protection offered for that name in that any new businesses incorporating cannot take the exact name and one may have cause to bring legal action if a new name interferes with an existing corporate name.	A partnership or proprietorship can register a trade name with corporate registries for their business. However this trade name will not be protected if an incorporating company chooses it as a corporate name.

Starting a proprietorship or a partnership:

Once you have made the decision not to incorporate, starting the business is fairly easy. There are no formal legal requirements other than the possible registration of a trade name. In the case of a partnership, it is highly recommended that the partners have their lawyer draw up a partnership agreement.

This does not mean that are not any more requirements however. Non incorporated entities are still required to follow labour and employment laws, as well as collect and remit taxes in various cases. It is important to understand what is required if one wishes to remain successful in business.

Incorporation:

To start a corporation or limited company, one must incorporate. Through this process you are creating a new corporate entity which will be distinct and separate from your personal finances.

There are various ways to go about incorporating. Costs will range depending on how you approach it.

1. Self incorporation. Cost is generally lower to incorporate yourself. This is done at a local registry office and is fairly quick. Self incorporation can result in future legal problems if it is not done right, so we recommend that as a minimum, if you are going to self incorporate, pick up the deluxe self incorporation kit at the registry office and read it all the way through first, following their recommendations.

2. Using a lawyer is recommended as they generally prevent potential future legal issues. Costs can include a large range depending on the firm.

3. Our office assists companies with incorporation only if they do not plan to use a lawyer and are going to incorporate themselves. The advantages are that our templates are designed to help ensure that you are not going to limit your future business options. We also help you with your initial documentation as well as ensure you get your business number application done. If interested please inquire as to our current rates.

If you are incorporating with more than one shareholder, (especially if not a spouse) we advise that you have your lawyer draft a unanimous shareholders agreement. This is an agreement that sets out in advance, the rules for winding up the company and how assets will be withdrawn and distributed among the shareholders. It also establishes what will happen in the event of the death, disablement or bankruptcy of a shareholder. Rules for conflict resolution are provided along with "shotgun" buy/sell rules in the event that a dispute cannot be resolved. These rules are designed to allow the continuation of the corporation in the event shareholder disputes or problems arise. They are best prepared right at the beginning, while shareholders are still friendly and problems seem unlikely.

Incorporation generally means that the company has limited liability. This means that if legal or financial problems arise within the company, creditors do not have a claim on the shareholders' personal assets. There are of course exceptions:

- Limited liability does not apply to professional corporations. Lawyers, accountants, doctors, dentists, chiropractors and other like professionals are able to incorporate and offer their services through a professional corporation. With a professional corporation, there is no legal protection to the individual practitioner, meaning that personal assets could be claimed if sued.
- Directors of a company are held personally responsible for un-remitted source deductions and GST amounts. These monies are considered to be held in trust for the government and if they are not paid, the government may make a claim against the director's personal assets. The individual must then demonstrate that they carried out their duties as a director with due care and attention in order to defend themselves.
- Banks and major suppliers will often require personal guarantees from shareholders before loans are granted to a corporation. Liability is not limited in these situations.

Annual Return

Once you incorporate, you are responsible for filing a corporate annual return with the appropriate provincial government. Notice is sent annually to the registered office of the corporation. If you choose to take care of your own minute book and corporate affairs, this notice will come to your home. Be sure to file this return with your local registry office or you risk the chance of being struck from the registry. Being struck will cause many difficulties for the organization so it is preferred not to get to that point.

2. The Business Team

The lawyer:

Your lawyer can be invaluable in the case of a legal problem and when starting your new business. Some small businesses feel that this is an unnecessary expense at start up and try to avoid the relationship. That can be possible, however it is highly recommended that the business establish contact with a lawyer they are comfortable with in the case of future business problems. Many documents, contracts, loan agreements require the services of a lawyer to be properly completed, so the need for a lawyer may not be there just for problems. They are there to protect you and act in your best interest with any legal issues.

The banker:

This may seem like an obvious issue, or perhaps for some, not so obvious. However it is very difficult to be in business without a bank account. Very often businesses require financing as well, making their partnership with their banker very important. It is recommended that you establish a business account and take the time to meet your banking representative. This may reduce extra time later on when the business is looking for financing.

There are pros and cons to dealing with the same institution as your personal bank. New businesses may find it easier to establish their business account with their personal banker because they already have a good relationship and it may be easier to do certain things with a banker you know. Some businesses believe in keeping personal separate from business, which may hold some merit when there is substantial debt or monetary holdings on one side or another.

It is recommended that the banking decision be considered carefully. Shopping around is allowed and services may vary. Consider fees, online services, business packages, point of sale services and location.

The insurance agent:

Having adequate insurance for the business is key for protecting all parties from business and other disasters. Choosing your insurance agent can be difficult when there are so many options. Be sure to choose an agent that is familiar with your type of business and takes time to understand what your needs might be. Things to consider when looking for coverage:

- Comprehensive and liability (requirements from contractors)
- Business interruption
- Bonding and directors coverage
- Assets (fire, theft, other)
- Vehicle (including liability, cargo?)
- Disability (short and long term)

The accountant:

This relationship should be established right from the beginning. Often companies will wait too long before bringing an accountant into the picture and they are already getting into problems with revenue Canada and other agencies for insufficient reporting.

Your accountant can assist in setting up and establishing your year end, business number as well as provide advice and assistance in many areas of the day to day operations. Starting a relationship with someone you are comfortable dealing with and who is knowledgeable in the profession is critical.

Role of the Accountant

There are different kinds of accountants who can provide various services to small businesses. Like any professional, you should choose your accountant carefully and ask yourself the following questions?

Is your accountant designated?

In Canada there are three types of professional accountants, (Certified General Accountants, Chartered Accountants and Certified Management Accountants). If your accounting professional does not have the letters CGA, CA or CMA behind their name, they may not have the education one would expect from a qualified accountant.

Is your accountant a member in good standing?

All three accounting bodies in Canada have provincial offices that can tell you if your accountant or accountant prospect is a member in good standing.

Is your accountant registered in public practice?

Most provinces require accountants to meet certain registration and annual requirements when in public practice. The provincial office should be able to provide that information as well as the accountant being in good standing.

If all of these items are met, it is likely that you are dealing with an accountant who is maintaining standards, taking regular educational courses and meeting the requirements of the professional through regular inspection processes.

Typically, your accountant will prepare your financial statements for the year end and will prepare your federal and provincial corporate tax returns. These documents must be filed within 6 months of the company's year end. (Three months recommended if tax might be owing) Accompanying the statements will be a report outlining their role in the preparation of the financial statements. There are three primary types of written reports that could be attached to our statement:

1. **Notice to Reader:** The accountant's role in this instance is limited to compiling the financial documents and preparing the financial statements. The accountant has not done any work to determine if the representations made in the financial statements are valid or that generally accepted accounting principles are followed. Users are cautioned that the statements may not necessarily be useful

for their purposes. This type of statement is generally used only when the users of the statements are shareholders and the taxation authorities.

2. **Review Engagement Report:** Financial statements are prepared with the mandate of determining whether the representations are believable. The accountant must acquire a level of knowledge about the business and its practices and perform enough work to determine if the financial statements reflect their knowledge of the business and whether the statements are prepared in accordance with generally accepted accounting principles. These statements are generally used then there are other potential users of the statements such as a bank or a minority shareholder.

3. **Audit Report:** In this engagement the account must perform detailed testing and analysis of the company's systems to determine that the representations made in the statements are materially correct and presented in accordance with generally accepted accounting principles.

Most businesses will require either option 1 or 2. If financing is required, the bank will generally require a review engagement annually. In many cases a review can be preferred, especially if there is a large amount of employee involvement in the processing of data. The analytical procedures incorporated by the accountant can go a long way toward identifying potential problem areas that are not being detected by the owner.

Each level of report shown above indicates or provides an increased level of assurance for the users of the financial statements. With the increased assurance, the level of work required is increased, and accordingly, the fees. Fees are dependent on the nature of each business, size, number of transactions and the proficiency of the bookkeeping and the changing requirements within the industry to meeting standards. There are no set fees for each level of engagement. In estimating fees, it is necessary to review the business venture with the accountant. Generally they will provide a range for the fees, excluding any problems that may arise in preparing the financial statements.

Your accountant can also assist you with:

- Bookkeeping options
- Software choices
- Payroll options
- Financing
- Business plans
- Estate planning
- Valuations
- Advisory services

Be sure to ask for help when necessary.

3. Year end

To prepare the company's year end financial statements and tax returns, the account will require a certain amount of information and documentation.

Our office will have you on our data base and will send out a year end reminder letter along with our standard checklist. While it may seem redundant, minimum professional standards requires accountants to exercise a certain amount of due care for each level of financial statement prepared. It is important that all information requested be put together and submitted to ensure an efficient job is done. The more we as professionals have to look for items, the more time it takes to do the job which results in higher costs and fees.

It generally takes 3-6 weeks in non peak seasons to perform the year end work. For this reason we ask that records be brought in as soon as the last bank reconciliation is done for the year. This will allow sufficient time for the work as well as adequate time for tax planning.

Business Losses

It is common for business to incur losses in the first few years of operations. There are rules which allow these losses to be carried forward and applied to future years income, or back to recover taxes paid in a previous year. Carry backs can go back as far as three years. Carry forwards can now be carried forward twenty years. (Note, there are different types of losses which may have different rules)

Small Business Deduction

The government allows reduced rates for small business activities. CRA gives corporations a small business deduction on the first $500K of taxable income and Alberta provides the small business deduction on the first $500K of taxable income. The current combined federal and provincial corporate tax rate is approximately 14% on the first $500K and 25% on active income above $500k.

Deferral through bonuses

A company may bonus out income to be paid within 179 days of its year end and still result in a tax eligible deduction. In declaring the bonus, the company gets the deduction but the individual does not pay tax until the date paid. Source deductions are due by the 15th of the month following the payment of the bonus. This can assist with cash flow by spreading out the time period the taxes are due.

Shareholder loans

Generally, there is no problem having the company owe a shareholder money. There are no tax implications on withdrawal or in maintaining a balance. However there are special rules when the company loans money to a shareholder.

An advance to a shareholder will be deemed to be income in the year the advance was made and it will be taxed on the individual's personal return. However there may be instances when at the end of a particular taxation year an amount may be outstanding to the shareholder. In this case, they only assess tax on the loan where it remains outstanding on the year end following the year in which the loan was taken. A potential interest benefit may also arise in this situation.

A dividend can generally be declared by the company if a shareholder ends up owing money to the company. This dividend will result in a reversal of the loan so that the company ends up owing the shareholder. The dividend is taxable by the shareholder in the year it is received, however it gets the benefit of the tax already paid by the corporation on the earnings the dividend is being pulled from.

There are potential issues if a company does not have enough equity to issue a dividend and other tax planning solutions may be required.

Company owned Cars

Vehicles are often required to do business. A deduction is permitted for lease costs, operating costs, and interest if a loan is required to purchase a car. If the automobile is purchased rather than leased, depreciation is also permitted as a deduction.

There are rules to prevent shareholders from owning their personal cars in the corporation and taking deductions. A two part taxable benefit is in place to charge for the cost of the car and the operating expenses. This is called a standby charge.

Part one of the benefit is basically 24% of the cost of the car or 2/3 of the lease costs. If the car is used more than 50% for business and personal km are less than 20K per year this may be reduced.

The taxable benefit for operating costs per kilometer varies from year to year for personal usage. Alternatively the individual can elect to have the operating benefit calculated at 50% of the standby charge.

If the shareholder owns the vehicle personally, there is no deduction for operating costs in the company. There can be a tax free allowance paid to an employee for the business use of the car as long as it is based on kilometer use and paid within the prescribed rates. This is a deductible expense to the company.

There are limits on the deductibility of automobiles as a measure to discourage buying premium vehicles for business purposes. Ask us about these limits.

Salaries vs dividends

These methods of reimbursement have generally been designed to be similar as far as tax consequences go.
Some things to consider are:

- Dividends are not considered earned income which results in no accumulations for RRSP purposes or on amounts contributed to CPP, limiting future benefits
- Dividends could trigger a tax refund on investment income earned in the company.
- 3 consecutive years with no employment income could result in no disability benefits from CPP in the event of a personal disaster

Business use of home

Home expenses may be deductible if a business is operated from a home. The allocation of the portion of total home expenses that are deductible is based on the square footage of the entire home and the square footage of the office portion of the home.

Expenses that can be included are mortgage interest, property taxes, insurance, utilities, rent. For incorporated businesses we generally convert this to a rent figure which is not in excess of your costs so as not to trigger any additional personal income.

If you have incurred any renovations, taking depreciation on these renovations will result in the office portion of your home losing its principal residence (tax free) status.

Home office expenses are generally considered deductible if the home office is principally used to meet clients or customers on a regular basis. (Note that phone and email conversations can qualify as client meetings.) Some businesses have different kinds of business activity. The home office should be used strictly for business.

4. Getting Started

Choose a Year End

All individuals pay tax based on the calendar year. Corporations have the ability to choose a fiscal year end any time within 365 days of starting operations. Once the corporation has chosen a year end, the company will record its income from operations within that period. The financial statements will be prepared as at that date and the tax returns will include all income or losses incurred to that date. Consider the following factors when choosing a year end:

- Is the year end suitable for the natural business cycles that may occur? (Try not to pick a year end that coincides with typically busy periods as this may disrupt already busy staff.)
- Are receivables, inventory and operating loans at an unusual high during this time or is there a better time when these items are more normalized? (Fluctuations in these amounts could affect operating ratios which are reviewed by the bank.)
- Are there any potential deferrals of income? Choosing a July to December year end could result in the owners being able to defer personal income into the next calendar year.
- Does it really matter? Perhaps there is a time your accountant may be less busy. If there are no strong reasons to pick one time over another, perhaps your accountant can guide you to choosing a year end which would fall in to a less busy time slot.

Open a Business Number

All corporations need a business number to be able to file a corporate tax return. This same business number is also used for Goods and services Tax, payroll remittances and import/export numbers. This is an identity number that Canada Revenue Agency uses to track you from other companies. The differences in the numbers are in the Alpha extensions as follows:
ie

9286452 RT 0001	Goods and Services Tax
RC 0001	Corporate Tax
RP 0001	Payroll remittance

The form required is called RC1 and needs to be filed with Canada Revenue Agency so that they can register the company and send out appropriate documentation where requested. This number can also be applied for on line at the CRA web site. When applying, you will need your personal information as will as your corporate access number which comes from your Certificate of Incorporation. (There is a separate GST application form for prorpietors and partners if you are applying for a GST number only)

CRA Web Site www.cra-arc.gc.ca
CRA Business 1-800-959-5525
Alberta govt:
T 780-427-0344
F 780-427-0348

Discuss which numbers you will require right away with your accountant so that you have covered all avenues once you start.

Note – out office ensures that the business number is applied for when we assist with incorporations. We can also assist with new clients and non incorporated clients.

Open a Bank Account

For a non-incorporated business, it is not a requirement to have a separate bank account from a personal account, however it is very highly recommended. It is very useful in separating business from personal transactions and can help make bookkeeping a little easier.

For an incorporated business, it is its own distinct entity. Therefore a bank account should be opened in the name of the corporation. The bank account should be used to receive all business deposits and pay all business expenses. You will need to bring your certificate and articles of incorporation to the bank in order to open a business account. Things to consider when opening your account:

- Prices for services
- Online services (transfers, bill payments, tax payments etc.)
- Deposits (holds on account)
- Debit cards
- Using a deposit only debit card for having staff make deposits
- Computerized cheques
- Savings and interest rates
- Bank statements and how they are recieved

Business Assets

Assets that are going to be used exclusively for the business, such as machinery, or real estate, should be held by the company. There are two basic types of assets, tangible or intangible. In purchasing either type of asset there is no tax deduction (not an expense) for the company upon purchase as the asset has a long term life.

There are two types of tangible assets, depreciable and non depreciable. If the asset is a depreciable asset, such as a building or machinery, the cost of the asset can be deducted over a number of years in the form of depreciation (capital cost allowance). The amount of the tax deduction is prescribed by Canada Revenue Agency. The un-deducted portion of an asset is known as un-depreciated capital cost.

Assets such as land are not depreciated. The reasoning is that the value of the asset will not likely diminish with use over a period of time.

When a capital asset is sold, the cost of the asset is subtracted from the proceeds. Any excess over cost is known as a capital gain, half of which is taxable, the other half which may be able to be paid out tax free to owners.

Intangible assets, such as customer lists and goodwill, are similar to depreciable tangible assets in that ¾'s of their cost can be deducted at a rate of 7% per year.

If a business asset is owned before the business was incorporated, the individual should consider transferring the ownership of the asset to the company. Professional advice should be sought before doing this in order to avoid paying any unnecessary tax on the individual's personal tax return.

When transferring assets to a corporation, CRA takes the position that a sale at fair market value is occurring. That can exceed cost or un-depreciated capital cost and even though no cash is changing hands can hold tax consequences. The transfer of assets usually results in a shareholder loan in exchange for the asset. If the asset has been recently purchased, it is likely that cost is less than fair market value and unlikely any tax implications.

A shareholder loan can be repaid from the company to the shareholder tax free. This loan to the company is the shareholder's tax paid dollars and is not taxed again on withdrawal. Loans from shareholders to the company do not have to be interest bearing or have any specific terms of repayment.

Workers Compensation

Depending on the nature of your business, you may be required to have WCB coverage for yourself and your employees. Some job sites require their contractors to have a WCB account before they can work at that site.

Workers compensation is designed to insure the employer against losses if an employee is injured at work. The cost depends on the nature of the industry and its claims ratios.

Directors may want to ensure they are covered, especially in higher risk businesses where they are actively involved. Directors have the option not to be insured as well and may only have to cover the costs for their employees.

The initial cost is based on your expected payroll costs. There are minimum amounts for self coverage and maximum amounts for all employees. These amount change from year to year. Generally you have to let the Board know what your estimated payroll will be and you are charged based on that estimate. At the end of the year, you have to reconcile your estimated figures with actual and you are either charged or refunded accordingly.

To reach the Workers Compensation Board you can use the following contact information:

Phone: 780-498-3999
Web site: www.wcb.ab.ca

Business Licenses

Some communities, such as Edmonton, require a business license. This license allows you to carry on business in the Edmonton Community and provides a vehicle for the City to charge you business tax.

Strathcona County currently does not require a business license, but does like businesses to register for statistical and information purposes.

If you are considering a home based business, you may be required to apply for a home based business permit. If you are simply running an office and perhaps parking a vehicle, this may not be required. However, if you are creating additional traffic in your neighborhood and have customers attending the premises on a regular basis, you should acquire this permit.

Strathcona County Web site: www.strathconacounty.com
City of Edmonton Web site: www.cityofedmonton.org

5. Financing

When you are approaching your bank for financing, the business owner should be aware of some things. Being prepared is always helpful:

Projections

The bank will generally require a statement of projected cash flows covering the next year or two so that they can assess the ability of the company to repay the loan. You will need to provide the following in preparing the forecast:

- Start up costs
- Shareholder and other cash injections
- Estimated revenues
- Estimated costs

In preparing the cash flow, it is necessary to provide details on how the revenue will be created, taking into consideration sales price, volume and anticipated costs. **We can assist you in preparing your cash flow projections.**

Business Plan

The owner will also be asked to analyze the market and how the business is expected to survive in the market place. The owner will need to identify the competition, identify their potential customers and why their product will be in demand and estimate their level of market share.

The bank will want to know the owner's level of knowledge in the industry and related experience. **We can also assist you in preparing your business plan.**

Guarantees

The business owner may be required to personally guarantee some or all of the debt of the company. Care should be taken in signing any lending agreement that involves personal guarantees.

When there is a guarantee, the bank has the right to pursue the personal assets of the shareholder in the event that the loan is called and the corporation does not have sufficient funds to repay the debt.

Personal guarantees should have a limited period. It should not extend throughout the life of the loan, but rather be set for the first few years that the loan is in place. A lending agreement that phases out the personal guarantees is preferred.

(Note – guarantees are almost always required for new businesses.)

Should you need to prepare information for the bank and are not to sure where to start, please do not hesitate to let us know. We have successfully assisted in obtaining bank financing in the past with our cash flow projections and business plans.

6. Bookkeeping

Preparing your ledgers manually or using an accounting software package is a personal choice. If you expect your business to involve many transactions, there may be time savings to learning a computer accounting package and maintaining your records on the computer. Our firm offers computer consulting services in choosing a suitable accounting package. Where necessary we can install it on your computer and teach you the basics about the software.

(Note, for most small businesses, programs such as Simply Accounting or Quickbooks are ideal and very user friendly. You can ask us about the version that is best for you. We **do not** recommend the use of personal accounting packages such as quicken or easy money to do company bookkeeping as it is difficult to get the reports necessary for a good bookkeeping system.)

It is important to make the decision about bookkeeping early and keeping the records up to date. If you feel you would not be able to look after your own records we **offer this service**. More companies get into trouble with Canada Revenue Agency simply because they do not have adequate bookkeeping records.

When a sale is made, the entire amount should be recorded in the ledgers. If the cash is not yet received, an entry should be made to accounts receivable. When the account receivable is eventually collected, the cash is deposited in the bank and the account receivable is reduced accordingly. At all times, you should have an accounts receivable list which details who owes the company money and how much. The list should be reviewed frequently to ensure collections are being pursued and any uncollectible accounts are written off to a bad debt expense account.

On the other side, as purchase invoices are received, the company should make an entry to accounts payable and expense the good purchased. Once the company pays the account, the accounts payable should be reduced accordingly and there will be a reduction in the bank account. As with the accounts receivable, there should be an accounts payable list prepared which details who the company owes money to and how much.

At the end of every month, the cash ledger accounts should be reconciled to the bank statement to ensure that all cash transactions have been recorded in the ledgers. Items such as bank charges and interest should be charged to the appropriate expense account when reconciling. In reconciling the cash ledger account, the bank account should adjust for any differences between the actual bank balance at the end of the month and the cash ledger account at the same date. Any cheques or deposits that were incurred before the end date but which have not yet cleared the bank should be specifically identified.

The corporation (and non incorporated business owners) are required to retain all invoices, receipts, sales invoices etc to provide evidence of a particular transaction. The receipts must be held for seven years after the year end in case of a CRA audit.

7. Allowable Business Deductions

Please note that tax laws are constantly changing and therefore some of these items may not be deductible in future years. It is best to discuss this list annually with your tax advisor. In addition this list is not exhaustive but rather lists a number of business deductions as an aid to the business owner.

- Accounting and bookkeeping services
- Advertising and promotion expenses
- Automobile expenses (mileage logs for shared vehicles are required for CRA)
- Bad debts/bounced cheques
- Books and tapes related to your business
- Briefcases and sample cases
- Business gifts
- Christmas cards, greetings and gift wrap for business clients
- Computer Hardware and Software (Capitalize and take depreciation)
- Convention and trade shows (subject to restrictions)
- Delivery charges
- Donations
- Dues to professional organizations (memberships)
- Entertainment (business related – subject to restrictions)(note client/business purpose on receipts)
- Equipment lease costs
- Equipment purchases (Capitalize and depreciate)
- Freight and shipping
- Insurance premiums
- Interest on bank loans
- Labour costs (careful on employee versus subcontractor – ask for help if in doubt)
- Legal and professional fees
- Membership fees in business related organizations
- Office furniture (capitalize and depreciate)
- Office supplies
- Office in home expenses (business related)(save mortgage interest/property taxes/insurance/utilities etc.)
- Postage
- Product displays
- Property taxes for business owned properties
- Refunds for customers
- Rent
- Stationary and printing
- Subscriptions
- Supplies and materials
- Telephone
- Travel expenses

Please note that not all of these expenses may apply to your particular situation and you should contact us if you have any questions. Always keep your receipts.

8. Goods and Services Tax

Many businesses, whether incorporated or not, that earn in excess of $30,000 of gross sales annually from a business are required to collect GST on their sales. If your sales are less than $30,000 you do not have to collect GST unless you are registered. You cannot claim input tax credits for GST paid on supplies and other business expenses unless you are registered for GST. You must charge GST if you are registered.

When setting up your GST account, most small businesses are automatically set up for annual processing unless you request a more regular filing period such as quarterly or monthly. (We recommend quarterly processing as this forces you to keep your books and records up to date and it helps initially with cash flow.)

GST returns are required to be filed three months after the year end for annual filers and within one month for each period for quarterly or monthly filers. Late filing penalties are assessed in the event returns are not filed on time. If there is no amount owing, then no penalties for late filing will be incurred. To file GST, complete the Goods and Services Tax Return. On this form, it details the GST collected in the period and the input tax credits (GST Paid) for the period. The difference between these two amounts will be your GST owing of refundable.

In tracking your GST collected, record the appropriate percentage of your sales. Ensure that your GST number is clearly labeled on all sales invoices so that suppliers know that you are registered for GST. The amount of GST should be broken out on the sales invoice.

In tracking GST paid, record the GST paid on all invoices and expenses throughout the period. The GST should be clearly broken out on all receipts and there should also be a business number shown on them. Note that gasoline purchases and taxicabs all have GST.

Note – filing GST can now be done online through your banking institution or on the telephone if you have been issued a telefile access code.

There are several guides and publications at the CRA web site under the business category for Goods and Services tax for unusual circumstances.

Contact info:

CRA Website: www.cra-arc.gc.ca
CRA Business Enquiry Line:1-800-959-5525

9. Hiring Workers / Payroll Issues

As a shareholder of your corporation, you may also become an employee if you are paid a salary. (Note, it is not acceptable to be a self employed contractor for your own corporation, therefore if you work for the corporation you remuneration should be considered salary).

Salary paid to you by the company is a deduction in the company as a salary expense. It is employment income to you the shareholder and it is reported on your T4 income.

Your company may also need to hire employees to perform various functions for the business. The question often arises, can I pay as a subcontractor or do I have to pay as an employee. There are very strict rules set up by CRA in this respect and various publications on their web site which should be consulted if there is any question. A few quick rules will help:

- If the person has to work based on your hours he is likely an employee
- If the person uses your tools and equipment he is likely an employee
- If the employee carries no business risk for mistakes in his job he is likely an employee
- If the employee makes the same amount of money, regardless of your profit, he is likely an employee

If you are considering hiring an individual as a subcontractor, make sure he or she has the following:

- A business number
- A WCB number
- More than you as a customer
- Preferably incorporated

If you are in doubt, you should obtain a ruling from CRA on the suitability of the position as self employed or employment.

WCB
Refer to separate section with respect to WCB coverage if you are hiring employees for the first time.

Payment

When paying wages or salaries, the corporation is responsible for remitting source deductions. These are Tax, CPP and possibly EI. Source deductions should be paid by the 15th day of the month following in which the salary is paid. (large employers may need to remit more often) CRA publishes payroll guides from which you can calculate the amount of source deductions to be withheld from the payroll. When you apply for your corporate number you can request a paper guide. There are also online guides which can be downloaded for free to calculate payroll deductions.

Computerized programs such as Simply Accounting and Quickbooks also have payroll programs, which, if subscribed for will calculate deductions. Some employers choose to outsource their payroll functions. ADP and Ceridian are popular payroll processing companies that provide cost effective payroll processing for employers.

In remitting CPP and EI, the business must remit both the employee and the employer share. The employer share of CPP is a matched amount of the employee share. The employer share of EI is 1.4 times the employee share. There is no matching or employer share for tax.

If the shareholder is drawing a salary and they own 40% or more of the shares of the company, they are EI exempt and no amount need be deducted or remitted for either share of EI. The shareholder is not eligible to receive EI benefits in the case of a wind up. The spouse of a 40% owner would also be considered EI exempt. However, there are circumstances where a shareholder may elect to pay EI, advise should be sought in this regard.

In a family run business with no one shareholder owning 40% or more of the shares, it is still possible that all family members will be EI exempt.

There are maximum and minimum thresholds for CPP and EI which can change on an annual basis. It is important to check these each year. The payroll guides published by CRA have this information. We also keep the thresholds available at out office.

Contact information:

CRA Website:www.cra-arc.gc.ca
CRA Business Enquiry Line:1-800-959-5525

Labor Standards

Employment Law is heavily governed in Canada. Employers should be aware of how their business fits in with labor standards laws. Some may come under federal jurisdiction and some may come under provincial jurisdiction.

The Labor Standards Board is an agency that represents employees with issues and offers advice or information to employers about various issues. These agencies have a certain amount of power and can create problems for the employer if you do not work with them in the instance of a complaint.

Rules governing employment, hours of work, rates, vacations and other are outlined under the appropriate labor standards act. The Alberta Act can be downloaded from the Queens printer with the government of Alberta or through a direct link with the labor Board. Canadian Laws will come from the Canadian labor standards act.

It is extremely important for employers to learn to document all major decisions made with respect to an employee and to be aware of the rules regarding termination. When terminations come in to play, call a professional or the labor standards board to help you do it correctly and prevent any complaints. In an emergency, a lay off is considered a good step until you can get the help you need.

A record of employment is required to be completed within 3 working days of termination. These forms can only be obtained by the employer directly from employment and human resources at the local Canadian government office.

Contact information:

Labour Standards Web site		
Labour standards local office	T 780-427-3731	F 780-422-4349
Employment and human resources		

Benefits

It is important to know which employee benefits may be available and which ones may be taxable versus non-taxable. For current information on what these might be go to the CRA web site @ www.cra-arc.gc.ca. Look under business, payroll and search for the information on benefits.

Summary

You are an expert in your business and we know our business. Take the time to contact us and we will ensure you spend more time growing your business while we spend the time accounting for it.

We at Gallo and Company see our involvement with you and your company much like the players on a sports team. We all have a vital role to play and working together will achieve much greater results then not.

Sincerely,

Gallo and Company Chartered Professional Accountants

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