

TOP FIVE FAQS

1. Can I deduct expenses incurred before the date of incorporation?

You can deduct expenses incurred before you actually incorporate your business if the expenses were incurred for the purpose of doing business. However, expenses incurred when you are initially exploring different ventures are not deductible.

2. What should I do with assets I owned prior to the incorporation of my business?

You can sell any assets you had before you incorporated your business to your corporation at their fair market value or at their unamortized capital cost as shown on the capital assets schedule of the last personal tax return you filed as long as these assets can be used in the operation of your business or in the generation of profit for your corporation.

3. How do I pay myself?

Near the end of the calendar year (by November 30th) you will need to contact us or come in to see us so we can do some tax planning to determine exactly how much income you will take from the company that year, or if in fact you will take any income at all. Once we know how much income you are taking from the company, you will remit your source deductions to Canada Revenue Agency (i.e. CRA) based on that amount. Please see CRA [Types of Payroll/Source Deduction Remitters and Remittance Due Dates](#) for the dates and the frequency of your remittances. You have the option of paying yourself either within 180 days after your fiscal year-end date or by December 31 whichever comes earlier.

The money that you take out of the corporation during the year will be considered as an expense advance. Interest will be applied to loans taken out of your company during the year using [CRA Quarterly Prescribed Interest Rates](#)

4. Is it better to buy a car under my name personally or through the corporation? Is it better to lease or borrow the money to acquire a vehicle? Can I claim the GST paid on a vehicle purchased in my own name on my corporation's GST return?

Unless the car is going to be used at least 90% for business over the life of the vehicle, the car should be purchased in your name. If the car is in the company's name and you use the car personally, then you must reimburse the company for your personal use percentage of expenses or take a taxable benefit into your personal income.

The general rule of thumb is to borrow for business items and pay cash for personal items. If you lease a vehicle, you can write off the business percentage of the lease cost as you pay it. If you buy the vehicle, you can amortize it at 30% per year times the business

percentage using the declining balance method with only 15% amortization being allowed in the year of purchase. With the declining balance method you never get to fully write off the vehicle as you are able to with a lease. If the lease rate is fairly comparable to the loan rate, you should lease the vehicle. If the lease rate is significantly higher than the loan rate, then you should probably borrow the money from your corporation to buy the vehicle. Interest will be calculated annually on the balance of the loan outstanding at your corporate year-end based on [CRA Quarterly Prescribed Interest Rates](#). This annual interest is either reported as a taxable benefit on your personal tax return or must be paid back to your corporation by a personal cheque.

If you own the car personally and have already incorporated, you can use [Mileage allowance rates](#) allowed by CRA when calculating your automobile expenses. The mileage rate is generally more advantageous than the business percentage of actual expenses if you drive more than 24,000 business kilometers in a year. If you are unsure of which method of calculating car expenses (actual vs. mileage rate) will give you a higher expense deduction, then track your car expenses using both actual and mileage calculations.

The [Maximum Auto Lease Payments](#) for Passenger Vehicle deduction allowed by CRA for any lease commenced after December 31, 2000 is \$800 per month plus GST and PST or HST. Please go to the CRA [Vehicle Definitions Chart](#) to identify what type of vehicle you own. And go to [Motor Vehicle Expenses](#) for the maximum allowable deduction for amortization and allowable expenses on a Motor Vehicle.

You can claim the GST on the purchase of a vehicle on your corporation's GST return only if you use the vehicle 90% or more for business. If you do, you can claim the GST paid times the percentage of business use of the vehicle.

5. If I pay corporate tax when I leave income in the corporation, and then have to pay personal tax when I withdraw it later, don't I end up paying taxes twice on the same income?

No. When you withdraw a director's fee from your corporation, it becomes a deduction to the company and, therefore, no tax is payable on it through the corporation. Therefore, you pay personal tax on the amount instead.

Distribution of corporate tax paid moneys (i.e. dividends) are taxed differently than other income. Dividends that you receive from your corporation are reported as dividend income on you personal income tax return. However, you will also receive a personal dividend income tax credit on such dividends that is approximately equal to the corporate income tax paid before you personally received the corporate dividend payment. Therefore, double taxation is avoided on dividends received from your corporation.