



## **TOP FIVE FAQs**

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

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

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

You can sell any assets you had before the start of your business to your business at their air market value or at their unamortized capital cost as shown on the S8 Schedule of the last personal tax return you filed.

### **3. How do I pay myself?**

The money that you will take out of the corporation will be considered an expense advance. This is an advance on a director's fee, which you will claim at the end of the calendar year. Near the end of the calendar year (by November 30<sup>th</sup>) you will come in to us so that 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 an income at all. Once we know how much income you will take from the company, you will then remit your source deductions based on that amount. You will have to remit source deductions on the middle of the month, following the month you were paid. You have the option of paying yourself either within six months from your year end date or by December 31 whichever comes earlier

### **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 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 to buy the vehicle and generate a loan from your company, which is not personally taxable.



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If you own the car personally and have already incorporated, you can use the mileage rate allowed by Revenue Canada 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 kilometres in a year. If this is the case, then you should choose the option with the least amount of interest involved, namely borrowing the money and buying the vehicle or, if you can afford to, buying the vehicle outright.

The maximum lease payment deduction allowed by Revenue Canada in 2003 is \$800 per month excluding taxes for leases entered into after December 31, 2002.

Please refer to the section on Automobile Expense and Fixed Assets for the maximum allowable deduction for amortization on a car purchase.

You can claim the GST on your corporation's 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. 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

#### **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. Therefore, you get the corporate tax back and pay personal tax on the amount instead.

Distribution of corporate tax paid moneys or dividends are taxed differently than other income. In order to avoid double taxation, dividends are taxed as follows:

Dividend income of \$100 is taxed as if it was taxable income of \$125 and you receive a credit of \$25 off your tax payable. The result of this formula is that a taxpayer with no personal income other than dividend income can receive up to approximately \$23,000 of dividend income annually before the tax payable becomes greater than the tax credit. This fact enables a taxpayer to keep income in the corporation, which is taxed at approximately 18% on the first \$200,000 versus taking it out of the company and paying Canadian personal tax rates, which are approximately 32% after \$32,000. This is a key ingredient for a strategy that allows our average client who earns approximately \$108,000 annually to pay only 18% of their gross income in personal & corporate taxes. This puts the client in the same after tax position as an employee earning approximately \$170,000 annually.