

## Tax Planning for Individuals and Owner-Managed Businesses



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### *Consider adjustments to intercompany charges to reduce overall taxes paid by the related group.*

The following checklist will help you in your tax planning endeavors. Although a strategy may not currently apply to you, you may be able to take advantage of it in the future or you may be able to make a change to your fact situation so the strategy applies. You may decide to implement some of these this year if you haven't already filed your 2009 tax return or you may keep the idea on file and put it in motion this year or next year.

This guide reflects all announcements from Canada's federal, provincial and territorial governments to October 26, 2009. Of course, tax is only one aspect of financial planning. A sound financial plan should also reflect investment philosophies, sound business practices, cash flow management and motivational considerations.

#### Owner-Managed Businesses

##### Salary/dividend mix

If the individual does not need to extract cash, consider retaining income in the corporation. Tax is deferred if the corporation retains income when its tax rate is less than the individual owner-manager's rate. In times of economic uncertainty, this will help the corporation's cash flow. It also will allow the corporation to have income and pay corporate tax that may be recovered by possible future business losses.

Consider not forgoing bonus payments if this causes a Canadian-controlled private corporation's scientific research and experimental development (SR&ED) investment tax credits (ITCs) to be non-refundable and subject to the lower ITC rate. (If the company has non-refundable ITCs, consider leaving some income to use the non-refundable ITCs.)

**Cash flow management** – Recognize that managing your business cash flow is critical in times of economic uncertainty. To reduce working capital outflows, reduce or defer tax instalments (if lower taxable income is expected), maximize federal and provincial refundable and non-refundable tax credits (e.g.,

SR&ED investment tax credits and film, media and digital incentives), trigger capital losses to recover capital gains tax paid in previous years and recover any income, sales or customs tax overpayments from previous years.

**Corporate income** – Consider deferring income to 2010 and later years by maximizing discretionary deductions (e.g., CCA) in 2009 to benefit from the following corporate rate reductions. The small business rate will decrease in Ontario (from 16.5% to 16% in 2010 and to 15.5% in 2011) and the federal general income tax rate will decline from 19% to 18% in 2010, to 16.5% in 2011 and to 15% in 2012. General rates will also decline in Ontario.

**Intercompany charges** – Ensure charges are reasonable given changes in the economy. Consider adjustments to intercompany charges to reduce overall taxes paid by the related group. For example, charge reasonable mark-ups for services provided by related corporations.

**Protect your investment in your business assets.** Consider transferring assets (i.e., real estate and intellectual property) from the operating company to a separate company; and arranging to secure a loan from a shareholder.

#### Investors

**Tax-Free Savings Account (TFSA)** – If you are a Canadian resident age 18 or older, contribute to a TFSA. Contributions will not be deductible, but withdrawals and income earned in the TFSA will not be taxed.

**Interest deductibility** – If possible, pay off non-deductible debt before deductible debt (or debt for which the interest qualifies for a non-refundable credit; i.e., interest on student loans). Borrow for investment or business purposes and use cash for personal purchases that would otherwise generate interest costs.



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