GALLOWAY BOTTESELLE & COMPANY
Professional Services Group

The Abacus

ISSUE 55

PROFESSIONAL **STRENGTH** PERSONAL **SERVICE** PRACTICAL **SOLUTIONS**

Starting a business?
Points to ponder

If you are considering starting a business, here are some tax ideas and tips to keep in mind.

Incorporation

Many people are not clear on the difference between a ***business*** and a ***corporation***, but the difference is extremely important, for both tax purposes and liability purposes.

You can carry on business without creating a corporation. Although you may give your business a name, without a corporation it is simply you carrying on business. You are a ***sole proprietor***.

If you create a corporation, it will have ***Limited***, ***Inc.*** or ***Corporation*** as part of its name. The corporation is a legally separate person from you, and the corporation, not you, carries on the business. Although you control the corporation, the business is legally not *your* business. This means that you are not liable for the corporation's debts. (However, if the corporation borrows money from a bank, the bank will insist on a personal guarantee from you, so you will be liable if the corporation cannot repay the bank loan. You are also liable for certain obligations of the corporation: assessment of GST/HST or employee source deductions.)

If you create a corporation, then the corporation will have to file annual tax returns and pay tax on its profits. You should not simply take the corporation's money for yourself. When you want to extract profits from the corporation you should either have the corporation pay you a salary (which the corporation can deduct and is taxable to you), or have it pay you dividends (which are not deductible to the corporation but are taxed to you at a lower rate, due to the dividend tax credit). These steps require certain paperwork and it is important to document properly what you are doing; otherwise the tax consequences can be serious if the corporation is audited. The corporation can also repay any money you have loaned to it, with no tax consequences.

There are costs associated with incorporation so you should ensure the benefits exceed the costs before incorporating.

SEE STARTING A BUSINESS P. 2

Inside this issue

Travel expenses allowed for medical tax credit

In general terms, reasonable travel expenses to obtain medical services for a patient can qualify for the medical expense credit for a person accompanying the patient, if the patient is incapable of travelling without the assistance of an attendant, and the place where the medical services are provided is at least 80 kilometres from where the patient lives. It must be shown that substantially equivalent medical services are not available in the patient's locality.

THE CASE

JORDAN

In the recent Jordon case, the taxpayer's wife suffered a brain aneurysm and was required to stay at a hospital and rehab centre in Regina, Saskatchewan, which was 120 kilometres from their hometown (which did not have such facilities). She stayed there for treatment for about six months. The taxpayer drove his wife to Regina and also drove her home after the six months. The CRA allowed the taxpayer to claim these travel expenses for the purposes of the medical tax credit.

However, the taxpayer also drove to Regina about 100 times during the six months to visit his wife, and claimed travel and meal expenses for those visits. The CRA denied the latter claim on the grounds that he was not *accompanying* his wife during this travel.

THE DECISION

GRANTED

On appeal, the Tax Court of Canada allowed the taxpayer to claim all of these travel and meal expenses. The Court ruled that the *accompanying* requirement (as described above) applies to travel expenses incurred by the accompanying person during the patient's period of treatment, and not just those expenses incurred when the patient actually travels with the person.

SEE AROUND THE COURTS P. 3

STARTING A BUSINESS CONT'D FROM P. 1

Sole proprietorship

In many cases, a business is simply carried on as a sole proprietorship. There are no legal requirements for doing this; you are not required to have a separate business name.

GST/HST

If your total sales exceed $30,000 per year, you must register for and collect the GST/HST. Until your sales top the $30,000 mark over four consecutive calendar quarters, you do not have to register or charge GST/HST.

Even if you are under $30,000 in sales, if your sales are to businesses rather than consumers, you may wish to register for the GST/HST. You will need to collect GST/HST from your customers, but they generally will not care since most businesses get back all GST/HST they pay. You in turn will be able to recover all GST/HST that you pay on your business expenses.

You may need to register for and collect provincial sales tax as well, depending on the nature of the goods and services you provide.

Reporting your income

When you are carrying on a sole proprietorship, any income earned by the business is reported on your tax return as ***Business or Professional Income***.

The tax return requires you to show both gross revenues (total sales) and business income (after expenses). You will also need to file an income statement showing the details of your revenues and expenses (broken down by category).

Your net business income is simply combined with your other sources of income on your return (employment income, investment income) to reach ***Total Income***.

SEE STARTING A BUSINESS P. 3

STARTING A BUSINESS CONT'D FROM P. 2

Deducting Business Expenses

When calculating your (net) business income, you can deduct all expenses incurred to run the business. Keep your receipts! If you buy supplies for a combination of personal and business use, estimate the business proportion. Following are the rules for some specific expenses.

TELEPHONE/INTERNET

If you have a separate business line, the cost is fully deductible. Don't forget to deduct your monthly Internet connection service fees.

EQUIPMENT

For long-lasting ***capital*** items like computers and furniture, you cannot deduct the expense directly. Rather, you can claim depreciation, called ***Capital Cost Allowance*** (CCA), applied to a declining balance over many years. The CCA rate depends on the kind of equipment. For the year in which you acquire an asset, only half of the normal rate of CCA can be claimed for that asset. After that you claim the regular rate based on the balance left after the previous year's claim.

AUTOMOBILE EXPENSES

You will need to track your business use of your car as opposed to your personal use. You can then figure out your business use proportion, and deduct that percentage of your gas, insurance, licence, car-washes, maintenance and repair costs. You can also deduct that percentage of capital cost allowance. However, there is a dollar limit (reviewed each year) on a car's cost that can be used as your base for claiming CCA.

MEALS AND ENTERTAINMENT

You can claim restaurant meals and tickets to sports events, shows, etc. where the expense was required for your business. However, you can only claim 50% of the cost as a business expense.

HOME OFFICE EXPENSES

Home office expenses (rent, mortgage interests, property taxes, utilities, telephone if your personal line is used partly for business, etc.) are deductible only if you fall into one of these two categories:

Category 1	*Category 2*
Your home is your principal place of business. Even if you have a major client that provides you with an office on its premises, it is still the client's premises and it will not disentitle you to your claim for a home office.	**Your home office is used exclusively for your business**. And the home office is used *"on a regular and continuous basis for meeting clients, customers or patients"*.

The allowable expenses will normally be based on the fraction of the home that is used for your office.

You can only claim the home office expenses against your income from the business. You therefore cannot use home office expenses to produce an overall business loss that is applied against other income.

AROUND THE COURTS CONT'D FROM P. 2

Purchase of *luxury* items for employee-children deductible as wages

THE CASE

BRUNO

In the recent Bruno case, the taxpayer ran a window-coverings business. Two of her teenage children worked for her on a part-time basis, mainly on the weekends and holidays. The taxpayer did not pay the children cash wages. Instead, she agreed to buy them certain luxury items (i.e. items other than basic necessities) in lieu of wages. Although the children could choose their items, the taxpayer retained a veto as to whether they would be purchased. On her tax return, the taxpayer deducted the purchase price of the luxury items as salary or wages paid to her employees.

THE DECISION

DENIED

The CRA denied the deduction, on the grounds that the expenditures were personal in nature and further that the children did not have sufficient discretion over the expenditures.

On appeal to the Tax Court of Canada, the Judge held "*if the children are owed wages in reasonable amount, a deduction may be claimed if the wages are paid in the form of purchasing luxury personal items chosen by the children.*" However, owing to the lack of sufficient details about all of the purchases, the Judge could not determine exactly how many of them qualified as such. Therefore, as a rough measure, the Judge allowed 50% of the purchases as a deduction.

Galloway Botteselle & Company

Independent member firm of
PORTER HÉTU *INTERNATIONAL*
Professional Services Group

Brian M. Galloway, CFP, FCGA
E. Albert Botteselle, CGA, CFP
Brian R. Blamey, BA, CGA
David P. Van Gruen, CGA
Saskia N. Muller, BCOM, CGA
Selena G. Nisbet, BCOM, CGA

Maple Place Professional Centre
300 – 2000 West 12th Avenue
Vancouver (BC) V6J 2G2
TEL (604) 736-6581
FAX (604) 736-0152
EMAIL info@gbco.ca

VISIT US ONLINE **www.gbco.ca**

THE ABACUS IS PUBLISHED BY
PORTER HÉTU *INTERNATIONAL*
COORDINATION • Flora Hugon
DESIGN • JAM Design
FRENCH TRANSLATION • Noëlla Bordage
EMAIL COMMENTS/QUESTIONS TO FLORA HUGON
fhugon@gbco.ca