New Corporate Business

Owner Guide

and

Discussion Notes

Provided By:

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New Business Startup Checklist and Information

Owner - Prime Operator___________________________________

Co owners____________________ Co-owner______________________

Trade Name:_____________________________ Did You Register name? ___ Y/N

Address ____

Tel ___________________Cell___________________Email______________

GST Number ________________________________ Is a GST Account needed ☐

WCB Number _______________________________ Is a WCB Account needed ☐

PST Number ________________________________ Is a PST Account Needed ☐

Lawyer - Do you use one _______________________________

Banking Institution and Branch _________________________________

Account Manager name and tel _________________________________

Insurance Agencies - Business policies _________________________ If Needed

Banking:

Open new account

Cheques ____ Deposit book ____ Debit Card _____

Who will be signatory ____ Business Visa or use own for business _____

You will need your incorporation documents to open a business account

Billing and Recievables

How will billings be done ____________________

What is billing basis: When work done ___ Progress bills ___ When item sold___

Product Inventory ? Must ensure counted at end of year at least, valued at cost ____

Company Insurance ________________ Only if a Policy is Needed

Billings and Payments

Bills are paid on which basis ? COD ____ 30 Days

Visa is cleared off monthly _______

Vehicles

Big myth you can run anything through if you own a business. We have several people you can talk to that thought this and CRA really did a number on them.

Amount allowed is based on a mileage log you maintain to determine the amount of business use. If no log, you have to estimate but the easiest way to do this is to maintain a mileage log of what you drive on behalf of business use and at end of month you submit a mileage log and get a cheque re-imbursement at a rate of $.52 per km driven for business use and GST is extracted from this

A mileage log form will be provided to use at the end of this document

You will then pay all your own auto costs such as

-Fuel

-Insurance

-Repairs

-Interest on financing

-Lease cost if leased

The CRA is very tough on the excess use of company owned vehicles, so you are way better off to have your auto costs on a Per KM Basis.

If you want to operate a vehicle within the company, we can address that but there is aspects that you have to be prepared for and we can go over this later.

Meals & Entertainment

You can use if receipt indicates who you paid for and overall amounts are reasonable and it was for the purpose of earning income. There must be some reference on the receipts for what the items was for

You cannot simply run your own meals through. CRA is very tough on these if poor documentation. We see lots of people that try to run their social drinking disorder through the company, and frankly, we don’t care . But when you get caught for garbage deductions, we don’t want to hear about it either. It is way better to know how to make sure your paperwork is defendable.

Home office

You can use a portion of home for business based on the amount of space used and the common costs of the home. Refer to Home office schedule we will provide to figure this out. This is not a big savings unless you have a big shop and park equipment etc

WCB

As a corporation, you must be registered for WCB. But, since your work is primarily a labor service, make absolutely sure that the company you are working for will be covering your WCB. Never assume anything.

Any employees must be covered and any unregistered subtrades if you use any. This will be an issue if you are income splitting with spouse as this may require to be registered to cover. If you use a subtrade, find out if registered and in good standing with WCB

Wages to Spouse and Kids

If you pay wages to spouse and children, you must ensure the payment is actually made directly to them to have proof of the payment such as cancelled cheque.

The amounts must be reasonable for age of kid, work done, hours available etc. While we may endorse child labor for saving you some taxes, the CRA does not unless it is reasonable and you have a good case for what they do.

For wages to a spouse, you are almost certainly obligated to have to file the payroll records such as a T4 at end of year unless the spouse has a business and the payment is made to that business for the services provided.

If we set up a spouse to own some of the shares of the business, we can then pay out funds this way as a dividend. Will talk about this later.

Equipment owned at start and transferred to business

When a small business is started, the owner will often have an assortment of tools and equipment, office equipment or machinery that will be transferred to the business. The equipment is detailed carefully and a value put on each item that it was worth on the day of transfer to the new company and then the beneficial (and most times legal) ownership will be vested to the new business as this equipment will be used wholly for that purpose

A chart at the end of this report is set up for you to list and value the assets that you own personally that will be used in the business

Bookkeeping Requirements

As a corporation, your business is required by law to have its books and records maintained in an order that can adequately have all its business activities properly categorized and supported if any verification need be done.

Your record keeping source documents will likely be in the following format:

Bank statements - with cancelled cheques or microfiche copies

- we recommend getting online banking set up in case you lose any statements

Deposit books - used to deposit business funds or personal loans to business

Cheques - manual cheques with a checkbook and stubs to record transactions

- we always recommend putting plenty of detail of transaction on the cheque stubs

Visa - you can get one just for your business or use your personal one and identify what are the business related items on each statement.

- the use of Visas for the points is very common so if you use a common business/personal visa, that is fine, but we must ensure we identify on each Visa statement the transactions that are for business and what type of expense.
- you can pay the entire visa out of the business and only the business portion is recorded as the company expense and the rest is charged to your owners account

Billings or Invoices - this is the means how you charge or bill the company that you are contracted to for services.

- Even if you just to a time sheet and they pay you, it is always good to have a clear trail of each billing done for which you are paid. It is simply required.
- You usually want each invoice you bill to have the date paid written on it
- Invoices should be maintained in numerical order and this keeps your records neat and ensure you never miss getting paid for any invoice
- On the deposit book, you should note who the cheque was from and the invoice number so there is a good trail of which bill was paid. If any personal or other money is put in the business make sure you note that clearly or you may end up paying tax on money you loan the business if this is not clear. It does happen if the records are messy.

Mileage Logs - this will be the monthly mileage reports for which you re-imburse yourself for the amount of km's that you drove for legitimate business purposes in the month

Sundry cash paid expenses - there will be many times you pay for something out of your own cash out of your wallet and the expense is for business purposes. While you try to use either cheque, debit or visa to avoid this it does happen. You should keep all of these items in a single envelope and either repay your self each month, or if they do not add up to too much, then this can be done as part of the year end of the business.

Paid bills - the paid bills should be stored in folders by the name of vendor and they will be the ones that you pay by cheque or debit in most cases. You want to make sure that any expense item can be found in your records promptly.

Wage records - this will only be an issue if we pay the owners or spouse or kids by way of a formal wage and have to send payroll remittances to the CRA for the deductions.

Expense categories

The expenses categories will vary depending on the type of business that you undertake. But when you write out a cheque, you will detail on the stub who it is to, the amount, the GST that is on the bill being paid and then what is the nature of the expense.

The record keeping is only good if the items go to the right spot. If the expense item is not clearly detailed, it can be guessed at and put in the wrong account.

The categories will depend on your business but in most cases the following are common ones that often are used but each business will have their own listing

- Material purchases	- Advertising	- Wages
- Subcontracts	- Meals	- Insurance
- Office	- Tel and Cell	- Supplies
- Accounting	- Small tools	- Repairs
- Equipment Fuel	- Rent	- Travel
- Mileage paid	- Interest	- Licenses

The expense categories should be such that you have a decent amount of detail to be able to understand your business, but not too many. For example, items such as postage or courier are just office costs and do not need an account of their own unless you have an enormous amount of them.

The CRA if they audit you will want each category to have the supporting receipts in good order and they tie in to what was filed on your financial statement and tax return. Many people simply do not take care of their records and fail to support their claimed amounts just because of being sloppy. Your records must be nicely summarized, categorized, totalled and carefully retained to ensure you do not have this problem.

The CRA auditors often say, they know the taxpayers use their autos, take customers out for lunch and use their auto and home offices, but fail to provide or keep decent documentation and thus are disallowed. Develop strict habits and you will always be OK. The returns are your responsibility and no accountant can help you out if you do not have proper documentation to support the figures that you file. We take your data and format it for the required reporting. We do not guarantee anything as to its correctness with CRA.

Information Profile and Checklist

Is the owners attitude to taxes aggressive or moderate ?

____

____

Who will be the major users of the Financial Reports ?

____ Nature of use

____ Nature of use

What will the primary activities of the company be

____

____

Who will be the major customers or general customer base of the company ?

____

Who are the major suppliers or who the company pays the most to and why

____

____

Where will most of the revenue be eaerned located - Fraser Valley or ....

____

Major Equipment of business

____

____

Make an asset listing if business is new and equipment transferred in - see chart at end

Major Liabilities of Company

____

____

Major Revenue Sources

____

____

Major Direct Costs

____

____

Major Expense types - identify categories

____________________________ __________________________________

____________________________ __________________________________

____________________________ __________________________________

____________________________ __________________________________

____________________________ __________________________________

Personnel Profile

Any people on payroll ?

Feild or line __________

Office or Admin _______

What is payroll frequency ____________________________

Is there cut off and a hold back period or paid to date ________________________

Who does Payroll __________________Who does T4's _________________________

Owner draws - will just be a regular fixed draw amount paid to personal account ____

Will other personal expenses be paid out of business account and charged back to the owners personal account ___________

**Having excess personal items paid out business will confuse things and surely it not well liked by CRA if they audit your business

Accounting Affairs

<u>Cash</u>

Bank signing authorities - who signs

____

Accts Rec

Billing process - how and when is the billing done

____

____

Who decides the billings and make such decisions

____

Any slow or uncollectible debts

____

Are the AR pledged under any credit facilities

____

Inventory

Is inventory (other than WIP) counted and valued routinely or definately at YE

____

____

Prepaids

Any prepaid rents or other type of refundable deposits?

Description ____

Amount ______________

Do we have an insurance policy ____

Amount ______________

Who is the broker that is used _____________________________________

Are insurance policies reviewed carefully

____

____

Is a fleet plan in effect for vehicles _____________

Who decides on coverage for insurance and any other policies

____

New Equipment

Is a continuity schedule maintained - updated each year

Who makes decisions on asset purchases ?

Keep any big equipment purchases in a separate file called “Accountant”

Bank Lines of Credit

Does the business have a credit facility ?

How much is the overall facility ?

What are rates of interest?

Payables and Bills

What is normal polciy on payable payouts - fast or slow to pay

Is there a high level of adherence to CRA filings - Payroll, GST etc

Is there a careful consideration to GST applicable to billings and expenses

Is there a careful consideration to PST applicable to billings if any

Is there a careful consideration to WCB Filings and coverage

Loans

What is nature of debt of company?

Banks:

Loan #1

Loan description ______________________________________

Original Amount __________________________ Interest Rate _______________

Payment Amount _______________

Type - Blended ___ or Principal Plus interest ___

Security ____

Copy of Loan Documents or Credit Facilities

Loan #2

Loan description ______________________________________

Original Amount __________________________ Interest Rate _______________

Payment Amount _______________

Type - Blended ___ or Principal Plus interest ___

Security ____

Copy of Loan Documents or Credit Facilities

Vehicle Loans - if to be owned in company

Loan #**1**

Loan description ______________________________________

Original Amount _______________ Interest Rate _______________

Payment Amount _______________

Type - Blended ___ or Principal Plus interest ___

Security ____

Copy of Loan Documents or Vehicle Purchase Document

Loan #2

Loan description ______________________________________

Original Amount _______________Interest Rate _______________

Payment Amount _______________

Type - Blended ___ or Principal Plus interest ___

Security ____

Equipment Leases

Often it is easier to lease a vehicle or a piece of equipment than it is to purchase. If there is any lease in place for equipment, vehicle or any other type of equipment make sure to detail what it is and have the lease documentation available

Lease #1 ____

____

Lease #2 ____

____

Travel Costs

This category is often difficult to determine. Travel are costs that are over and above the operation of a vehicle or mileage reimbursements. These costs are for businesses where the work is not only out of town, but can be out of province or country

If you are an employee and have to commute to work, CRA is quite unsympathetic to your situation as costs to and from work are always personal. Does the same apply for a corporate contractor going out of town for work ? Its your problem perhaps for having to go out of town, but it is also the means for which your company can make money to pay its taxes. Thus, it would be only logical that the costs to go out of town or province to undertake work for which you are going to report and pay taxes on is a fair cost of doing business.

If you decide these costs are business, then treat like any other expense

What about the money I put in the company? How does this work

As the owner of the company, you have a special umbilical to your company that is called a *Shareholders Loan.*

Remember this term and really get to understand it. It is your main connection to the business

The company, being a corporation is a separate and distinct entity for tax purposes aside from the individual owner. You may own the company, but it owns everything else. That means any money you lend it is a loan it owes to you and any money you take out of it is a loan that you owe it. You cannot plunder the money out of the company without some tax consequence.

In the startup of the company you will have to put some money in for startup costs until you have some revenue and get some cash in. This will be a *Shareholder Loan* to the company for which it will have to pay you back at some point. As noted earlier, you will be very careful to note this on your deposit book so you do not count this as income and pay taxes on it. When the company has some cash funds, it can pay you back your loan. The repayment of this money is not income to you as it is just a repayment of a loan.

You will take funds out of the business by way of cash withdraws, personal Visa items paid or other personal expenses paid by the company. These are not expenses of the business but are charged to your owners or Shareholder Loan account.

How do I get paid then ?

While you may own the company, it owns all else including the cash that is received from the work that the company does. You want some of it. How does this work ?

The owner of a business can take his money out in a few separate ways:

1 Wages. Set up a payroll account and do a formal payroll and send in the deductions to CRA each month and at the end of the year the company has to issue you a T4

2 Dividends - These are distributions of the profit that the company paid taxes on. The dividends have a slightly lower personal tax as the company already has paid tax on this at the corporate tax rate which is only 13.5%. To do dividends you simply take your funds out during the year and this is all accumulated in your Shareholder Loan account. At the year end of the business the accountant will determine how badly the Shareholder Account has been overdrawn and then convert this to a dividend so you can pay tax on the funds that were taken out by way of a dividend.

3 Income splitting - Spouse - this may exist for business with a spouse that does not have much other income. We often see the spouse receive some shares of the business, but not of the same type as the main owner. This way you can pay the spouse and the main owner different amounts and have some good flexibility in this regard.

You can also pay the spouse by way of a wage and do all the payroll deductions and then issue the spouse a T4 at the end of the year which is reported on their personal tax return.

Income Splitting - Kids - this may exist if you have kids that are at least of the age that they could provide meaningful service to the company. You would determine the job description for them, what a reasonable hourly rate is and how many hours they can work in a month and then you make sure you issue them a cheque for proof of payment. If the kids are under 18 years of age, they will not have any Canada Pension Plan issues and if you keep the amounts reasonable, they will have no tax issues at all. Likely behind the scenes, the kid will cash the cheque and the funds are lent back to the business owner.

Common Errors - New owners

The most common errors that are seen with new owners of a corporation is that they figure the money is all theirs, gut the company completely and pay no heed at all the tax implications of any of this. Then, at year end they get an absolute beating as they are usually delinquent with the deductions and will end up owing CRA a great deal of money and this can happen when there is not much work and thus no money to pay the tax bills.

We don't see this in our firm for very long as we will fire clients that are stupid and tend to do this all the time. It is a sign of bad business practises and usually a lot other aspects are poorly done as well. We are not in the business of mopping up messes by individuals that should not be at the helm of a corporation. You either develop sound business acumen and practises or you will be certain of running afoul of the tax department and get charged way too much by the accountant for sorting out your mess.

When you set up and take ownership of a corporation, you have some significant obligations and duties. You cannot just walk away form this as you are responsible for all of its affairs and many debts of the company will flow out to you personally if you cause the business to fail.

What is the process with GST ?

A company is required to register for a GST Number when the sales exceed $30,000 However, you may have to register right at the start as the companies you do the work for may want you to have this number. The GST is not an income tax. You simply charge it on top of the invoices you do for your services at a rate of 5%. The company that you work for will pay you this, and you simply turn around and give it to the CRA. A fairly simple concept but beware, the GST are considered trust funds, that means you are personally liable for the GST that the company collects.

The GST returns are filed on a variety of time cycles. You can file every month which is a chore as you have to have all paperwork done too often. You can file quarterly which is a reasonable time frame to do so, or you can file once a year. The once a year is nice as way less paperwork but you may end up owing it all at once. To get around this, you can consider a plan where you file once a year, but you send in instalments three or four times a year so when you get to the end of the year most of the GST has been paid in. This often works the best and you simply look at your billing for each quarter to tally up the GST collected and send that in as you will really appreciate being paid up at the time of filing

The way GST works is that you have to send in the GST you collected form customers, but you can deduct the GST you have paid out for various expenses. Then, when you file your annual return, you deduct the GST collected from the GST paid out and then deduct your instalments and then only remit any shortfall.

As with all aspects of running a business you just develop a good disciplined system for doing things and you will never have problems and certainly no shock at having a big bill all at once.

Does the Company pay taxes ?

As mentioned earlier, a Corporation is a separate entity (just like a person) for the filing of taxes. The taxes are done once a year and this is called a Year End. You can have your Year End of the business at any time as long as the first year does not exceed twelve months. So, if you set up a company in November 2014 it is logical to have a year end that is October 2015 as you may as well have a full business year.

A company will do up a summary report called an Income Statement that shows it Income and all its Expenses. The excess of the Income over the Expenses is called the Profit.

The company then will pay corporate taxes on its Profit. The corporate tax rate is 13.5% in BC and this is quite a low rate overall. If there is a lot of profit after the taxes are paid, this is the accumulated after tax profit that is used to pay out to the owners as the dividends. You must have enough after tax profit as dividends cannot be paid in excess of this.

What is a Year End ?

The company as it an entity for tax purposes, must once a year file a tax return. The year end process involves preparing the required financials statements of a Balance Sheet and an Income Statement. The data of the business will have either been processed or needs to be processed to summarize all the income, expenses and owner activities. Then, the reports are prepared and the corporate tax return is completed. Most times the GST is done at the very same time if it is filed only once a year.

The year end is also where any dividends are calculated to be paid out, any wages or other items are determined or at least planned out and any WCB, payroll remittance or other such matters are identified and addressed to be dealt with.

The accountant completes all of this and you will receive back written instructions on all of above items and you can then participate in a tax plan that you understand and that works best for your own situation.

Year end usually take place about a month after the year end has passed in order to assemble all the records and get in the final bank statements.

It is always recommended to take an active role in all of this as it is your business and you should at least understand enough of the process and final product to feel confident and in control of your own affairs. You do not need to learn excess industry jargon and terms, but rather understand the fundamentals and how it all ties in and connects. Once you learn more of the year end process then you always will have this and can only refine and increase your knowledge.

The accountant’s role is to process, categorize, summarize and report your business information and to work with you following your financial objectives and preferences to achieve a final result that finds the best balance overall.

How do the T4s work for wages?

The T4 is a slip that is issued each calender year for the amount of wages paid and it also has on the slip, the amounts that were deducted for Canada Pension Plan, Unemployment Insurance and Taxes.

Whether the company even issues a T4 to anyone depends on the people that work for the business, the owner, spouse and kids.

A careful review well in advance must be done of the probable income in the company, the ability to reasonably split income and the overall profile of the business to determine if this is the best course of action.

If the owner and spouse still want to contribute to the Canada Pension Plan, then paying wages needs to be done. If the owner is at a point in life where is collecting the CPP and does not want to pay anymore, then the dividend may be the best route to go.

Each case must be determined on its own facts. Each business owner has a different set of facts and preferences that must be taken into account. Some business owners that are of the age that could be paying into the CPP, decide to opt out and take their pay by way of dividends and avoid paying the CPP.

As a business owner, you should carefully evaluate your own situation to take all this into account as far as your objectives, potential to income split, and desire to pay into the CPP and build up room to acquire RRSPs.

It makes the work of the accountant that much easier and more efficient if the owner does spend the time to learn and participate in this critical part of the business.

Set up Wage Plan in Advance

The most efficient way to address the wages, is to develop a plan that has the wages or dividends or a mix of both defined in advance. Then, if the approximate amounts are known, a fix ed monthly payroll remittance to the CRA can be done which accumulates to the end of the year and supports the deductions on the T4's that are issued. It is always best to plan in advance and remit to the CRA on a consistent basis throughout the year to avoid a sudden large liability at the end of year if none have been sent in.

Getting the Company Incorporated

To have your company created, you will need the services of a lawyer that does corporate work. The cost is in the range of $1,400 to have a good structured company set up. The company is created and you own it by way of *shares* that the company issues to you. A company can have several types of these shares and some are voting shares and some are non-voting.

It all depends on what you have in mind for potential income splitting in regards to which shares are issued to whom. The main owner may take 100 Voting shares and the spouse would take 100 Non-voting shares. This way, you have the flexibility of paying dividends in different amounts on each class of shares. This is a useful means of being able to control how much is paid out to each person.

The law firm will set up your company and they will also get your Business Number. This is just the core number and is has not yet been activated so do not assume you have a GST number when you get this as you do not.

The Business Number is a nine digit number and then it will have a Suffix on the end that indicates which category of the CRA it belongs to. As follows:

RC0001 - is the Corporate account number used to file the company taxes
RP0001 - is the Payroll account number, used to send in remittances and T4's
RT0001 - is the GST account number for reporting and filing the GST

Usually, once the company is set up and the business number is acquired, this will be brought to the accountant for assistance to set up the payroll and GST accounts depending on what is required.

It is quite important to promptly get all of these set up as soon as the company is incorporated so you can conduct business with a valid GST number.

NEW BUSINESS ASSETS TRANSFERRED AT STARTUP

OFFICE EQUIPMENT

List by items, put best est of value at date of start of business

Description	*Qty*	*Value*	*Total*

TOOLS AND EQUIPMENT

List by items, put best est of value at date of start of business

Description	*Qty*	*Value*	*Total*

MACHINERY AND BIG EQ

List by items, put best est of value at date of start of business

Description	*Qty*	*Value*	*Total*

TRUCK OR VEHICLE

List by items, put best est of value at date of start of business

Description	*Qty*	*Value*	*Total*

NAME: ______________________________________ MONTH OF: ___________

MILEAGE CLAIM FORM

	DESTINATION				
DATE	**FROM**	**TO**	**PURPOSE**	**TOTAL KM'S**	**BUS KM'S**
					0

TOTAL KM'S	0
RATE	0.52
AMOUNT DUE	0
GST INCLUDED	-
NET EXPENSE	-

HOME OFFICE COSTS		Excel Template Available		
TAXPAYER				
OFFICE SHOP STORAGE FOOTAGE		-	RATIO	
TOTAL FOOTAGE		-	#DIV/0!	
			Annual	
MTGE INT			-	
PROP TAX			-	
INS			-	
UTILITIES (Gas and Hydro)			-	
Repairs			-	
ALARM			-	
Other ______________________________			-	
Other ______________________________				
Other ______________________________				
	Total Expenses		0.00	
Months you were in business in year >>>>>>>>>>>>>				12
	Current year allowable deduction		**#DIV/0!**	