

## 10 Best Ways To Save On Your Corporate Taxes In Canada

Corporations are common type of business in Canada and their taxation norms are different than other types of businesses in Canada. Corporations are required to pay taxes on profit income and capital gains. The first most important aspect of saving corporate taxes in Canada is to hire an experienced and knowledgeable accountant as he is the one who will provide guidance and implement various tax saving strategies. This report discusses 10 best ways to save corporate taxes in Canada.

### 1. Paying out dividend at the end of the year:

Saving money in taxes is very important for all business owners. In Canada, the process of taxation of dividends is prevalent. The tax policy, however, compensates for this through the Dividend Tax Credit for personal income in dividends from corporations. If you run an S corporation, you can take cash distributions in the form of non-taxable dividends.

You can plan to pay out dividend at the end of the year, so that you can get dividend refund. Dividend refund can reduce the tax installment base. It is received by the corporation at the rate of 1/3 of the taxable dividends paid. Overall you end up paying lesser taxes.

### 2. Contributing to a retirement plan:

Contributing to a retirement plan is a simple yet effective way to save on your corporate taxes in Canada. You can either sponsor the plan for your employees, or your company can select a plan and let your employees contribute to it. You can also sponsor to the cafeteria and medical benefit plans for your employees. These plans allow your employees to use a part of pre-tax income for child care or medical expenses. Your company does not need to pay payroll taxes on the amount paid into a cafeteria plan or medical benefits plan.

In addition to tax benefits, sponsoring a retirement plan helps you to demonstrate that you care for your employees.

### 3. Writing off company assets

Writing off company assets allows for the reduction equivalent in value to those assets. The write off process involves some internal processes. It requires the equipment and machinery and their related parts to be obsolete. You are allowed to write off those items as a deduction on taxes.

### 4. Deductions on business automobile

You can save expenses related to the automobiles used for your business. You can make savings under various heads like fuel, repairs and maintenance, insurance and vehicle registration fees on your corporate tax

returns. If you use your car in your business, you can fully deduct the car expenses. If you use it for both business and personal purposes, you need to divide the expenses based on actual mileage.

There are two methods of claiming automobile expenses

- ✓ Actual expense method:

You need to keep track of the entire automobile expenses and deduct all of your business related expenses.

- ✓ Standard mileage rate method:

You can deduct the standard mileage rate for each mile driven. You are also entitled to deduct the toll fees and parking fees that have been met for business purposes.

If you use a new vehicle exclusively for business purposes, the actual expense method can help you get large tax deductions.. Actual expense method also allows you to deduct the depreciation on the vehicle. In order to become eligible for using the standard mileage rate, you need to use the care in the first year solely for your business activity.

## 5. Charitable contributions:

If your company is an S corporation, you can save on your individual tax by making a charitable contribution. On the other hand, if you own a regular C corporation, the charitable contributions can be deducted simply on your corporate tax returns.

According to Canada Revenue Agency, you can claim charitable deductions of up to 75% of your net income. The only exception to this rule is the event of death of the tax payer. If the person dies in the year, the limit will be 10% of the deceased person's net income. A Canadian-controlled corporation that files a T2 income tax return can claim 75% of its net income.

You are not allowed to claim charitable donations to create a loss. However, unused charitable donations can be carried forward to any of the next five tax years.

Charitable contributions offer an excellent way to companies for saving on corporate taxes and at the same time help needy people in the community. However, it is important to confirm whether the charitable institution your company wants to donate to is a legitimate one. Canadian educational institutions, medical

and scientific research institutions and churches that provide true charitable services qualify as true charitable institutions.

If you have old furniture or computers, you can donate them to schools or non-profit organizations. This can help your company gain goodwill, while getting tax benefits at the same time. However, if the computers or furniture have been fully depreciated, you cannot claim a deduction on tax returns.

#### **6. Using a home office for your company:**

Using a home office for your company is one of the best ways to save on corporate taxes in Canada. While starting up the company, you can write off the initial expenses up to some amount. These expenses include personal property like furniture and/or equipment. Machinery, fixtures, storage facilities and other personal properties can be written off in the first year of purchase. However, it is essential to note that while using home office, you can write off only a percentage of the expenses.

How to qualify for a home office deduction:

In order to qualify for home office deduction, you need to satisfy two important points

- ✓ The home should be the main place of business
- ✓ You should use it to meet clients to customers in the normal course of business.

#### **7. Carry forward of losses:**

In Canada, some specific losses can be carried forward to subsequent years to reduce tax. You are allowed to reduce your capital gains by any capital losses incurred in the year. If you have more capital gains, you can deduct the capital losses incurred in the previous years. The carry forward provision lets you preserve valuable cash, which would otherwise have to be paid out in corporate taxes. You can retain the funds for business and can use it as working capital. You can also use it for expansion of fixed or non-current assets.

Before carrying forward any losses, you need to satisfy two conditions:

- ✓ The return of loss should be submitted on or before the due date
- ✓ The Assessing Officer will determine the loss. He will notify the amount of loss that you are entitled to carry forward by an order.

Loss from a business can be adjusted against any income from any source in the same assessment year. However, if you carry it forward to the subsequent years, it can be adjusted only against business income.

#### **8. Pay salaries to family members:**

You can hire your spouse, children or other family members to work in your business and pay salaries to them for their service. This helps you save on your corporate taxes in Canada. In order to get deductions from tax, your spouse or children should be associated with the business and perform some work that helps you earn business income.

#### **9. Shift income to a family member:**

You can consider shifting some income to a family member. Shifting income in a legitimate manner can reduce a company into a low tax bracket. It must be noted however that shifting a large amount of income to a family member simply to avoid paying taxes is not legitimate, unless there is some genuine reason like payment for services.

#### **10. Make shareholder loan repayments:**

The shareholder loan is the amount owed by the corporation to its shareholders. Shareholders loans can be repaid on a tax-free basis, so it is advisable to repay shareholder loans before paying dividends or salary, which are both taxable.