

Rearrange Your Affairs For Maximum Tax Savings

By J. Stephen Pope

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One way to maximize your business profits is by reducing your taxes. Frequently, income and other taxes could be lowered significantly if only the taxpayer were willing to plan ahead. By taking some simple steps to rearrange your affairs, you could save a fortune!

1. Are You Splitting Your Business Income?

You may pay reasonable salaries to spouse or children through your incorporated or unincorporated business. If you are not doing so, you may be missing out on some real tax savings.

In the Canadian Federal Budget of February 16, 1999, measures were introduced to discourage income splitting with minor children through family trusts. However, these measures do not apply to paying reasonable wages to family members. Thus, this may be one of the last ways of legally splitting income left for the small business person with minor children.

Obviously, the amounts paid must bear some relationship to the work performed. Of course, all required payroll taxes should be remitted and proper records need to be maintained.

Why not rearrange your affairs so that family members with little or no income can perform duties for and be paid by your business? Then, they can contribute out of their own income towards the operation of the household. In this way, little or no tax will be paid by your dependants and you will have successfully shifted taxable income out of your hands.

2. Should You Register For The Goods And Services Tax?

Even if your business grosses less than \$30,000.00 per year in taxable sales, you may still benefit by registering your business to collect the Goods and Services Tax (G.S.T.). If you are not doing so, you may be missing out on some real tax savings.

For example, you will be paying G.S.T. on many of your business expenses. If not registered for G.S.T., you must absorb this cost. If registered, you may deduct the G.S.T. paid on such business expenses (input tax credits) from the tax collected. Many business persons expect to pay G.S.T. and it doesn't really cost them anything since they deduct such amounts as input tax credits from the G.S.T. they collect from their customers.

In some cases, the quick method of calculating G.S.T. may actually allow you to retain more of the G.S.T. collected than you would have just claiming the G.S.T. actually paid by you.

A factor to consider also: If you are not registered for G.S.T. in Canada, you are telling your clients that you do under \$30,000.00 per year in taxable sales or that you cheat. Is this the image you want your clients to have?

3. Could You Benefit From Incorporating Your Business?

Although incorporating your business may result in increased accounting and legal fees (for setup, extra tax returns, and annual minutes), the advantages of incorporation may justify this added expense. Not only will you enjoy limited liability by incorporating, but you may reap significant tax savings as well.

Corporations are often subject to lower tax rates on small business income. In Canada, sales of shares of qualifying small business corporations can obtain a lifetime \$500,000.00 capital gains exemption. Certain tax incentives and government programs are only available to incorporated entities. Additionally, corporations can be used for income-splitting and estate, retirement, and succession planning objectives.

4. Do You Engage In Tax Planning Year-Round?

Some people only worry about their taxes during tax season. However, you will save a fortune in taxes, legally, if you make tax planning your year-round concern.

Can you make some changes to turn your hobby into a moneymaking business? Can you use that extra room in your house as a home office for your business? Can you arrange to use your car more for business purposes and have you documented your business use mileage? Can you arrange for more of your entertainment expenses to be business related and have you listed the business purpose on the back of each receipt?

Do you make business and personal purchases, investments, and other expenditures with tax savings in mind? Do you document your expenses well so that you they would survive a tax audit? Whenever you are faced with a business or personal financial decision, do you consider the tax consequences?

Make year-round tax planning part of your business management mindset and, thus, enjoy maximum tax savings. Yes, by rearranging your affairs to account for tax implications, you will save a fortune in taxes.

*****RESOURCE BOX*****

J. Stephen Pope, President of Pope Consulting Inc.,
<http://www.popeconsultinginc.com/> has been helping clients to earn maximum business profits for over twenty years.

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