

January 2010

The indispensable
owner's manual for...



STARTING YOUR OWN BUSINESS

Logan katz LLP
CHARTERED ACCOUNTANTS

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full support.

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INTRODUCTION – WELCOME TO THE BUSINESS WORLD!

You have a unique product, an ingenious and brilliant idea, a valuable service – and there is a market out there that needs it ... *and that is just waiting for it!* You know your strengths and how to use them; you know how to manage your weaknesses. You are ready to handle the challenges and to face and manage the risks that will come your way. You have developed a business plan, a feasibility study, and know where you are going.

You have decided to go into business!

Now, before you go any further – and so that you start on the right foot – we want to ensure that you have considered all the various components associated with the new business, and have also considered all the options available to you and have selected the best possible ones for your particular situation.

The objective of this Owner’s Manual is to provide information for you to set up various statutory accounts and to ensure you have considered certain options within various scenarios. It is not meant to be comprehensive. We encourage you to seek professional assistance before making any significant decisions (refer to Chapter 7 for further information). Failure to do so may result in future complexities and adverse consequences. The information contained in this document is from the various sources identified on page 28 as of January 2010.

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CHAPTER 1- INCORPORATION, PARTNERSHIP OR SOLE PROPRIETORSHIP

A business can take various forms, depending on the funds available for its setup, the owner's risk tolerance, the type of income earned in the business, and the tax implications on the income earned.

Incorporation

Incorporating your business has the following advantages:

- The most important advantage is that the corporation has its own identity and is completely separate from the people who are involved in the business. Therefore, the corporation is able to obtain credit and will be solely responsible for the debt incurred. Unless the shareholders provide personal guarantees for debts incurred by the corporation, they will not be liable for default, obligations or liabilities incurred by the corporation, except in prescribed situations. This is generally referred to as "limited liability".
- By having its own identity, the corporation will not be affected by changes in shareholders. This is also beneficial for estate planning, as the corporation continues to exist upon the shareholders' death.
- Depending on the type of income earned in the company, incorporation can provide tax benefits as, in most cases, corporations have lower tax rates than individuals. Those tax benefits are usually in the form of tax deferrals as well as income splitting opportunities.
- Finally, incorporation will protect the name chosen for the company and will restrict its use by any other entrepreneur.

Incorporating your business also contains certain disadvantages:

- The cost of incorporating a small business is higher than any other option available. Additional annual costs will be associated with filing tax returns for the corporation as well as filing personal tax returns for the corporation's shareholders.
- Corporations also require separate accounting records from their shareholders, which will create additional paperwork, costs and administration.

Partnership

Advantages of a partnership are as follows:

- A partnership is easy to setup and has very low start-up costs.
- Since more than one individual is involved, the business can benefit from a wider range of expertise and a greater source of financing.
- A partnership faces a limited number of regulations which reduces the administrative costs.

Disadvantages of a partnership are as follows:

- Partners will be held liable for the debt incurred by the business.
- Authority is divided between the partners, and possible disagreements or conflicts may arise between the partners which can jeopardize the continuity of the partnership.
- Continuity of the business is very difficult to maintain should anything happen to the partners.

Sole proprietorship

Advantages of a sole proprietorship will complement the points noted above, as follows:

- A sole proprietorship has very low start-up costs and requires minimal working capital.
- Less regulation applies to an unincorporated business, therefore minimizing administration costs.
- Losses from incorporated business activities can provide tax advantages to the owner as losses can be applied against other types of personal income, thereby reducing the personal tax liability. Inside a corporation, such losses will only provide a tax advantage to the extent the corporation earns taxable income at another time.

Disadvantages of a sole proprietorship will complement the points noted above, as follows:

- The owner of a sole proprietorship will be held liable for any debt incurred by the business.
- Continuity of the business is very difficult to maintain should anything happen to the owner.

Caution!

Corporations and partnerships are very good business structures but do require more legal attention. In order to avoid disagreements and hefty legal costs in the future, it is important to prepare a shareholders' agreement, if more than one shareholder is involved in the corporation, or a partnership agreement, as the case may be, before going into business.

Incorporating a business federally or in Ontario

Advantages of a federal incorporation

- Incorporation fees are lower.
- Examiners with the federal government will verify the name chosen for the corporation against all corporations, business registrations and trademarks across Canada. This process gives even better protection to businesses that already exist and provides the new incorporator the assurance that the company name is available throughout Canada.
- With a federal incorporation, only 25% of the directors are required to be Canadian citizens.

Disadvantages of a federal incorporation

- It takes a day or two longer than obtaining incorporation in Ontario.
- It can be difficult, perhaps even causing some frustration, to find a name that is available.
- An annual fee, along with a separate filing, is required for keeping your corporate records up to date, even when there are no changes with the corporation.

Federal or Ontario incorporation can be done online through the [OnCorp Direct Inc](#) website.

Before incorporating either federally or in Ontario, it is recommended to perform a name search to ensure the name chosen for the corporation does not currently exist. This can be done through the [OnCorp Direct Inc.](#) website by obtaining the Newly Upgraded Automated Name Search (NUANS) report at an additional cost of \$60.

Fees

	<u>Electronic Filing</u>	<u>Other Means</u>
Federal incorporation	\$ 200	\$ 250
Annual return required following a federal incorporation	\$ 20	\$ 40
Ontario incorporation	\$ 300	\$ 360
Annual return required following an incorporation in Ontario	\$ -	\$ -
Business Name Registration	\$ 60	\$ 80

Business name registration (for sole proprietorship)

If the business is operated under a name other than the proprietor's name, the business must be registered with the Ministry of Government Services (MGS) under the Business Names Act. If a sole proprietor establishes a business in his/her own name, without adding any other words – even such words as “& Company” – it is not necessary to register the business. Business name registration is valid for five years, at which time a renewal is required.

The registration of the business name does not in itself ensure the exclusive use of that name in Ontario for the individual registering it. MGS has no obligation to avoid name duplication or to advise anyone registering a name that it has been previously registered. Newly Upgraded Automated Name Search (NUANS) can be made through the [OnCorp Direct Inc.](#) website.

Business number

Once the decision has been made concerning the structure of the business, and regardless of the structure selected, it is important to apply for a business number with the Canada Revenue Agency (CRA). The business number is used to identify businesses in Canada and is required to facilitate the communications with CRA. The business number will be associated with all the federal accounts of the business such as corporate income tax, GST and payroll accounts of a corporation, or the GST and payroll accounts of a sole proprietorship.

Registration for an Ontario corporate tax account is addressed in Chapter 2.

It is possible to register for the federal income tax, GST and payroll accounts and the Ontario RST, EHT and WSIB accounts at the same time as the registration of the business number which can facilitate the process and limit the administrative requirements. The registration or renewal of a business name with the Ministry of Government Services can also be accomplished at the same time.

Online registration

Perhaps the easiest and quickest way of registering is by using the Business Registration Online ([BRO](#)) services under the CRA's website. In order to use this service, you will require the following information:

- Full name and social insurance number of all owners, directors, partners or officers
- Business's physical and mailing addresses

- If the business is incorporated, the following information from the certificate of incorporation :
 - Corporate name
 - Certificate number
 - Date of incorporation
 - Jurisdiction
- Other information depending on what you want to register for using BRO (for example, the fiscal year-end if you want to register for a payroll account)

Other registration methods

Registration can also be made by completing the [Form RC1 – Request for a Business Number \(BN\)](#) and mailing it to one of the following local offices or by calling CRA's Business Enquiries line at 1-800-959-5525.

Ottawa Technology Centre
875 Heron Road
Ottawa ON K1A 1A2

Ottawa Tax Services Office
333 Laurier Avenue West
Ottawa ON K1A 0L9

Permits and licences

For certain businesses, permits or licenses are required. To find out more about what permits or licenses you need for your business and where and how to apply, use [BizPal](#) under the City of Ottawa website.

[BizPal](#) is an online service for entrepreneurs that simplifies the process of finding information on business permits and licences from all levels of government.

CHAPTER 2 - INCOME TAXES

Profits generated from business activities need to be shared with the federal and provincial governments through the payment of income taxes. Income tax calculations will vary depending on the business structure and nature of income.

Incorporation

An annual corporate tax return (T2) must be filed federally with the Canada Revenue Agency. The provinces of Québec and Alberta require a separate corporate tax return to be filed annually, while other provinces' corporate taxes are collected by the CRA. For tax years ending in 2009 or later, corporations that have a permanent establishment in Ontario will file a harmonized T2 Corporation Income Tax Return with the CRA.

Canadian-controlled private corporations (CCPC)

A CCPC is a Canadian corporation which is not controlled, directly or indirectly in any manner, by public corporations, non-residents or a combination of the two.

For 2009, at the federal level, a CCPC benefits from a lower tax rate of 11% on the first \$400,000 of income, commonly referred to as the *small business rate*.

At the Ontario level, a CCPC also benefits from a lower tax rate of 5.5% on the first \$500,000 of income.

Any income earned by a CCPC in excess of the respective small business ceilings is taxed at a rate of 19.0% federally and 14% in Ontario. The federal rate will be reduced until it reaches 15% on January 1, 2012.

Not every type of income qualifies for the small business rate even if the income is lower than the above thresholds. Investment income such as interest, dividends, leasing of real property and royalties, does not qualify for the small business rate and will be taxed at the highest rate of 34.67% federally and 14% provincially. It is important to note that 26.67% of the 34.67% will be refunded to the corporation when the corporation pays taxable dividends to its shareholders. In other words, \$1 will be refunded to the corporation for every \$3 it pays in taxable dividends.

Other Corporations

Corporations, which do not qualify as a CCPC will be taxed at a rate of 19.0% federally and 14% in Ontario. The federal rate will continue to be reduced until it reaches 15% on January 1, 2012.

Registration

Registration for the federal corporate income tax account will be done automatically when registering for the business number (see Chapter 1).

Filing deadlines

Corporate tax returns are due six months after the end of the fiscal year. However, payment of taxes is due within two or three months after the end of the fiscal period depending on the type of income earned by the corporation, after which interest begins to accrue.

Partnership

Net income from a partnership is reported, and therefore taxed by each partner based on their percentage of ownership in the partnership. Each partner's income is treated in the same way as income from a proprietorship.

Proprietorship

As indicated in the first chapter, net income from a sole proprietorship enterprise will be taxed directly in the hands of the owner. In fact, the net income (gross revenue minus deductible expenses incurred to earn the gross revenue) will be added to the proprietor's other sources of income to determine the total taxable income on his/her annual personal income tax return. The effective tax rates will vary depending on the taxable income of the owner which will include business and any other type of income, such as investment income, rental income, pension income, etc. The 2010 personal income tax rates are as follows:

Combined federal & Ontario tax rates

<u>2010 Taxable Income</u>	<u>2010 Marginal Tax Rates</u>			
	<u>Other Income</u>	<u>Capital Gains</u>	<u>Eligible Canadian Dividends</u>	<u>Non-eligible Canadian Dividends</u>
first \$37,106	20.05%	10.03%	-6.23%	3.16%
over \$37,106 up to \$40,970	24.15%	12.08%	-0.32%	7.90%
over \$40,970 up to \$65,345	31.15%	15.58%	9.76%	16.65%
over \$65,345 up to \$74,214	32.98%	16.49%	10.55%	17.81%
over \$74,214 up to \$76,986	35.39%	17.70%	14.02%	20.82%
over \$76,986 up to \$81,941	39.41%	19.70%	16.49%	23.82%
over \$81,941 up to \$127,021	43.41%	21.70%	22.25%	28.82%
over \$127,021	46.41%	23.20%	26.57%	32.57%

In 2010, the first \$10,382 of personal income is exempt from federal taxes and the first \$8,943 of personal income is exempt from Ontario tax.

Filing deadlines

Personal income tax returns for sole proprietors and partners are due on June 15th of the following year. However, payment of tax is due on or before April 30th in order to avoid interest charges.

CHAPTER 3 – COMMODITY TAXES

Commodity taxes are applied on the selling price of goods and services and are added to the price. The total price, inclusive of all applicable commodity taxes, is paid by the consumer. It is the business' responsibility to charge, collect and remit the applicable taxes to the various governments. This chapter will address the federal Goods and Services Tax (referred to as HST – Harmonized Sales Tax – in Newfoundland, New Brunswick, Nova Scotia, and as of July 1, 2010, Ontario) and the Ontario Retail Sales Tax. Each province except Alberta has its own sales tax, and these should be reviewed if business is anticipated in provinces other than Ontario.

It is also important to know that [other types of taxes](#) exist for specific industries, such as manufacturing, or for retail products such as tobacco, fuels, jewellery, vehicles, and wine.

Harmonized Sales Tax (HST)

The 2009 Ontario budget has opted to implement a harmonized sales tax (HST) which combines Ontario's provincial sales tax (8%) with Goods and services tax (5%). The new legislation will come into effect on July 1, 2010. The HST will total 13%, consisting of a federal portion (5%) and provincial portion (8%) and will be applied on the selling prices of goods and services. Generally, businesses in Ontario that are registered for the GST/HST will have to collect HST on all taxable supplies of property (including goods) and services they provide to their customers beginning July 1, 2010. The HST will generally not apply when goods are delivered or services provided before July 1, 2010, even if payment is made after that date.

As is currently the case for GST, businesses with less than \$30,000 in annual taxable sales will not be required to be registered for HST purposes. Businesses below this threshold may voluntarily register in order to claim input tax credits to recover the HST they pay on expenses.

Businesses which are permitted to claim input tax credits in respect of GST paid on their expenses will be able to claim full input tax credit for HST paid on taxable goods and services.

For more information regarding HST and transitional rules: review questions and answers on general transitional rules on the following CRA website:

<http://www.cra-arc.gc.ca/E/pub/gi/notice247/notice247-e.pdf>

Goods and Services Tax (GST)

The GST, which was introduced on January 1, 1991, is a multi-level value-added tax charged on the sale of most goods and services at a rate of 5%. In provinces where a HST is not implemented, GST must be remitted to the CRA periodically.

To register or not to register... that is the question!

A business must register for GST if its taxable sales exceed \$30,000. If the taxable sales are below \$30,000, the business can still decide to register for GST. This decision can be very beneficial for businesses that incur many expenses since, by charging GST on its sales, the business can also claim an input tax credit (ITC) for all the GST paid on these expenses. Therefore, if a widget was purchased for \$105 (including GST of \$5) and was subsequently sold for \$147 (including GST of \$7), the business collects \$7 of GST, claims an ITC of \$5 for the GST paid on its purchases and remits the net balance of \$2 to the CRA. It may be beneficial to register when big purchases are expected, such as vehicles or equipment, which attract larger ITC claims. Through this process, the GST paid on most expenses is recovered. Essentially the same will apply when the HST is implemented.

Although the registration process is, in most cases, based on the level of taxable sales, special attention must be given to two other types of sales – exempt and zero-rated sales.

Exempt sales generally include the following:

- Residential real property or rental income
- Health care services
- Childcare and personal care services
- Ferry, road and bridge tolls
- Legal aid services
- Educational services (including music lessons; most food or beverages sold in elementary or secondary school cafeteria and most meal plans provided in a university or public college)
- Financial institutions
- Arranging for and issuing insurance policies by insurance companies, agents, and brokers
- Charities

A business involved in an exempt activity is not required to register for GST as no GST will be charged on the sales and ITC's cannot be claimed for the GST paid on purchases made for the business. The GST paid on the expenses becomes part of the operating costs of the business.

Zero-rated sales are sales which are taxable but at a rate of 0%, meaning no GST is collected. Zero-rated sales generally include the following:

- Basic groceries
- Agricultural and fishery products and livestock
- Drugs
- Medical and assistive devices
- Exports
- Freight and passenger transportation services
- Supply of property or service that is for the use of the Governor General

Although GST is not collected on zero-rated sales, the business can still claim ITC's in regards to the GST paid on its purchases. The business will therefore receive refunds from the CRA for the amount of GST paid on its purchases.

Although business activities may appear to fall within the [exempt or zero-rated categories](#), it is suggested to verify the specifics of the category on CRA's website in order to ensure all criteria are met.

Registration

Registration can be made at the same time as the registration for a business number (see Chapter 1). If the GST registration was not made at the time of the business number registration, it is possible to register for the GST through the Business Registration Online ([BRO](#)) website or by completing the [Form RC1A –Business Number \(BN\) – GST/HST Account Information](#).

Reporting period

GST needs to be reported to the CRA as follows:

Assigned and optional reporting periods		
Annual Taxable Supplies	Assigned reporting period	Optional reporting period
\$1,500,000 or less	Annual	Monthly or Quarterly
More than \$1,500,000 up to \$6,000,000	Quarterly	Monthly
More than \$6,000,000	Monthly	Nil
Charities	Annual	Monthly or Quarterly
Financial Institutions	Annual	Monthly or Quarterly

Filing deadlines

If the reporting period was determined to be annual, the GST return is due three months after the end of the reporting period. For monthly or quarterly reporting, the return is due one month after the end of the reporting period.

If you are an individual with business income who is an annual GST filer with a December 31 fiscal year-end, you have to file your GST/HST return by June 15. However, you still have to remit your net GST/HST amount owing by April 30 to avoid interest.

Although the return is due 3 months after the annual reporting period, it is possible that instalment payments be required during the period if the amount of taxes owing is greater than \$3,000. Any late filing or late payment will generate considerable penalties and interest.

Payments are made to the Receiver General of Canada.

Various methods of accounting for the GST

Three methods of accounting for the GST are currently accepted by the CRA. However, attention is given to the two most commonly used methods – the regular method and the Quick Method.

Regular method

The regular method of accounting for GST requires the business to account for the GST charged on sales and the GST paid on expenses (ITC) in separate accounts. At the end of the reporting period, the actual amount of GST charged on sales is reported to the CRA along with the actual amount of GST paid on expenses. The remittance therefore represents the amount of GST collected, net of ITCs claimed.

ITC's for GST paid on certain expenses may be limited or denied. Additional information can be found on the [CRA's website](#).

Quick Method

The Quick Method of accounting for GST simplifies the bookkeeping of the business's transactions and the reporting process to the CRA. Instead of tracking the GST collected on sales and the ITCs separately, these amounts are recorded in the regular sales and expenses accounts. At the end of the reporting period, the total sales figure including the GST is multiplied by the Quick Method remittance rates and the result is remitted to the CRA. Although GST will be charged at the rate of 5% on the business's sales, only a portion of the GST collected will be remitted as the remittance rates are lower than 5%. Since most of the GST paid on purchases cannot be claimed as an ITC, the remittance rates are lower to offset the amount of GST a business would otherwise have claimed. Since this method limits the claim of ITCs, it will generally benefit businesses with limited expenses attracting GST.

The quick method of accounting can be used by small businesses with annual worldwide taxable sales (including zero-rated sales) which do not exceed \$200,000, including GST collected. The \$200,000 limit does not include the supplies of financial services, sales of real property, sales of capital assets or goodwill.

The CRA prohibits the use of the Quick Method for the following businesses:

- Accountants or bookkeepers;
- Financial consultants;
- Lawyers or law offices
- Actuaries;
- Notaries public;
- Listed financial institutions;
- Audit services; and
- Tax return preparation services or tax consultants.

In order to use the Quick Method of accounting, a business must register with the CRA by completing the [Form GST74 – Election and Revocation of an Election to use the Quick Method of Accounting](#). Once the Quick Method of accounting has been selected, it must be used for a full year.

Ontario Retail Sales Tax (RST)

The RST, which is also known as the Provincial Sales Tax (PST) or Ontario Sales Tax (OST) is charged at a rate of 8% on most goods and certain services used or consumed in Ontario. On July 1, 2010, Ontario will implement a federally administered Harmonized Sales Tax (HST) that will apply to most purchases and transactions. To learn more, go to <http://www.rev.gov.on.ca/en/taxchange/index.html>.

To register or not to register... that is the question!

A business must obtain a vendor's permit for the RST and is required to charge, collect and remit the taxes in the following situations:

- you regularly sell taxable goods
- you regularly provide the following taxable services
 - telecommunication services (e.g., telephone, cable, pay television)
 - transient accommodation for less than one month in hotels, motels, and bed and breakfasts
 - labour provided to install, assemble, dismantle, adjust, repair or maintain tangible personal property, and labour provided to install, configure, modify or upgrade a computer program
 - contracts for the service, maintenance or warranty of tangible personal property including a computer program; and
 - commercial parking
- you regularly sell insurance
- you charge more than \$4 admission to a place of amusement
- you are a manufacturing contractor, that is, the manufactured cost of goods you use in real property contracts is more than \$50,000 in any fiscal year
- you are a non-resident contractor doing business in Ontario
- you sell taxable goods or services at flea markets, fairs or exhibitions
- you regularly import taxable goods or taxable services into Ontario for your own use
- you purchase goods exempt from RST that you plan to resell, but later take these goods from inventory for your own use

A business must register and therefore collect and remit RST on the first \$1 of revenue earned by the business. Unlike the GST, there is no minimum threshold which needs to be met before registration becomes mandatory.

Certain goods such as food products, children's clothing or drugs and medicines sold under a doctor's prescription are exempt from RST. Other goods such as goods purchased for resale, production machinery and equipment purchased for the use of a qualifying manufacturer and hospital equipment purchased by a qualifying hospital are also exempt depending on the nature of the purchaser and/or the end-use for which the goods are acquired.

Most services including dry cleaning and personal services, such as hair styling or beauty treatments, are also exempt from RST.

If you provide a non-taxable service or sell non-taxable goods, you do not charge your customer RST. However, you must pay RST on any taxable goods and services you use to perform the non-taxable service or sell the non-taxable product, and this amount will be considered part of your operating costs.

Rates

Although RST is usually charged at a rate of 8%, there are other rates which are applicable to the following taxable goods and services:

- accommodation for a period of less than one month - 5%
- admission fees of more than \$4 to places of amusement - 10%
- alcoholic beverages sold through licensed establishments - 10%
- alcoholic beverages sold through retail stores - 12%
- alcoholic beverages taken from your inventory for your own use or provided free of charge - 12%

Registration

Registration can be made at the same time as the registration for the business number (see Chapter 1). If the RST registration was not made at the time of the business number registration, it is possible to register for the RST through the Business Registration Online ([BRO](#)) website or by completing the prescribed [Registration Form](#) and mailing it to the following address:

Ministry of Revenue
PO Box 623
Oshawa ON L1H 8H7

Reporting period

RST needs to be reported to the Ministry of Revenue of Ontario on a monthly, bi-monthly, quarterly, semi-annually or seasonal basis depending on the total amount of RST charged on sales. The filing frequency will be determined by the Ministry of Revenue at the time of registration.

Filing deadlines

The RST return and payment is due on the 23rd day of the month following the end of the reporting period. Any late filing or late payment will generate considerable penalties and interest. Payments are made to the Ministry of Revenue of Ontario.

Exemption from RST

If goods are purchased for resale purposes, it is possible to request a Purchase Exemption Certificate (PEC) which will allow the vendor not to charge the tax on its purchases as the RST is only to be paid by the end user of the goods.

[Guide 204](#) from the Ministry of Revenue of Ontario provides additional information on the PEC along with a copy of the form to be completed in order to proceed with the request.

RST Compensation

The Ontario Ministry of Revenue compensates businesses for administering the RST on its behalf. The compensation, which is deducted from the net taxes payable, is calculated based on the amount of tax charged on the business's sales.

If you charged...	then deduct...
\$20.00 or less	the whole amount
between \$20.01 and \$400.00	\$20.00
\$400.00 or more	5% of the amount shown on line 2 of the return

The annual compensation is limited to \$1,500 for each 12-month period ending March 31.

CHAPTER 4 – PAYROLL

As you set up your business, you may have plans to hire employees immediately or at a later time. Also, if your business is incorporated, you and/or your spouse may be an employee of your corporation.

As an employer, the business is responsible to report the income earned by the employees during the calendar year and also to remit on a regular basis the various source deductions, which consist of an amount withheld from the employees' pay, as well as an amount paid by the employer.

Source deductions

Mandatory source deductions which must be withheld from an employee's pay include the Canada Pension Plan, the Employment Insurance, and applicable federal and provincial income taxes. As an employer, the business must also remit its share of premiums for the Canada Pension Plan and the Employment Insurance.

Canada Pension Plan (CPP)

CPP must be deducted from an employee's salary if the employee is 18 years or older, but younger than 70, and the employee does not receive a CPP retirement or disability pension.

Some types of employment are not subject to CPP. These include employment in agriculture, agricultural enterprise, horticulture, fishing, hunting, trapping, forestry, logging, and lumbering.

As of January 1, 2010, an employee must contribute to the CPP at a rate of 4.95% of his or her income up to a maximum yearly contribution of \$2,163.15 (which is calculated on the maximum pensionable earnings of \$47,200 and a basic exemption of \$3,500). Therefore, employees who earn less than \$3,500 per year are not required to contribute to the CPP, and employees who earn more than \$47,200 will stop contributing to the CPP during the year once they have reached that maximum amount of earnings.

The income on which the CPP premium is calculated includes not only the regular salary or wage of the employee, but also bonuses, commissions, vacation, maternity top-ups, or sick leave paid and most cash and non-cash taxable benefits such as interest-free and low-interest loans, employer contributions to an employee's registered retirement savings plan (RRSP), group term life insurance premiums, personal use of an automobile that the employer provides, holiday trips, subsidized meals, and certain gifts, prizes and awards.

Employers are required to match the contributions made by the employee to the CPP, and therefore remit the same amount to the CRA.

Employment Insurance (EI)

EI must be deducted from an employee's salary unless the employer and the employee are not dealing with each other at arm's length. This includes situations where the employer and the employee are related (which generally refers to a shareholder and his/her spouse owning more than 40% of the shares) or when the terms of employment are not substantially similar to the ones offered by the employer to his other employees or to the terms accepted in an open labour market and there is no reasonable justification for dissimilarities. If there is uncertainty related to the insurability of the earnings, a ruling can be obtained from the CRA.

As of January 1, 2010, an employee must contribute to the EI at a rate of 1.73% of his or her income up to a maximum yearly contribution of \$747.36 (which is calculated on the maximum insurable earnings of \$43,200). In contrast to the CPP contributions, employees with very low income must still contribute to the EI. However, employees who earn more than \$43,200 will stop contributing to the EI during the year once they have reached that maximum amount of earnings.

The income on which the EI premium is calculated includes not only the regular salary or wage of the employee but also bonuses, commissions, vacation, or sick leave paid and most cash taxable benefits such as employer contributions to an employee's RRSP except where employees cannot withdraw the amount from a group RRSP until they retire or cease to be employed, and gifts, prizes and awards.

Employers are required to contribute to the EI on behalf of their employees at a rate of 1.4 times the employees' contributions.

Income Taxes

Income taxes deducted from the employee's income must be calculated on the total remuneration package which includes salary, wages, retroactive payments, bonuses, commissions, vacation, sick leave, pensions, retiring allowances, maternity top-ups and any other taxable allowance or benefits received by the employee.

Income taxes are more complex to calculate as the rates vary with the level of income earned. It is also important to note that income taxes must be calculated and withheld from the employee's salary for both levels of government – federal and Ontario.

Current tax tables can be found on the CRA [website](#) or can be obtained from your bookkeeping software provider (see Chapter 5).

Alternatively, the federal portion of the income taxes is calculated as follows for 2010:

- 15% **on the first** \$40,970 of taxable income, **plus**
- 22% **on the next** \$40,970 of taxable income (on the portion of taxable income between \$40,970 and \$81,941), **plus**
- 26% **on the next** \$45,080 of taxable income (on the portion of taxable income between \$81,941 and \$127,021), **plus**
- 29% of the taxable income **over** \$127,021.

The provincial portion of the income taxes is calculated as follows for 2010:

- 5.05% **on the first** \$37,106 of taxable income, **plus**
- 9.15% **on the next** \$28,239 of taxable income (on the portion of taxable income between \$37,106 and \$65,345), **plus**
- 10.98% **on the next** \$8,869 of taxable income (on the portion of taxable income between \$65,345 and \$74,214), **plus**
- 13.39% **on the next** \$2,772 of taxable income (on the portion of taxable income between \$74,214 and \$76,986), **plus**
- 17.41% of the taxable income **over** \$76,986.

The amount of income taxes deducted from an employee's pay can also vary based on the request of an employee. It is possible that an employee with other sources of income requests additional income taxes to be deducted from his or her pay in order to alleviate his or her personal tax burden at the end of the year. Likewise, an employee who can benefit from other deductions such as RRSP contributions, tuition credits etc., can request to reduce the amount of income taxes deducted from his or her salary in order to benefit from additional cash flows during the year instead of receiving a larger refund at the end of the year. These requests are documented through the completion of the federal [Form TD1 – Personal Tax Credits Return](#) and provincial [Form TD1ON – Ontario Personal Tax Credits Return](#).

Caution!

Payroll calculation tables are usually updated every January 1st and July 1st. It is important to ensure the proper tables are used in order to avoid calculation errors and possibly incur penalties and interest at the end of the year.

It is also important to remember that the source deductions of employees working in Ontario (whether they reside or not in Ontario) are calculated on the above tables. However, if the business has a workplace in Québec, the source deductions for those employees working at the Québec workplace, will be calculated based on the Québec tables which use reduced rates for calculating the EI premiums. Québec employees must also contribute to the Québec Parental Insurance Plan (QPIP).

New employees

Once an employee is hired, he or she must provide you with his or her social insurance number (which will be required to complete his or her *T4 – Statement of Remuneration Paid*). The employee must also complete the federal [Form TD1 – Personal Tax Credits Return](#) and provincial [Form TD1ON – Ontario Personal Tax Credits Return](#) within 7 days of being hired.

Registration

Registration can be made at the same time as the registration for the business number (see Chapter 1). If the Payroll registration was not made at the time of the business number registration, it is possible to register for the Payroll account through the Business Registration Online ([BRO](#)) website or by completing the [Form RC1B – Business Number \(BN\) – Payroll Deductions Account](#).

Remittances

Remittance due dates are based on the business' average monthly withholding amount (AMWA) which includes the employees' and the employer's portion of the CPP and EI premiums along with the income taxes withheld from the employees' pay. If the business is part of a group of associated corporations, the remittances are based on the total AMWA of the associated corporations.

For a new employer or an employer who had an AMWA two years ago of less than \$15,000, the source deductions must be remitted at the latest 15 days after the end of the month when the deductions were withheld.

Quarterly remitting gives small employers the option of remitting source deductions once every three months. To qualify, an employer has to have an AMWA of less than \$3,000 in either the first or second preceding calendar year and have a perfect compliance history.

Employers who had an AMWA of \$15,000 to \$49,999 two calendar years ago must remit:

- The source deductions related to the remuneration paid in the first 15 days of the month at the latest on the 25th day of the same month.
- The source deductions related to the remuneration paid from the 16th day to the end of the month at the latest on the 10th day of the following month.

Employers who had an AMWA of \$50,000 or more two calendar years ago must remit the source deductions at the latest the third working day after the end of the following periods:

- From the 1st through the 7th day of the month;
- From the 8th through the 14th day of the month;
- From the 15th through the 21st day of the month;
- From the 22nd through the last day of the month.

Furthermore, employers with a monthly remittance of \$50,000 or more must remit the source deductions at their financial institution on or before their due date.

T4 – Statement of Remuneration Paid

Employers need to complete a T4 Summary and T4 slips to report the remuneration which was paid to the employees during the year. The T4 slip also includes taxable benefits or allowances received by the employees along with deductions withheld during the year.

Reporting Period

The T4 Summary and T4 slips report income paid to the employees during the calendar year regardless of when the services were rendered.

Filing Deadlines

The T4 Summary and T4 slips are due by the last day of February following the calendar year to which the slips apply.

Workplace Safety and Insurance Board (WSIB)

The WSIB provides compensation benefits to workers injured on the job or who contract an occupational disease. It also provides employers with access to experts in health and safety for their business sector. WSIB is administered by the Ontario government.

To register or not to register... that is the question!

Most businesses in Ontario that employ workers (including family members and sub-contractors) must register with the WSIB within 10 days of hiring their first full- or part-time worker.

However, certain industries, as follows, are not required to register with the WSIB:

- Banks, trusts and insurance companies
- Private health care practices (such as those of doctors and chiropractors)
- Trade unions
- Private day cares
- Travel agencies
- Clubs (such as health clubs)
- Photographers
- Barbers, hair salons, and shoe-shine stands
- Taxidermists
- Funeral directing and embalming

Other industries could also be exempt from registering with the WSIB. More information can be obtained by contacting the WSIB directly or by visiting their [website](#).

Although a business is not required to register with the WSIB, it is still possible for the business to choose to insure its workers through the WSIB.

Sole proprietors, partners, or executive officers are not automatically covered under the WSIB insurance plan. However, it is possible to apply for optional insurance by completing the [Form 1574A – Optional Insurance Request/Change](#).

Rates

WSIB premiums vary based on the risks associated with each industry. The WSIB website presents the various [premiums](#) per \$100 of annual insurable earnings by industry.

Registration

Registration can be made at the same time as the registration for the business number (see Chapter 1). If the WSIB registration was not made at the time of the business number registration, it is possible to register for the WSIB account by completing the [Form 0775A – Employer's Registration](#). The form must be printed, signed and submitted to:

By Mail

Workplace Safety and Insurance Board
180 Kent Street, Suite 400
Ottawa, ON K1P 0B6

By Fax

613-239-3321

The following information should be readily available before registration.

Company Information

- Account number of any prior registered accounts with WSIB
- Legal name of company and trade name(s)
- Copy of Articles of Incorporation or business registration form
- CRA Business Number
- Employer Health Tax number
- Bank name and branch
- Address, phone & fax number of each operating location
- Dates workers first employed
- The number of workers
- The estimated insurable earnings for the current year
- Name and Address of any associated employers/contractors, plus any account numbers, if possible
- Any associated employers
- Name of competitors to verify accuracy of classification

Owner/Executive Details

- Name of Directors or Owner of the Company
- Address of the Director/Owner
- Birth date of Director/Owner
- Social Insurance Number
- Official Business Title
- Proof of earnings (if requesting optional insurance)

Reporting Period and Filing Deadlines

Remittances due dates are based on the business' annual insurable earnings. The annual insurable earnings represent the total gross income of each employee (including bonuses and commissions) up to a maximum of \$74,600 per employee.

Businesses with annual insurable earnings of less than \$20,000, may report to the WSIB on a yearly basis (based on calendar year) and premiums will be due on April 30th.

Businesses with annual insurable earnings of \$20,000 to \$299,999 will need to report to the WSIB on a quarterly basis (in accordance with the calendar year) and the premiums will be due at the end of the month following the end of the quarter.

Businesses with annual insurable earnings of \$300,000 and more will need to report to the WSIB on a monthly basis and the premiums will be due at the end of the following month.

At the end of each calendar year, businesses reporting their premiums on a monthly basis are requested to complete the [Form 1009A - Reconciliation Form](#) to ensure the annual insurable earnings have been reported accurately and all the premiums were paid. This form can also be requested, at the discretion of the WSIB, to businesses with reporting periods other than monthly.

Employer Health Tax (EHT)

EHT is a payroll tax paid by the employer on the total annual remuneration paid to the employees who either reported for work at a permanent establishment in Ontario or were paid from or through a permanent establishment in Ontario. EHT is administered by the Ontario government.

To register or not to register... that is the question!

Employers are exempt from paying EHT on the first \$400,000 of the annual remuneration. Therefore, an eligible employer with annual remuneration below the \$400,000 threshold is not required to register for, and not subject to, EHT. However, the exemption must be shared with associated corporations and must also be prorated for the first and last year in business. Employers who are associated with other corporations, individuals, partnerships or trusts must register for EHT even if the total annual remuneration of the associated group is less than the \$400,000 threshold. These businesses must also complete the Associated Employers Exemption Allocation Schedule annually.

Rates

The EHT tax rates are as follows:

<u>Annual Gross Total Ontario Remuneration</u>	<u>Rate</u>
• Up to \$200,000	0.98%
• From \$200,000 to \$230,000	1.101%
• From \$230,000 to \$260,000	1.223%
• From \$260,000 to \$290,000	1.344%
• From \$290,000 to \$320,000	1.465%
• From \$320,000 to \$350,000	1.586%
• From \$350,000 to \$380,000	1.708%
• From \$380,000 to \$400,000	1.829%
• Over \$400,000	1.95%

The tax rate for an employer is based on the total annual Ontario remuneration before deducting the tax exemption. Therefore, if an eligible employer has a total annual remuneration of \$550,000, EHT would be paid on \$150,000 at a rate of 1.95%. On the other hand, if an eligible employer part of an associated group has a total annual remuneration of \$300,000 and is allocated half of the exemption, EHT would be paid on \$100,000 at a rate of 1.465%.

Registration

Registration can be made at the same time as the registration for the business number (see Chapter 1). If the EHT registration was not made at the time of the business number registration, it is possible to register for the EHT through the Business Registration Online ([BRO](#)) website or by contacting the Ministry of Revenue's tax office:

Ottawa Tax Office
1400 Blair Place, Suite 300
Ottawa, ON K1J 9B8
1-866-668-8297

Reporting Period

The EHT return is filed annually. Employers with annual remuneration of \$600,000 or less can remit the EHT payment once per year with the annual return. However, employers with annual remuneration in excess of \$600,000 are required to remit monthly instalments. The instalments are calculated using the actual payroll for the month and the tax rate based on the prior year's remuneration. Monthly instalments are due on the 15th day of the following month.

Filing Deadlines

The annual return must be filed by March 15th of the following calendar year in order to avoid penalties and interest.

CHAPTER 5 – BOOKKEEPING

Recording the business's transactions on a regular basis is a key factor for success. Once the bookkeeping is complete and the accounts have been reconciled, reports can be obtained which provide relevant information for managing the business. The information can be used to assess the performance of the business or of some of its components or specific business segments. It can also be critical when making important decisions. Timely and accurate financial records will provide your business with increased credibility in many situations, such as when attracting new investors, obtaining financing or selling the business. The reports are also very useful when completing the various returns required by the CRA, the Ministry of Revenue or the WSIB. In doing so, your business can spare itself unnecessary interest charges and penalties.

A variety of accounting software packages are available in order to help small businesses with their bookkeeping needs. This guide will provide information on the most commonly used software for small businesses – QuickBooks and Simply Accounting.

QuickBooks (www.quickbooks.intuit.ca)

Why QuickBooks Small Business Financial Software?

Spend less time on accounting, more time on your business.

We help you do your small business finances-quickly, easily and accurately - with familiar forms and easy-to-understand language. [Learn more about QuickBooks products](#)

Made for small – and larger – businesses

Not all accounting software is right for all businesses. That's why QuickBooks offers 4 different products – and industry-specific editions – to suit the varied needs of small businesses and make it easy to upgrade.



EasyStart: Just the essentials – for new & home-based businesses

Pro: Standard accounting & business tools to organize your business finances with ease

Premier: Comprehensive financial management & business planning tools

Enterprise Solutions: Extra capacity & scalability – with up to 20 users – for larger, growing businesses

Accurate & easy - no accounting experience required

QuickBooks uses familiar forms - not complex journal entries - to make it easier for you to switch from manual bookkeeping to QuickBooks. And because QuickBooks does the calculations for you & reduces data-entry, you can trust that your financial records are accurate.

Step-by-step approach walks you through critical tasks - including set-up

60-day money-back guarantee²





Great features in QuickBooks

With customizable forms & lists and Google Desktop™ search, QuickBooks 2010 includes great features to simplify your everyday accounting tasks.

More tools to help you manage your finances

Do more work faster with these features in QuickBooks Pro and QuickBooks Premier.

Home Page: Now you're never more than 2 clicks away from your everyday accounting tasks



3 Centres: Quickly access your customer, vendor & employee information

EasyStep Interview: Get up and running quickly

Saves you time & money on Payroll

QuickBooks Payroll lets you pay your employees in 3 easy steps. Add Payroll to QuickBooks Pro or Premier 2010 or Enterprise Solutions today – and do your payroll in-house with confidence.



NEW! Supports Québec Health Services Fund and Commission des Normes du Travail tracking for Québec payroll.

[Learn more about QuickBooks Payroll](#)

[Order online](#) or call **1 888 333-8580** to add Payroll to your Quickbooks today

Note: QuickBooks Payroll is not for QuickBooks EasyStart.

*If you're not satisfied, return it to Intuit Canada within 60 days-along with a dated receipt-for a refund on your purchase price.

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Simply Accounting (www.simplyaccounting.ca)

Choose the Simply Accounting solution that's the right fit for you and your business.

- **First Step**
Simply Accounting by Sage First Step 2010 helps small businesses start their accounting quickly and easily. It is easy to use and setup is simple.
- **Pro**
Simply Accounting by Sage Pro 2010 accelerates your business with professional accounting and management tools. Easy to use, it handles all your business processes efficiently.
- **Premium**
Simply Accounting by Sage Premium 2010 maximizes growth potential with advanced accounting and sales analysis tools to help businesses make fast, informed decisions.
- **Enterprise**
Simply Accounting by Sage Enterprise 2010, 5- or 10-User helps established businesses boost productivity. Features include multi-user capability, role-based security settings, and serialized inventory.
- **Accountants' Edition**
Simply Accounting by Sage Accountants' Edition 2010 is a comprehensive, multi-user accounting solution for accountants whose clients use Simply Accounting. It is fully compatible with all editions of Simply Accounting 2010, and offers advanced flexibility and tools designed specifically for accounting professionals, including the ability to simultaneously access and edit data with clients.



As your business grows, other accounting software may become better-suited to your needs, including:

- Accpac (www.accpac.com)
- Great Plains (Microsoft Dynamics GP) (www.2020software.com)
- Acoma (www.groupefortune1000.com)

Technical Support

Technical support for the software is available directly through the software providers. Support for the software can also be obtained through accredited suppliers such as Logan Katz LLP.

CHAPTER 6 – BANKING

Before going into business, it is important to make sure the required financing is available and the various accounts have been set up.

Bank account

Regardless of the structure of the business, a separate bank account should be set up in the name of the business. The separate bank account used for the transactions of the business ensures proper segregation of the business' affairs from personal transactions.

Similarly, corporate credit cards will help achieve a proper segregation of the business' affairs from personal transactions.

Internet access or internet banking can prove to be extremely efficient tools.

Business Plan

Another key element in the success of a business is a sound business plan. A business plan is simply a summary of the business concept, the objectives of the business, the resources required in order to meet the objectives, and the options available to obtain the required resources. The plan should also include an analysis of the demand for the products or services offered, along with a description of the competitive environment the business will face. By reviewing what the market needs are and which competitor(s) is(are) trying to meet these needs, the business will be able to tailor itself to place of choice in the market and therefore improve its chances of success.

According to the [Canada Business Service Centre](#), a business plan usually includes the following sections:

- An Executive Summary which summarizes key points of the business plan in one or two pages;
- An overview which introduces the reader to the business;
- A description of the products and services;
- An overview of the industry in which the business will compete;
- A marketing strategy which summarizes the product, promotion, pricing, and distribution strategies of the business;
- A description of the management and staff;
- An implementation plan; and
- A financial plan that includes pro-forma balance sheets, income statements and cash flow statements. A balance sheet compares what your business owns to what it owes. A cash flow statement compares how much money will be coming in to how much you will be spending. An income statement compares your revenues to your expenses to see if you are going to earn income.

Such a business plan will help identify the possible cash flow requirements in order to start up the business.

In order to help the new entrepreneur prepare a business plan, the Canada Business Service Centre offers a computer software program – the Interactive Business Planner ([the IBP](#)) – which guides you in preparing a three year business plan.

Financing

The business plan will also be used by the banker in order to determine if a line of credit, a loan or even a mortgage will be granted to the business along with the various terms associated with the financing options.

Other services

Financial institutions can offer much more than financing to small businesses. In fact, most institutions provide efficient payroll services which reduce the administrative and accounting burden the entrepreneur would otherwise need to address. These services also ensure all changes to payroll legislation are properly reflected and all necessary filing requirements are made on a timely basis therefore avoiding undesired interest charges and penalties.

Some institutions also offer, through third party service providers, human resources management systems, and automated time and management solutions which enable businesses to track the hours worked.

CHAPTER 7 – DO-IT-YOURSELF? NOT NECESSARILY!

Starting your own business can be fairly overwhelming due to the number of issues to consider and the various registrations which are required. In doing so – before you start and after you are set up – surrounding yourself with a strong team of professionals will alleviate your task, ensure that no details are forgotten, and most importantly, let you focus your energy on what you do best – running your business!

Accountants

Accountants can be very helpful in setting up a proper chart of accounts for your business by using the software of your choice. Once the books have been set up, they can also perform the bookkeeping of the daily transactions, including payment of suppliers' invoices and deposit of funds received, and the preparation of the various monthly reporting and remittances as discussed in earlier chapters.

Accountants can also be involved after the fiscal year end of the business in order to prepare the financial statements of the business along with the required income tax filings.

Lawyers

It may be desirable to have a corporate lawyer involved in the legal setup of the business, regardless of the structure. Lawyers can rapidly complete the incorporation documents under an optimum share ownership structure, and assist in the drafting of a comprehensive shareholders' or partnership agreement, as required. In doing so, you may be avoiding future headaches and unexpected costs; for example, in the case of a reorganization.

Once the business is setup, a corporate lawyer can provide added value by reviewing contracts or leases the business might consider.

A lawyer who specializes in employment law can provide critical advice during the hiring or termination of employees or in the resolution of conflicts with employees.

With respect to intellectual property, lawyers should be involved if the business develops new products in order to protect the rights to the products and prevent them from being copied.

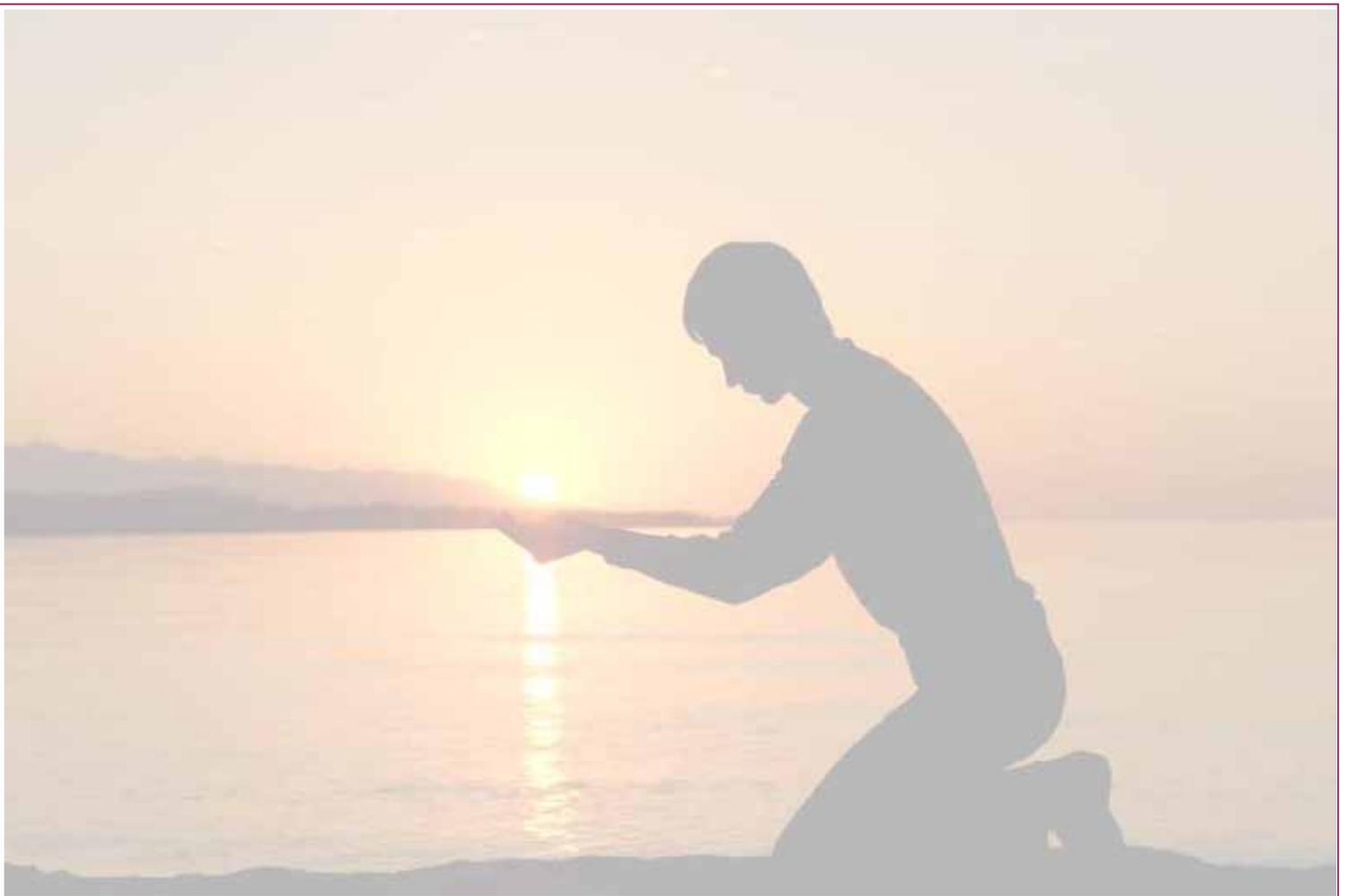
Financial planners

Other important issues which should be considered when starting a business are adequate life or disability insurance. Although we like to think that we are invincible, it is important to ensure financial security should anything happen to the main entrepreneur. Financial planners are qualified to determine the optimum level of insurance required and to suggest the best type of insurance. They may also provide invaluable investment strategies for you and your family.

Payroll Service Providers

If you decide to perform all the bookkeeping duties yourself, it is possible to contract third party service providers to calculate and manage the payroll function. As discussed earlier, payroll is likely the most difficult account to manage due to the ever changing legislation and the complexities of the specific calculations required for each employee. These services are offered through most banks or through service agencies such as Ceridian and ADP.

If you decide to manage the payroll account yourself, it is possible to use the services of a third party in order to facilitate the payments to the employees. With this service, payments are made electronically, thereby limiting the number of cheques processed in a month. These services can also be used to pay any suppliers. Such services are offered by most banks or through service agencies such as TelPay.



CONCLUSION – YOU'RE GOOD TO GO!

We hope you have found this to be a useful and user-friendly tool for you and your business. Please do not hesitate to let us know how we can make it even better, even more useful. That's what we're here for!

Now, we wish you luck, success and most importantly, lots and lots of fun, in realizing your dreams and enhancing your and your family's well-being.

Disclaimer

This guide has been prepared in order to provide general information and is not intended to be a substitute for professional advice. Readers are strongly encouraged to contact their professional advisors for specific questions. The information contained in this document is from the various sources identified on page 28 as of January 2010.

BIBLIOGRAPHY AND USEFUL INTERNET LINKS

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Canada Revenue Agency	www.cra-arc.gc.ca
Canada-Ontario Business Service Centre	http://www.cobsc.org/
Ceridian Corporation (payroll service)	www.ceridian.com
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