Taxing Tricks

big money *How a $1 pen can cost you a buck and a half.* *By Scott Taylor*

If there's one very simple thing you can do every day to put yourself in the best possible position to take advantage of tax rules, it's be diligent about collecting receipts and other source documents.

Source documents, according to the Canada Revenue Agency, represent the "proof of transactions"—sales invoices, purchase receipts, contracts, guarantees, bank deposit slips, and cancelled cheques. They also include cash register slips and credit card receipts, purchase orders, work orders, delivery slips, emails, and general correspondence in support of the transaction.

A receipt can be as worthless as a wadded up piece of paper or it can save you hard-earned money. How? An example we use around our office is the $1 pen that actually costs you a buck and a half.

Without the receipt, you won't be entitled to a refund on the GST/HST you paid. That's 7 to 15 cents right there. You also can't claim the pen as a business expense against your gross income, so you'll pay income tax on the dollar you paid for the pen. If your taxable income is $40,000, that amounts to 30 cents (at a 30 percent marginal income tax rate) plus an increased CPP of 5 cents.

So now that cheap pen actually cost you $1.42 to $1.50: the 35 cents in income tax and CPP, the lost GST/HST refund, plus the actual cost of the item. Sole proprietor or incorporated owner-operator, the result is the same: that receipt is a valuable little ticket.

Any mistake or missed opportunity can be very expensive.

Another way to avoid paying extra tax is to stay on top of the continuously changing tax rules.

Taxes are supposed to be one of the only certainties in life, but the fact is there's little conclusiveness about them. Tax rules change continually, and it's hard to keep up when you're an owner-operator with one eye on the highway and the other on your fuel bill. (That's why you hire an accountant.)

> By the way, these deduction limits don't apply to incorporated owner-operators. Another advantage to incorporating.

Recently, one of those changes involves how you expense your health-benefit premiums. Previously, you could include your health benefit premiums directly on your tax return as a medical expense. Now you can expense this cost directly on your business income statement.

This translates into quite a bit of a tax savings. The medical expense deduction is reduced by 3 percent of your net income. This carve-out greatly reduces the deduction and often, unfortunately, prevents any sort of claim. Now you get to expense 100 percent of the cost, therefore you get to save tax every year on this deduction.

Be careful, though. With everything on your tax return, there are a few rules and guidelines to follow.

Your benefit premium likely includes life and disability insurance. If so, the amounts included in your monthly payment for these should be backed out. Additionally, there are rules capping the amount of the expense you can write off for yourself, your spouse, and children. The maximum annual claim for the non-incorporated client, spouse, and each household member over 18 at the beginning of the period is $1,500. The claim is $750 each for younger members. Any undeducted or excess premium can then be included in the calculation of non-refundable medical expense tax credit.

Also, if you have employees you must balance the coverage and expense you pay for them with the coverage and expense for you. And by the way, these deduction limits don't apply to incorporated owner-operators. Another small potential advantage to incorporating your business.

A change like this is a reminder that every time you miss an expense item, or you don't take advantage of an entire expense type or category, the cost to you is much more than the original cost.

Your accountant should be able to identify these and other changes for you on an ongoing basis. ▲

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