TAX TALK

Three questions, two answers

Tax Talk

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It's early March as I write this column. The RRSP deadline is behind us, personal income tax season is straight ahead. It's a busy time full of questions from clients. We get a lot of the same ones every year. But a few new questions came up that I want to share:

Do I report my Ontario SBTSP payment?

If you're an owner/operator in Ontario, you probably got a Small Business Transition Support Payment (SBTSP) cheque last November.

SBTSP is a one-time payment from the Ontario government to help small businesses offset the cost of changes in accounting and administration necessary to collect Harmonized Sales Tax (HST came into effect on July 1, 2010).

The Ontario government mailed cheques ranging from $300 to $1,000 to all active GST/HST business registrants (the amount you received is based on your gross income).

What they did not say clearly is that the SBTSP payment is taxable. Be sure to add it to your 2010 gross income when you file your tax return (April 30 for sole proprietors).

If you started a new business late in 2009 or early 2010, it's possible that you have not yet been sent your payment. It seems the government wants you to be in business for 12 months before they send you this money.

If that's the case with you, report it with your 2011 gross income presuming you get your SBTSP by the end of the year.

Is there a cheap way to incorporate?

With the deduction for meal claims rising to 80% (finally), 2011 is a great year for owner/operators to incorporate. I talked about this in my December 2010 column and even went so far as to state that you can call me to discuss it if you're not getting the information you need from your own accountant. I'm happy to say that quite a few of you took me up on my offer.

But now a word of caution. Some firms are offering to set up a corporation for cheap or even for free when you commit to using other services. They keep the price low by incorporating clients federally, since the upfront cost is typically less than incorporating provincially ($200 versus $350 for most provinces).

Short term, it is less expensive to set up a federal corporation. However, there are two problems here.

First, federal incorporation will cost more over time. A federal corporation is required to file an annual information return with Industry Canada (a $20 fee). Additionally, it must register (and, in many cases, pay a fee) with the province where its head office is established. For example, New Brunswick charges $212. In Manitoba, the fee is $300. Taking all those additional fees into account, it may be less expensive to register your corporation with your home province.

Second, where you incorporate is one item on a long list of things to consider before you make that leap. A qualified accountant or business advisor should discuss the pros and cons of incorporating federally and provincially so you can choose what's best for you.

If you only want to incorporate because you can get a cut-rate deal on the filing fee, then keep your money in your jeans until you've done some more homework. In the long run, incorporating can help you protect personal assets, reduce your tax obligation, and kick-start a real strategy for managing and growing your business. Keeping registration fees low is important, but it shouldn't be your primary motivation for incorporating.

What's happening with GST/HST audits?

Unlike the first two questions, I wish I had an answer for this one, except to say that Canada Revenue Agency is taking a giant step backward.

CRA produces a quarterly newsletter called *Excise and GST/HST News*. The Winter 2011 edition contains an item under this headline: "An Enhanced Focus on GST/HST Compliance."

The article states that instead of one audit covering both income tax and GST/HST, auditors will now do single tax audits. In other words, the person reviewing your GST/HST return will not identify or fix any discrepancies on your income tax return. That job will be handled by a separate auditor.

"This allows auditors and their managers to develop more in-depth knowledge and expertise in their area," the newsletter says.

Are you kidding? "More in-depth knowledge?"

Can you imagine spending the time and effort to go through a GST/HST audit and then having to wait months for a second auditor to show up to address discrepancies on your income tax return?

Large national and international corporations have complicated returns that require expertise. But it's just not appropriate for a small business to have to endure two audits because the GST auditor disallowed an expense that the income tax auditor now has to review.

I may not have all the answers, but I do know this: GST/HST has been around long enough that auditors should have a grasp of it by now. □

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