

TAX TALK

Plan ahead and make adjustments to improve 2010 tax year

We are two-thirds of the way through 2010 and it is a good time to review your compensation package from your business and to look at making some payments to CRA for your 2010 income.

Hopefully you have finished paying any remaining 2009 taxes by now.

I know it's not easy, but paying your taxes as you go through the year will save you money by avoiding CRA interest charges.

CRA always reviews tax returns at this time of year in what they call their "matching" process. When they receive tax returns in tax season, they just check the basics. At this time of the year the computers are running day and night comparing tax slips filed by preparers (banks, employers, investments companies, etc.) to individuals' tax returns by matching to everyone's SIN.



Tax Talk

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They will also look at specific lines used on tax returns and have special targets each year.

Two lines that always seem to be on the list are 'self-employed income' and 'other income.' The reason is simple: they are looking for extra CPP to be paid.

Auditors scan tax returns with self-employed income and use your SIN to find a matching business number registration.

If they don't find one, you're going to get a call or letter and they'll be especially interested in your GST/HST administration.

Remember, if you have more than \$30,000 in self-employed

income, your business must be registered for GST/HST.

For those of you with incorporated businesses, it may be time to review your compensation mix of salary vs. dividend. As we all keep getting older, our concerns and goals change.

The compensation plan you set a few years ago may need to be altered to reflect that you are just ever so much closer to retirement.

Canada Pension Plan: The amount you pay into the Canada Pension Plan is based on your employment earnings.

If you're self-employed, it's based on net business income after expenses. Dividends and other investment incomes are not considered.

The less you earn, the less you're obligated to pay into the plan. At \$40,000 a year, your total

CPP contribution is \$3,613.50. At \$16,000 it's \$1,237.50. That's a difference of \$2,376 a year.

The CPP uses your contributions to determine whether you or your family are eligible for monthly benefits when you retire. Normally, the more you earn and contribute to the CPP over the years, the higher the retirement benefit will be.

How far away are you from retirement? How much are you counting on CPP for your retirement income? What about survivor benefits for your family? CPP not only supplies retirement income but also pays pension income to your spouse and kids should you die.

So while a lower annual salary may reduce your CPP obligation, the less you put in, the less you'll get out of it.

Registered Retirement Savings

Plan: An RRSP is not just a retirement plan, it's an important part of tax planning. Annual RRSP contributions are limited to 18% of your income. At \$16,000, your annual contribution limit is \$2,880 each year versus \$7,200 with a \$40,000 income.

Once again, are you close to retirement? If you are five to 10 years away, curtailing your ability to contribute to your RRSP may not be a good option.

Borrowing power: "Debt servicing" is the term financial institutions use to define the ratio of how much money you pay to lenders versus the total income you have available. Most financial institutions will not recognize and include dividends as part of your income.

Obviously, the higher your employment or self-employment income is, the easier it will be to get approved for a line of credit, mortgage, or personal loan that you want.

Income replacement: You probably have insurance through your business or carrier for workers' compensation or some other form of disability insurance.

Once again, benefits are based on your annual salary.

At a reduced employment or self-employed income, you would be paid much less should you make a claim.

With all the hub-bub about CPP needing to increase their rates, it may be timely to review what you already have contributed. You can go online at www.servicecanada.gc.ca to order or view and print your CPP Statement of Contributions.

Your Statement of Contributions contains a history of your earnings and contributions to the CPP, as well as estimates for any CPP benefits you may be eligible to receive. □

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