

Tax Talk

It's not too early to think about your year-end

Use flexibility in determining your year-end date to your advantage

When you incorporate your business, you have to decide on a year-end date within the first 12 months. It does not have to coincide with your corporate anniversary, nor with the end of the calendar year. You have some flexibility here, so take advantage of it.

An ideal year-end date really has more to do with business cycles, which can vary from company to company. Businesses that manage a lot of inventory may want a year-end that corresponds with the end of their busy season, presumably when inventory is low and closing the books is generally simpler.

Taxes

Income taxes are another consideration. Having a year-end in the second half of the calendar year can allow your corporation to expense a deferred management bonus in one corporate year. It can pay you the bonus in the next calendar year, which would allow you to postpone claiming it personally and paying tax.

Here's how that might work: Let's say your company declares a \$10,000 bonus to you on July 31, 2017. It has until the end of January 2018 to actually pay it.

When you go into business for yourself, there are so many variables that are out of your control. Choosing your corporate year-end is not one of them.

This is where the tax deferral comes into play.

The corporation gets to expense the bonus on its July 2017 tax filing and will save corporate taxes that are due October 2017. Meanwhile, as an employee of your company, you declare your income when you receive it. Since you'll receive the bonus in January 2018, you can put off paying Canada Revenue Agency (CRA) a couple thousand dollars until April 2019 when you file your 2018 personal income tax return instead of paying it in October 2017.

You can even play this game when you first incorporate, and maybe it's a reason to do so if you need to clean up on your personal taxes.

If you owe CRA a lot of money from past filings and your 2016 filing, and you incorporate now, your sole proprietor income from January to July 2017 can be all you report on your 2017 tax return. You can push the remaining five months onto your 2018 tax filing and possibly not pay taxes until 2019. It doesn't

make your tax obligation go away but you'll have time to catch up on your tax bills.

Scheduling

Another consideration when you choose your year-end is the availability of your accountant or tax preparer. Aligning year-end work with your accountant's slow period can mean better service and a quicker turnaround.

Here are some facts to think about, and I believe my stats are similar to the industry at large: We have hundreds of corporate clients. Despite our best efforts to encourage them to choose a year-end date that makes sense in terms of their

business cycle, 25% just stick with the traditional December year-end. It's ridiculously out of proportion.

A December year-end means paying your corporate taxes by March 31 – right in the middle of personal income tax season.

Let's say you have a July year-end. Taxes are due Oct. 31 and the corporate tax return can be filed as late as Jan. 31. So, when do you have more time? What about your tax preparer? Are you more likely to talk tax planning in March or October? Do you want your corporate taxes filed in June along with 25% of all businesses or in October with approximately 7% of all businesses?



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When you go into business for yourself, there are so many variables that are out of your control. Choosing your corporate year-end is not one of them. If you've incorporated recently, or you're thinking about it, talk to your accountant about a year-end date that works for both the business and for you personally. **TN**