Tax Talk

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Sometimes, timing is everything

There are nearly 200 days until the deadline to file your personal income tax return. It feels like it's a long way off – heck, it's not even Christmas yet. But whether you operate one truck or a small fleet you should take time now to minimize the tax you owe.

While everyone traditionally circles Apr. 30 on their calendar, for most the more pressing deadline of Dec. 31 is just three months away.

Dec. 31 is the deadline for personal deductions.

If you are a sole proprietor, then it is also an important deadline for business decisions.

If you are incorporated, then your business year-end date is also a critical deadline.

Planning ahead

Effective tax planning requires a three- to six-month cushion so you have time to take advantage of every opportunity for tax savings.

Right now, we're reviewing our clients' first nine months of operation and preparing tax estimates so they can have peace of mind and adequate cash flow when their returns are due.

For example, there's a rule of thumb in accounting that says the best time to acquire new equipment is at the end of your tax year. It's generally true, as long as you're financing the vehicle with a loan and not a lease.

Instead of circling a date on a calendar and scrambling to fill out your returns, insist on sessions with your accountant throughout the year.

That's because CRA lets you expense a half-year's depreciation on the asset purchase even though you may have only owned it for a month or two.

Since CRA allows a 20% depreciation expense during a truck's first year, that's a good chunk of change on a new vehicle. You could be writing off far more than you actually paid out during the short time you've had it.Leasing a new asset close to year-end doesn't offer the same tax-related benefit.

That big initial lease payment is considered to be a pre-paid deposit which you cannot expense all at once. You have to divide the deposit by the number of months in your lease contract and expense that amount each month in addition to your regular lease payment.

People in trucking tend to use the words "buying" and "leasing" interchangeably. If your accountant advises you to buy a new truck, don't go out and lease one. Purchasing and leasing have totally different effects on your tax planning.

No surprises

Even the timing of a medical expense can be a tax-planning issue.

Medical expenses are deductible when they're paid, not incurred. Plus, there is a medical expense cap that allows you to only claim expenses greater than 3% of your net annual income.

If your kid needs braces it may be better to do it now and pay as much of it as you can before Dec. 31 in order to make sure your medical expense exceeds that 3% threshold.

Paying a portion this year and another next year may mean that as a percentage of your income your medical expense is too low to qualify for a tax deduction.

The opposite is true for business expenses.

Business expenses are deductible based on the invoice date, not when they are paid.

If you have tires to be replaced or other pending repair work doing so before Dec. 31 can save you money now. Spending $3,000 on tires before December could save you $900 in tax this April.

Buying those tires in February will delay your tax savings to April 2018.

Put your refund to work

Want to make a great start toward paying your 2016 taxes? Set aside your GST/HST refund from July to September and October to December as income tax payments.

Your GST/HST refunds can be deposited into a separate bank account from your business account. This will ensure it doesn't get lost in your everyday business activities. Nobody likes the surprise of a big tax bill.

Instead of circling a date on a calendar and scrambling to fill out your returns, insist on sessions with your accountant throughout the year so you can plan, prepare, and budget for Apr. 30 but for Dec. 31 as well.

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