
# THE INS AND OUTS OF RUNNING YOUR OWN BUSINESS

Small business owners know that once you've actually taken the plunge and started your own business, the hard work has just begun. Not unreasonably, business owners want to put their time and energy into growing the business, and not into meeting the seemingly endless administrative and tax paperwork burden imposed by various levels of government bureaucracy. Many owner-managers are happy to delegate the day-to-day responsibility for such distractions to their book-keeper, accountant or lawyer, and there's nothing wrong with that strategy. However, at the end of the day it's your business, and becoming familiar, at least in a general way, with the administrative and filing obligations that affect you every day is part and parcel of running (and growing) that business.

Wolters Kluwer

## Do I need a business number?

In a word, yes. The business number (BN) is the catch-all 9-digit identifier by which the federal government knows your business. There are actually two parts to the BN: the nine digit number which identifies your business and is used for all your accounts, followed by a two letter and four digit code which identifies a particular account belonging to your business. As you'll use your BN in virtually all your dealings with the federal government – for goods and services tax, payroll remittances and import/export – it's quite possible for a business to have several different accounts under the same 9-digit BN. The Canada Revenue Agency (CRA) makes it relatively easy to get a BN – there are procedures in place which allow you to set up the BN with a phone call, in person, by mail or by fax. You can also register on-line at www.businessregistration.gc.ca. The CRA also publishes a guide called *The Business Number and Your Canada Revenue Agency Accounts* (RC2). Like almost all CRA publications, it's available on their web site at www.cra-arc.gc.ca/formspubs/menu-eng.html.

## Keeping track—what's due when?

When you're the owner of an unincorporated small business, the income of the business is considered to be your individual income and is reported on your personal tax return. Therefore, the income tax filing deadlines for the business are your personal tax deadlines. And, as a small business owner you often have to worry about filing and/or payment deadlines in three areas: income tax, goods and services tax and employer payroll remittances.

## Income tax deadlines

The first thing to know about the taxation of your business is that, in most cases, your business year-end will be December 31, and the fiscal year of the business will therefore correspond to the calendar year.

As a self-employed taxpayer, you and your spouse do get to file your annual tax returns a little later than most Canadians. The filing deadline for self-employed taxpayers (and their spouses) is June 15 of the following year. If June 15 falls on a weekend, the filing deadline is the next business day. However, there's a catch; the extension to June 15 is for filing purposes only – any final balance of taxes owed on filing is still due by April 30 – and a tax balance unpaid as of that date will begin to accumulate interest charges immediately. As a practical matter, it is usually necessary to complete your return in order to determine whether you owe any final balance, so in most cases, your return will in any case be ready for filing by April 30.

When you do file your return, it will in most respects look like the same return you filed before you became a business owner. The major difference is that you will now be required to prepare and file Form T2124, *Statement of Business Activities*. As the name implies, this is the form on which you report all of the income and claim all of the deductions available to your business. The amount of "net income" on line 9946 of Form T2124 is then carried over to line 137 of your personal return. Here, it is combined with income you may have received from any other source (i.e., investment income, employment income from a part-time job, etc.,) in the calculation of your income, and ultimately, your tax liability.

If you worked as an employee prior to starting your business, or if you continue to hold down a part-time job while your business gets off the ground, you will be accustomed to having your employer withhold tax at source from your earnings and remit it to the CRA on your behalf. Of course, no one is withholding or remitting any income tax payable on your business income, and the tax authorities are not prepared to wait until April 30 of the following year for any tax you might owe for a particular year. What that means is that you will likely be making instalment payments of tax four times a year: on March 15, June 15, September 15 and December 15. The CRA will advise you if you are obliged to pay tax by instalments, and will provide you with an amount.

When you receive such an instalment notice, you have a few options. While the CRA will have specified an amount on the notice, you are not obliged to pay the amount specified. You can pay any amount you choose, or none at all. If you pay the amount calculated by the CRA, by each of the four instalment due dates, then even if the total of those instalments turns out to be less than your actual tax payable for the year, you won't be charged interest or penalty on any shortfall. If you think that the tax instalment amounts calculated


by the CRA are more than your actual tax liability for the year will be, you can reduce the amount of your instalments. If there is a deficiency in the instalment amounts that you paid, you will be charged instalment interest. It's also worth noting that interest on late or deficient instalments is charged by the CRA at a rate at least as high as current commercial rates, and such interest charges are compounded daily.

## Goods and services tax deadlines

Businesses whose total sales are less than $30,000 per year, or in any single calendar quarter, generally do not have to register for GST purposes, while those with annual sales in excess of that amount are required to. Therefore, unless you are the owner of a very small business, you will need to deal with the collection and remittance of goods and services tax, and, unlikely as it sounds, you may want to. Whether you are a GST registrant or not, you have to pay GST on goods and services that you purchase for your business. However, only those businesses which have registered for GST may claim the input tax credits which allow them to recover some of the GST which they have paid.

### *GST returns filing*

Once you've become a GST registrant, you will be required to file a GST return and you may be required to make instalment payments of GST and to file a GST return. The frequency with which you must file your returns depends on the amount of "annual taxable supplies" attributable to your business. The chart below outlines the GST reporting periods.

| Annual Taxable Supplies | Assigned Reporting Period | Optional Reporting Period |
|---|---|---|
| $1.5 million or less | Annual | Monthly or Quarterly |
| More than $1.5 million; up to $6 million | Quarterly | Monthly |
| More than $6 million | Monthly | Nil |

If your reporting period is monthly or quarterly, you have to file your GST return (and remit any amount owing) within one month after the end of your reporting period. Hence, a business owner having a calendar year fiscal year who reports quarterly would be required to file a GST return and remit GST owing on April 30 (for the January 1-March 31 period), on July 31 (for the April 1-June 30 period), October 31 (for the July 1-September 30 period) and January 31 (for the October 1-December 31 period). If your reporting period is annual, then in most cases you must file your GST return within three months after your year-end and pay any final GST balance owing by that date.

However, owners of unincorporated businesses which have a calendar year fiscal year and whose reporting period is annual, have until June 15 to file their return. Notwithstanding, as is the case with income tax, any final balance owing is due April 30 and interest charges will start to accrue on any amounts unpaid as of that date.

### *GST instalments*

GST registrants who are annual filers and whose net tax in a year is $3,000 or more are required to make instalment payments of tax the following year. Like income tax instalments, GST instalments are paid quarterly, but the due dates are different. GST instalments are due by the end of the month following the last day of a fiscal quarter. So, a business owner whose business has a December 31 year-end, will have to make instalment payments on April 30, July 31, October 31 and January 31.

## Employer payroll remittances

If your business employs anyone (including family members), as an employer you are obliged to withhold certain statutory deductions from their wages or salaries and remit those amounts to the federal government, along with your employer's contribution (where that is required).

Statutory deductions generally fall into three categories: income tax, employment insurance premiums, and Canada Pension Plan (CPP) contributions.

### *Income tax*

Income tax is the only statutory deduction which is paid entirely by the employee. The amount which must be withheld from an employee's salary or wages is prescribed by the tax authorities. The employer's obligation is to withhold the required amounts and remit them in their entirety to the federal government on behalf of the employees on a timely basis. The CRA publishes payroll deduction tables which indicate the required amounts, and those tables are also available from the Agency in a computerized version.

### *Employment insurance premiums*

Most Canadian employees pay into the employment insurance program and are therefore eligible to receive employment insurance benefits if they become unemployed. Like income tax, employment insurance premiums are deducted by the employer from an employee's wages or salary and remitted to the federal government. However, unlike income tax, the employer is also expected to make a contribution on the employee's behalf when it comes to employment insurance premiums.

The amount of employment insurance premiums payable by an employee is calculated as a percentage of income, to a specified maximum. For 2016, in all jurisdictions other than Quebec, the specified percentage for employees is 1.88%. The employer contribution on behalf of an employee is 2.632%, so that the total employment insurance premium for the employee is equal to 4.512% of wages or salary. The maximum employee contribution for 2016 is $955, while the maximum contribution to be made by an employer in respect of one employee is $1,377.

Many small business owners employ family members in the business, often in the early years of the business, and when it comes to employment insurance, the status of family employees is a grey area. The general rule is that family members employed in a family business are not engaged in insurable (that is, qualifying) employment. Consequently, no employment premiums need to be withheld or remitted on their behalf, and they would not, if unemployed, qualify to receive employment insurance benefits. However, the CRA's Guide for Canadian Small Businesses notes that such an employee can be in insurable employment if you, as the business owner, would have negotiated a similar contract with a person who was not your family member. If this is your situation, more information on making that determination can be found in the CRA's publication on Payroll Deductions (Basic Information), which is available on the Agency's Web site at www.cra-arc.gc.ca/tx/bsnss/tpcs/pyrll/menu-eng.html.

### *Canada Pension Plan contributions*

As with income tax and employment insurance premiums, contributions to the Canada Pension Plan are based on a specified percentage of the employee's wages. That percentage amount (to a statutory maximum) is withheld from those wages and remitted to the federal government on the employee's behalf by the employer. Once again,

the employer is expected to make a contribution on the employee's behalf, but here the contribution is exactly equal to that made by the employee.

For 2016, the specified percentage is 4.95% of income. Therefore, the employer is required to withhold and remit 4.95% of an employee's wages, and to match that amount, so that the total amount remitted to the federal government on behalf of a particular employee is equal to 9.9% of that employee's wages. The maximum amount which is payable by any employee for 2016 is $2,544, and the matching employer contribution is the same, for a total contribution of $5,088.

For self-employed taxpayers, there is an aspect to the CPP that should be remembered. If you own your own business, the income of the business is your income. You are obliged to remit CPP contributions on that net business income, and you are also required to pay both the employer and the employee portions of those contributions. In other words, if you earn $54,900 from your business, you must remit the maximum total contribution of $5,088 on your own behalf. As both the employer and the employee, you do not have to remit amounts on a monthly or quarterly basis. Rather, there is a provision made on your income tax return to calculate the amount of any CPP contributions owed on income from self-employment and that amount is remitted together with any final income balance owed.

## Remittance deadlines

Most employers are required to remit amounts withheld at source to the federal government on a monthly basis, with very large employers subject to more frequent remittance deadlines. However, as a small business owner, it may be possible for you to make the required remittances quarterly rather than monthly; if that is the case, the CRA will let you know.

## Conclusion

The owner of a new small business must sometimes feel as if most of his or her time is spent satisfying never-ending bureaucratic requirements. While it is true that, at least initially, there are registrations to be made, accounts to be set up and systems to be put in place, ongoing compliance with those bureaucratic requirements becomes a lot easier once that initial work is done. And, at that point, the small business owner can once again focus on the first priority – running (and growing) the business.