

It's your money. You've earned it. Now, how do you get at it AND keep it?

vol.1 edition 3

kmb notes

Unless you are one of those individuals who truly live to work, you are making an investment of your time; your energy, your creativity and your money to make money. Can you do anything more to improve the rate of return on the investment of yourself in your business? I say, "Yes, you definitely can and here is how you do it."

■ Improving The Rate of Return

Running a successful business requires the annual discipline of stepping back from the pressures of the day-to-day and taking stock, not just of the inventory, but of where the business is, where it is headed and what you are getting out of it.

If you were to do a full review of your business in three major categories you could determine if you are in fact maximizing your ROI and getting the most out of your business.

■ Day To Day Business Check Up

Have you reviewed with your advisors how the business runs day to day?

- Are you recovering all GST and PST credits from sales, returns of product and accounts receivable collections that the business is entitled to? There are numerous recovery firms whose sole activity is to recover money that businesses have not realized is theirs. There is enough in this recovery activity to put smiles on the faces of their customers and generate a good profit for the recovery firm. Are there leaks in your systems that your own staff, if they realized it, could recover and return to the business? How tight are your internal controls?
- Are you capturing all legitimate promotion expenses? Are you mixing up donating to the local charity golf tournament as a charitable donation when it could more effectively be a promotion/advertising expense?
- Is your business paying the appropriate level of Workers' Safety Insurance Board and Employment Insurance premiums?

- Is your financing arranged to ensure that you get the maximum interest deductibility?
- Would paying interest on shareholder loans make sense to further reduce your active business income and reduce your provincial payroll taxes?
- Are you managing your cash flow to avoid costly penalties and interest charges for late tax filings and remittances? The penalties start at 10% of the amount owed but increase if you are a repeat offender – going up to 50% of the amount due! One day after the due date is late and costs you the same penalty that you would get if you were 30 or 60 days late. Make sure your staff understand this and remittances are delivered when due! If you are late, on top of the penalty, there are interest charges. Prescribed interest rates may not look too bad when they are posted. The prescribed rate of interest for overdue tax instalments for this quarter is 7%, but the effective interest rate is higher than 7%. These interest rates are compounded daily and interest accrues from the date the payment was due. For example, interest will accrue and compound daily from March 15th of year 1 for an instalment payment, not April 30th of year 2 when your tax return for year 1 is due. The interest is not deductible by your corporation if it is late in paying its taxes and it is not deductible by you for your personal taxes. Non-deductible interest must be paid with tax paid dollars!

■ How Are You Paying Yourself?

- How do you pay yourself from the business? Do you have the appropriate salary/dividend mix coming out of the business?
- Have you considered different income splitting options available to you and your family?
- Are you making the maximum RRSP contributions annually?

- Have you made the one-time \$2,000 over-contribution to an RRSP?
- Are you going to be able to income split when you withdraw your RRSP by making spousal RRSP contributions that consider your different income levels now and in the future?
- Are you taking advantage of the 20% government grant matching on up to a \$2,000 contribution annually towards each of your children's post secondary schooling costs available through an RESP?
- Have you looked at making loans to family members at prescribed interest rates so those family members may invest and make a rate of return greater than the prescribed interest rate?
- Do you understand the benefits of an Individual Pension Plan and how it can assist you to finance your retirement?
- Are there legitimate opportunities for other family members to earn reasonable salaries for their contributions to the success of the business?
- Check your investment portfolio that is held outside your RRSP to ensure it is still appropriate. Interest income, dividends and capital gains are each taxed differently and should be considered when you are reviewing the other factors such as risk and liquidity in determining the rate of return.
- Is your personal debt structured with a view to increasing the interest deductibility of your debt?

■ Ownership Structure

- Are you using a holding company for creditor proofing and income splitting?
- Have you considered whether or not a family trust is of benefit to you?

- Do your shares in the business qualify for the \$500,000 lifetime capital gains exemption? If not, what can you do to fix that?

There are many ways to own your business, through shares directly in the operating company, using a holding company, using family trusts and through partnerships.

Considering how your business is structured and operating at the financial level will give you the assurance that you are in control of your business and that you have it structured to maximize the dollars that the business returns to you and your family.

■ It Will Pay You Back Directly

Doing this exercise annually is critical to ensuring that you are getting the most out of that key investment of YOU in the business and being someone who works to live, and live in a style that you have earned. It's your money. You should keep it!

■ Questions?

If you have any questions or comments regarding matters discussed in this newsletter, or you would like some assistance in developing strategies, please contact,

Mary Main marymain@kmbllaw.com
Direct line: 905.276.0433

Our practice is focused on the preservation of client wealth, and maximizing access to that value by each client. We work with individuals to retain and control the maximum personal return from their businesses, and ensure that money flowing through the company is doing so tax efficiently. Our group also provides guidance with estate planning, trusts, powers of attorney for personal care, powers of attorney for property and succession planning for business owners. **Please see www.kmbllaw.com.**

kmb notes

The comments in this newsletter are of a general nature and are not designed to replace professional advice in specific situations. If you would like extra copies of this newsletter, or you know of anyone who would be interested in joining our mailing list, please contact Cheryl Woolcott at (905) 276-9111.