Progress

Article: Tax Tips

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If you're from Atlantic Canada and you paid income tax last year, you likely handed over a higher percentage than other Canadians who earn the same as you. That's because we shell out among the highest income and sales tax nationwide. **Why?**

The answer lies in the economy, says Dave Jones, a senior financial advisor at Assante Capital Management Ltd. in Halifax. "If our economy was flourishing, tax reductions would be on the horizon," he says. "But our deficit and debt levels tell us that getting a raise by paying less tax is likely not coming anytime soon."

Looking ahead, many experts believe that regional growth depends on the success of small and medium-size businesses. Unfortunately for small business owners, their biggest growth challenges are tax drains: personal and corporate tax, property tax, HST, and payroll tax. "It adds up," says Jones. "Someone in the highest tax bracket is keeping far less than 50 cents of every incremental dollar they earn."

Ironically, these added taxes are exactly what prevents business owners from spending money on things that are critical to growth, such as expansion opportunities, hiring, and upgrading equipment. But there is an upside. "What most people don't know is that it doesn't have to be this way," says Jones. "I've seen situations, especially business-transition scenarios, where people have lost hundreds of thousands of dollars of potential tax savings simply because of a lack of planning."

Catherine Watson agrees. The partner at McInnes Cooper's Halifax office and leader of the firm's regional estates and trust service group says that many businesses and individuals pay more tax than necessary, and in most cases it's because they haven't developed a solid tax plan.

"It costs money to access the professionals who understand the Income Tax Act and can advise how it's supposed to work," she says. "Many people either don't want to incur

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those fees or their socio-economic circumstance make it impossible to do so."

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While there are costs to ensuring that you're taking full advantage of the tax system, the costs of not doing so are even more expensive. "If you're paying more tax than you need to, it prevents you from maximizing investments in your business and your own financial future," says Jones. "At the end of the day, this affects the prosperity of the entire region."

In Part 2 of this Less is More series, we'll explore often-overlooked tax strategies in-depth that will give your business and personal tax plan the edge it needs. For now, here are three simple ways to figure out how to spend less on taxes right away:

Find the right advisors.

Take the time to interview several different financial advisors, accountants, and tax lawyers to find out how they've helped others in a tax situation similar to yours. For example, when planning an estate, "have your situation reviewed by an estate lawyer who understands tax law and estate law," says Watson.

Split income.

"One of the easiest things to do is split the family income," says Jones. Instead of one larger income earner paying tax in a higher bracket, income from a business can be split by paying a portion of the income in dividends to the spouse or adult children. "Instead of $200,000 falling on the shoulders of one taxpayer, it could be $100,000 or less if you can share the load."

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Choose the right corporate structure.

An important piece of planning advice Jones gives to business owners is to ensure that your corporate structure is properly designed. "This has everything to do with making sure your company qualifies for the small business tax rates to making sure you qualify for the capital gains exemption to having the structure in place that will protect the value you have worked hard to accumulate in your business."

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