WHAT YOU NEED TO KNOW BEFORE YOU START YOUR BUSINESS

ez Cloud Accounting
Chartered Professional Accountant

THE ADVENTURE BEGINS

Did you decide to combine your passion with work and become a business owner? Congratulations!

This guide will cover the following topics to help you start on the right foot:

1. Legal Structure: Sole Proprietor vs Incorporation
2. First Steps In The Right Direction
3. Bookkeeping Basics
4. Your Accounting
5. Dividends vs Salary
6. What's Best?
7. CRA Business Accounts
8. Quick Zoom on GST
9. Stay Organized

LEGAL STRUCTURE

It is crucial to start by choosing a legal structure that best fits your needs. The legal structure you pick for your business has an impact on the amount of taxes you pay, your ability to raise money, the amount of paperwork you're required to do, and the personal liability you face.
Most small business owners choose to either operate as sole proprietor or corporation.

SOLE PROPRIETOR

It is the most simple and common one. Your business is an extension of yourself, and you report your business income as part of your personal tax return.
This structure is most commonly used by freelancers, general contractors and one-person businesses.

Pros:

- Simple, flexible
- Only one tax return to file
- More affordable to operate; less accounting, legal and bank fees

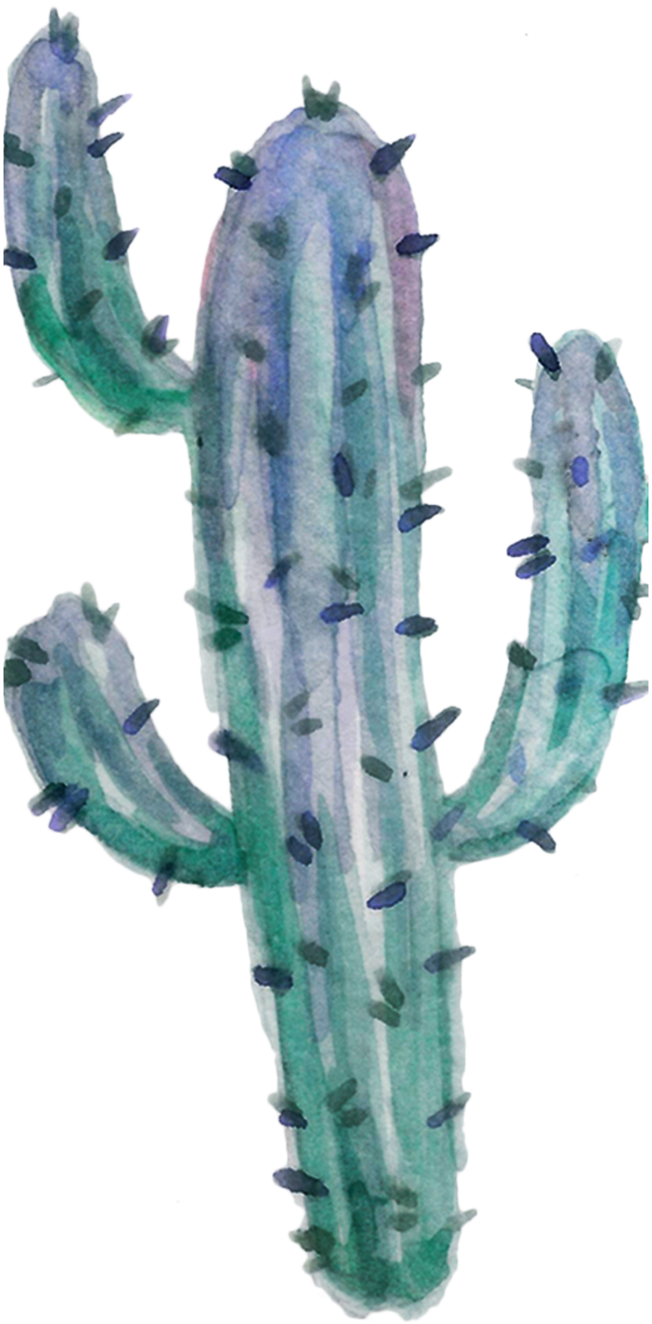
Cons:

- Unlimited liability: may expose all your assets to the risk of lawsuites
- Pay taxes on all of the income earned
- Getting access to financing is more difficult

LEGAL STRUCTURE (Con't)

INCORPORATE

Your incorporated business is an entity on its own, It owns its assets, earns its revenue and files and pays its taxes and liabilities. Corporations are most commonly used by business owners who want to limit their liability to protect their personal assets, and those who can benefit from the tax deferral.



Pros:

- Limited liability
- Potential Tax deferral benefit by leaving income in the corporation
- Continuance; corporation has an unlimited lifespan
- Getting access to financing is easier

Cons:

- Legal costs; incorporation costs and annual filing
- Accounting and tax filing costs are higher
- Closing a corporation is more difficult

FIRST STEPS IN THE RIGHT DIRECTION

Now, these will be your next steps before starting out your business.

If you decide to incorporate:

1. Contact your lawyer to incorporate and choose the right share structure for your situation

2. Decide on the best year end for your business (usually the least busy months of the year make a great year end)

Whether or not you incorporate:

3. Get a company bank account and credit card (always separate business from personal accounts)

4. Apply for a business license

5. Register for a Business Number with the CRA (this is like a SIN # for your company)

6. Register for the appropriate CRA Accounts: GST and Payroll (if needed)

BOOKKEEPING BASICS

Bookkeeping is the process of recording all of your business financial transactions, so you can clearly see where your revenue is coming from and where your business is spending money.

So, where to Start?

Step 1:

Make sure you keep your business and your personal expenses separate.

Step 2:

Choose a bookkeeping system. If you are just starting and your business is relatively simple, you can use a spreadsheet excel to track your income and expenses.

Or, if you want a “proper” way of bookkeeping, there are many software that can help, including Quickbooks online and Xero. They are all user friendly, will save you time and help you keep your books organized. You would also be able to create and send invoices directly to clients from the software, so your receivables will always be accurate, and can even accept payments through them.

Ask us to help you set up your software, categorize your transactions and even train you on how to use it.

BOOKKEEPING BASICS (Con't)

Step 3:

Organize, then store your documents and receipts for seven years (CRA requirement). The bad news, the ink on your expense receipts might not last that long, so we would recommend the use of cloud-based systems like Dropbox or Google drive to store them, or even Hubdoc or Receipt Bank if your business is not so small anymore or you have multiple transactions. Quickbooks online recently added a free "receipt" option where one can upload receipts and allocate them to expenses.

Step 4:

Lastly, make it a habit, stay organized (always) and don't fall behind in your bookkeeping. Ensure all your transactions are entered, that your bank and credit card accounts are reconciled, and review your financial statements to keep track of the progress of your business.

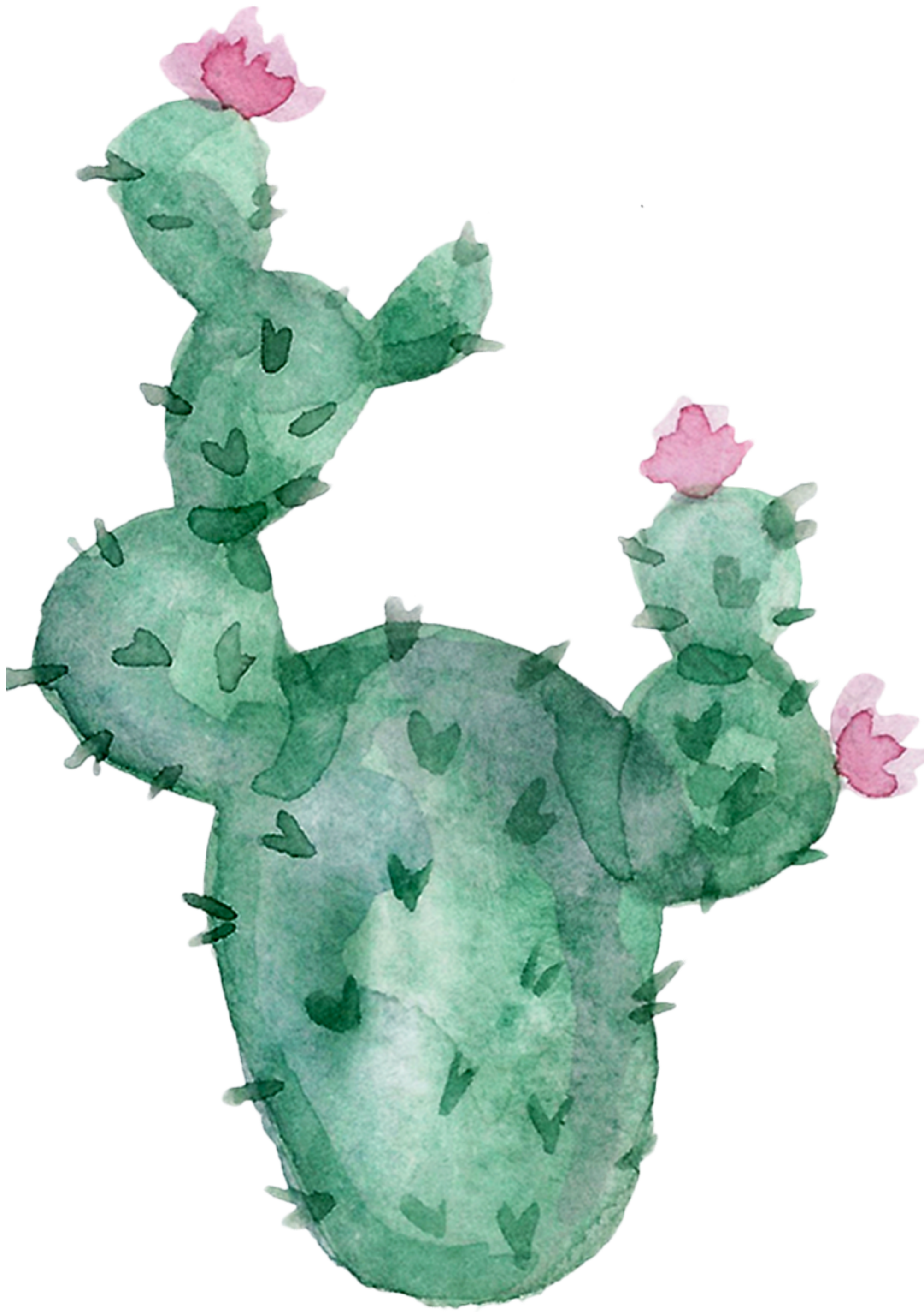
If you happened to fall behind, don't worry, we can help you get back on track.

NOW TIME FOR THE ACCOUNTANT

Bookkeeping typically ends when all transactions have been recorded and the bank reconciliation has been completed.

Now the accountant will prepare the year end by completing the adjusting journal entries including non-cash items and accruals, preparing financial statements and the corporate tax return (called Notice To Readers).

This is also the perfect time to sit with your accountant, make sure you understand the numbers behind your books and that you do some tax planning for the following years.



HOW TO PAY YOURSELF FROM YOUR CORPORATION: WAGES VS DIVIDENDS

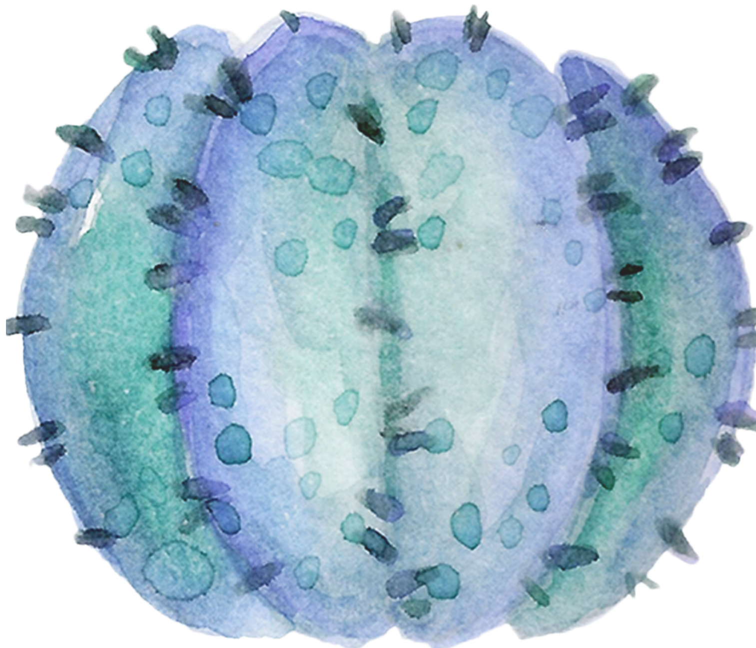
When you are a sole proprietor, you are taxed on all your income.

When you own a corporation, and it is time to pay yourself, you can decide to be paid either a salary, dividends, or a mix of both.

However, there are advantages and disadvantages to receiving a salary versus dividends. It is, therefore, important to determine the type of compensation that best accommodates your financial situation.

HOW TO PAY YOURSELF FROM YOUR CORPORATION: WAGES VS DIVIDENDS (Con't)

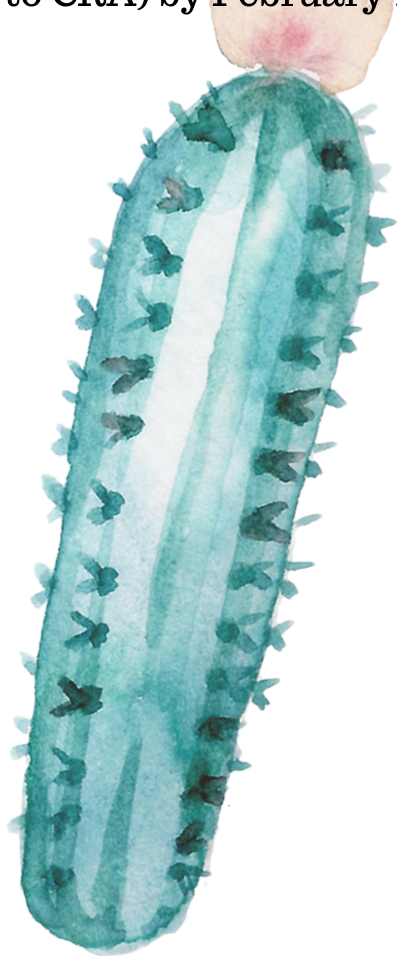
DIVIDENDS



The company doesn’t get to deduct the dividends as part of its expenses, so they do not reduce the corporate taxes paid.

When paid dividends, you will have to pay taxes when filing your personal tax return by April 30; however, no CPP or EI is payable on dividends.

Dividends are simple to report, your company issues you a T5 and file it (submit it to CRA) by February 28.



WAGES

When you pay yourself a salary, the corporation should be withholding your taxes (including CPP) and making monthly payroll remittances.
So when you file your personal tax returns, your taxes have already been paid.

Your salaries are deducted from the company’s income and reduce the corporate taxes owing.

Your corporation needs to file a T4 by February 28 to report the amount of wages you received.

HOW TO PAY YOURSELF FROM YOUR CORPORATION: WAGES VS DIVIDENDS (Con't)

WHAT'S BEST, DIVIDENDS OR WAGES

Let's first mention that the Canadian system tries to implement a tax concept called 'integration'; and the idea is that there should be little to no difference in the overall income tax paid (personal tax + corporate tax) when comparing dividend payments and wage payments of the same amount because:

- Wages reduce corporate taxes but create higher personal taxes than dividends.
- Dividends do not reduce corporate taxes, but create less personal taxes than wages.

So it really all comes to your personal situation and your future plans:

- If you plan on applying to a mortgage, it may be better to pay yourself a salary. Banks like to see a steady income rather than dividend payments.
- Salaries will increase your RRSP pool, so you can save for your retirement and get tax refunds.
- However, CRA penalties when payroll remittance are late or missed can add up quickly, so if being organized is not your forte, then it may be easier and less costly to pay yourself using dividends.

CRA BUSINESS ACCOUNTS

Before you start operating your new corporation, it needs a business number from CRA (a 9 digit ID number).

There are 4 types of CRA business accounts:

1. Income Tax Account (xxx xxx xxx RC 0001): this is the first number you get when you register for a Business Number with the CRA.

2. GST Account (xxxxxx xxx RT 0001): If you register to GST, this is the number you'll use to collect GST from your customers and remit it to the CRA. Note that if you register to GST, you'll get this number even if you are not incorporated.

3. Payroll Account (xxx xxx xxx RP 0001): if you pay yourself or anyone else a wage, you need a payroll account to remit CPP, EI and withheld income taxes. This also can be opened even without incorporating.

4. Investment Account (xxx xxx xxx RZ 0001): if you pay yourself a dividend, you need an RZ account.

GST – WHEN TO OPEN A GST

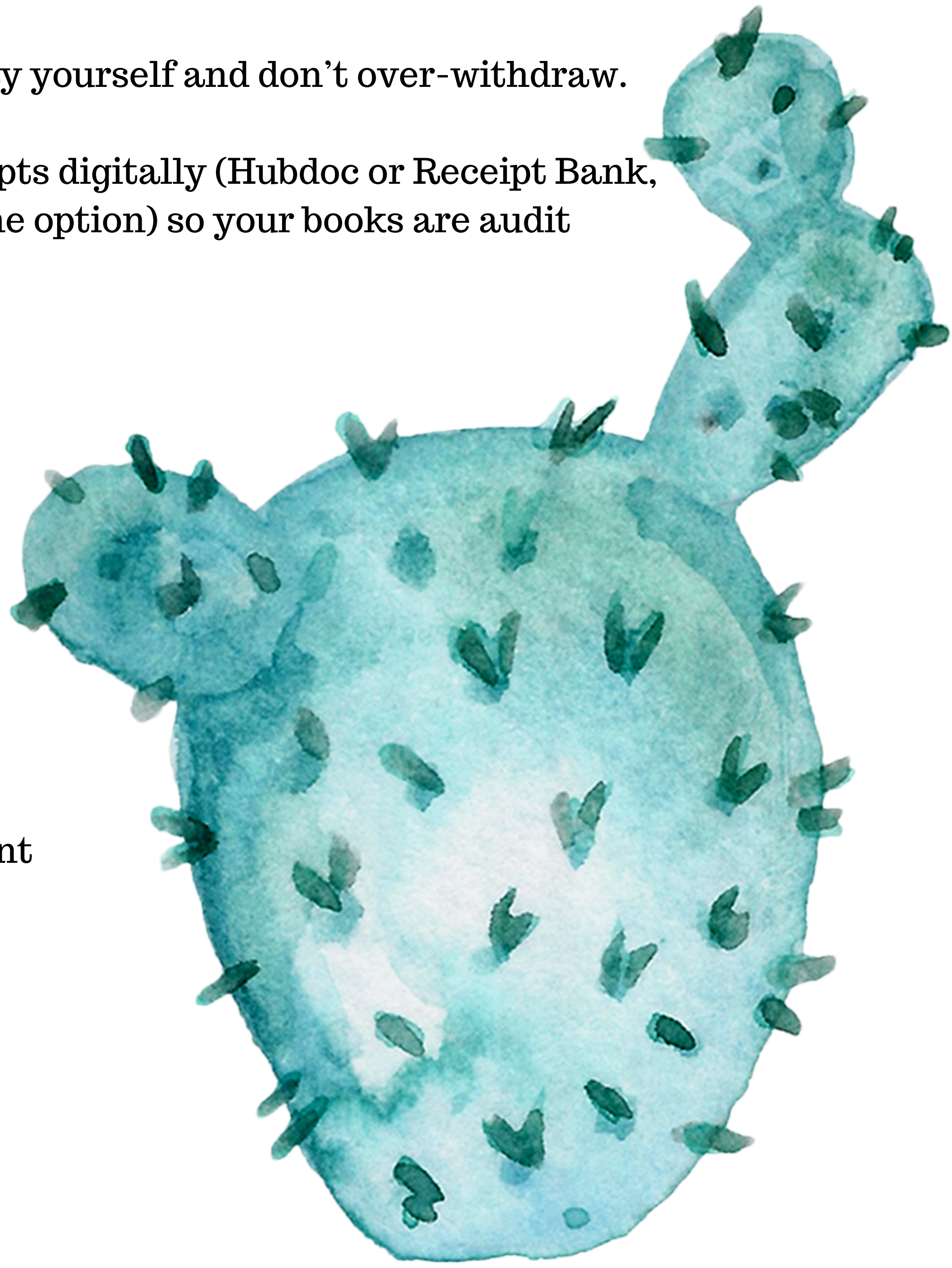
You must collect GST starting in the first year that you reach $30,000 in annual sales.

You can also voluntarily register to GST (no need to reach the 30k).
It can be beneficial if you know you'll be paying for a lot of expenses or buying assets, as you'll be able to claim the GST paid on them.

Remember that GST is not your income - you are just collecting it for the government, so transfer it to a saving account until it is remitted.

STAY ORGANIZED

- Always keep business & personal bank accounts completely separated.
- Track your vehicle usage and km's for business purposes.
- Plan on how much you'll pay yourself and don't over-withdraw.
- Use an app to capture receipts digitally (Hubdoc or Receipt Bank, or use the Quickbooks online option) so your books are audit proof.
- Set automatic payments through online banking for all your CRA accounts so you are never late on payments.
- Save about 30% of your revenue for taxes.
- And lastly get an accountant who cares about you.



We are here to support you and your business.

Do you have a question? Contact us and book a free consultation.

Email: fatima@ezcloudaccounting.com

Phone: (604) 338-6880

ez Cloud Accounting
Chartered Professional Accountant