



RRSP CONSIDERATIONS

A common thought out there is that one should contribute the maximum to their RRSP's. For a business owner, that means taking the maximum salary possible in order to make this contribution, which would be in the range of \$128,000. It is also very likely that many business owners have been advised to do so. However, this may not necessarily be the case. There are many factors to consider when deciding salary levels and RRSP contributions and all cases are different.

Business owners should view their corporations as possible vehicles with which to replace the common thoughts about RRSP's. Remember, your income subject to the preferred small business tax rate here in BC is taxed at a rate of 13.5%. One has to ask the question, why take an excess salary and pay higher personal tax rates just to be able to make an RRSP contribution. If not needed, you can realize a substantial tax deferral by leaving those funds in the company to be taxed at the much lower corporate tax rate and invested there.

The other matter to consider is whether it is better to take the funds out of your company as a salary or dividends. Our tax system is based on the theory of integration, however, our tax system is not perfect and the various provinces all have different provincial tax rates. Here in BC, there can be a small differential between taking salary and dividends. However currently, it is only a 1% variance, so it is not a significant amount. And remember, RRSP contribution room

is based on earned income only. Dividends do not qualify as earned income.

There are various other considerations as well, such as your other personal income sources, your corporate income levels, payroll taxes, CPP benefits in the future, keeping your company pure in order to access the capital gains exemption on the possible future sale of the company shares, tax rates on investments held within the company, and other planning factors.

As you can see, the answer is not quite so cut and dry, and it really just depends on each individual's particular circumstances.

You should discuss the alternatives available with your tax advisor if you have not already done so to ensure that you are set up in the most logical and tax efficient manner possible given your specific facts.

HOME OFFICE COSTS

For those corporate business owners out there, don't forget that it may be possible to claim a home office allowance in your company for business use of home office expenses, as sole proprietors do. You must actually utilize the space in your home though for business purposes, it must be reasonable and technically, it should be because you have no other business space which you are able to use for your office functions. I suggest it be a designated space such as a room, or an area and used solely for your office functions.

For example, you may use 100 sq ft out of 2,000 sq ft of your home as office space, where you perform all admini-

strative functions for your business. You could then add up your home expenses such as mortgage interest, rent, insurance, property taxes, hydro, etc., and in this case, apply 5% to the total charges and claim that amount as a home office charge in your company.

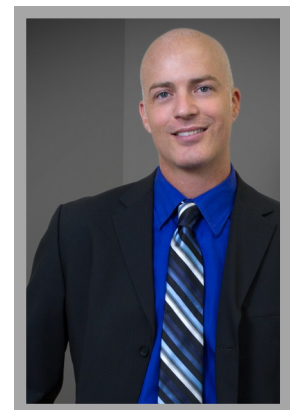
Do keep in mind, this can be a grey area and CRA may always question it, so be sure to discuss with your advisor.

ABOUT ME

I operate an accounting practice focusing on small and medium sized businesses and am dedicated to working with my clients by exploring various financial and tax solutions to help achieve their goals.

This newsletter is meant to provide general business and tax tips to business owners. You should discuss topics of interest with your advisors. Additional issues can be found for reference on my website or you can request electronic versions via email.

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