

Maximize your tax savings

Let's talk series

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The US has officially declared it's in recession. Britain and Germany have done the same. The auto sector is clearly suffering and faces an uncertain future. General manufacturing is weak and commodity prices are up and down like a yo-yo. One thing is certain in these worrying times: you do not want to pay more tax than you have to.

“The perfect storm is upon us and this means managing cash flow is critical,” says Debbie Meloche, Tax partner, Private Company Services, PricewaterhouseCoopers. “Managing the inflow of cash is particularly key as revenues are dropping and access to working capital dries up. One of the components of cash flow is taxes.” Say the word tax, and most people think of income tax. But there is much more: GST, PST, employee taxes, property tax, customs and duties and on and on. So what can private companies do to maximize tax efficiencies?

Here are Meloche's top tax-saving tips:

Take full review of your company. Look at what's going on right now in the business and what's happened historically. Review any customs and goods and services tax paid with an advisor. There may be errors—this is fairly typical—which could generate refunds when corrected. For example, in Ontario, if you have vacant manufacturing space because you shut down a facility, you can generate property tax refunds. It's a good time to sit down with a specialist and do a diagnostic of the business and find all of these opportunities.

Maximize deductions. Timing can make all the difference when it comes to claiming a deduction. For example, the trigger for claiming a deduction on new equipment is when that equipment is ready for use. So, if you have a December year-end and you buy equipment in December but don't hook it up until January, you have to wait a year to claim the deduction. Even by putting the equipment to work a few weeks or sometimes even days sooner, you can take advantage of that deduction a full year earlier.

Capture all scientific research and experimental development activities. If you are doing R&D, it's wise to have a fresh set of eyes make sure your people are documenting all of the costs that would qualify for a deduction. Some companies are not doing it, choosing to believe “it's too timely and the government won't pay up.” Wrong. Doing so might just generate an income tax deduction, or, in some cases a refund.

Manage your installment payments. Otherwise, you may be sending too much money to the Canada Revenue Agency's coffers. If your income is falling and you're making installment payments based on last year's income, there may be an opportunity to reduce those installments or perhaps even stop making them.

On that same note, a lot of businesses file their tax returns at the last minute, which is six months after their year-end. If you get to it sooner, particularly if you are generating refunds whether from installments or from R&D, you will get the refund that much earlier.

Have you paid capital gains tax in the past? If you have, and you have investments now that will trigger a loss, you can carry that loss back and get a tax refund from prior years.

It may be time to restructure. Do you have companies that are in loss positions while others are profitable? If you amalgamate them then you can offset the profits with losses and overall the group will pay less tax.

Why pay tax today if you can defer until next year? There are several ways you can do just that. Implement partnerships in your corporate structure. Opt for retirement compensation arrangements or employee profit sharing plans over bonuses. Talk to your advisors.

Deductions, deferrals—now it's time for the third D: divide.

Income-split with family members/shareholders to ensure you are maximizing the use of all of the available lower tax brackets. Look at the right salary and dividend mixes. Look for refundable dividend tax in the company and consider implementing family trusts.

Review transfer pricing between corporations operating in different countries. If you have companies in two countries and sell product from one to the other, take a look at what you are charging for your goods. If you haven't reviewed your transfer pricing recently, you may be paying more than you have to as a group.

Finally, when it comes to indirect tax, it's critical to have a person knowledgeable in GST, provincial sales tax, employee tax, property tax, etc., to look back to see if you can generate refunds from improper collection and/or filing. For example, within the Workers Compensation system, it is easy to have employees classified in the wrong rate group, which could cause overpayment. "I had a client notice that one of the shareholder's spouse's was paying unemployment insurance, which she didn't have to," says Meloche. "When we looked further, there were multiple family members across the corporation doing the same thing and we generated a \$60,000 refund. More importantly, we stopped them overpaying into the future."

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