



Year-end tax planning tips for your business

December 1, 2022

As 2022 comes to a close, preparing for the upcoming tax season will help you strategically position your business to be as tax-efficient as possible. We're sharing our top four tax planning tips you can benefit from. It's never too late to get started—your future self will appreciate it!

1. Find the most tax-efficient way to extract funds from your business

- As a small- to medium- sized business owner, you could receive a dividend or salary from your business, noting that:
 - Payment of a salary is deductible to your business, whereas dividends are paid from after-tax profits.
 - Paying dividends to a family member may be subject to the [“tax on split income” \(TOSI\) rules](#) and trigger taxation at a higher marginal tax rate.
- Pay yourself a salary large enough to maximize your CPP and RRSP contributions.
- Arrange to receive interest on money you have loaned to your business.
- Calculate the best mix of salary, interest and/or dividends for your specific circumstances.

2. Be aware of the tax implications of borrowing from your corporation

- Ensure that the interest rate on your shareholder loan is reasonable. A taxable benefit may be included in your income if the interest rate is below the Canada Revenue Agency’s prescribed rate of interest.
- Repay any loans from your business within one year of its tax year-end, otherwise, you must report the loan as income for the year it was made. Exceptions may be available for certain home, company stock, or car acquisitions where the loan is made in an individual’s capacity as an employee of the business (and not as a shareholder) and is subject to a bona fide repayment arrangement within a reasonable term.
 - For example, let’s say you borrow \$10,000 from your company on June 1, 2022 and your business has a September 30 year-end. If the loan remains unpaid on September 30, 2023, you must report the \$10,000 as income on your personal income tax return for the 2022 taxation year.
- If a loan is forgiven, remember that the forgiven amount will be included in your income in the year of forgiveness.
- As shareholder loans are assets for your business, it is important to make sure your non-active business assets do not “taint” [the Small Business Corporation or the Qualified Small Business Corporation status](#) of your company.

3. Be cognizant of the current Bill C-208 intergenerational transfer rules and potential changes

- If you plan to transfer your business to your children or grandchildren soon, consider whether the [Bill C-208 intergenerational transfer rules](#) provide a window of opportunity for your business succession.
- Take note that the government intends to make legislative amendments that would make the rules more stringent and these changes may be retroactive.

4. Take advantage of the new tax incentives for depreciable asset purchases

- Consider purchasing capital property that’s eligible for the [new immediate expensing rules](#). Certain capital property purchased on or after April 19, 2021 by a Canadian-Controlled Private Corporation (or purchased on or after January 1, 2022 by Canadian resident sole proprietors and certain eligible partnerships) that becomes available for use before January 1, 2024 are eligible for immediate expensing. The limit must be shared by an associated group. Similar rules were recently announced by the Ontario government in [Ontario Economic and Fiscal Update 2022](#).
- Determine if you’re eligible for the accelerated investment incentive, which is available to provide an enhanced first-year capital cost allowance (CCA) deduction for certain eligible properties purchased after November 20, 2018 that become available for use before 2028.
- Be aware that the automobile CCA limits have increased from \$30,000 to \$34,000 for passenger vehicles and from \$55,000 to \$59,000 for passenger zero-emission vehicles for purchases made on or after January 1, 2022 (both new and used).

Tax-efficient planning for your business can be complex—we’re here to help you! Reach out to us if you require support preparing for your year-end.



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