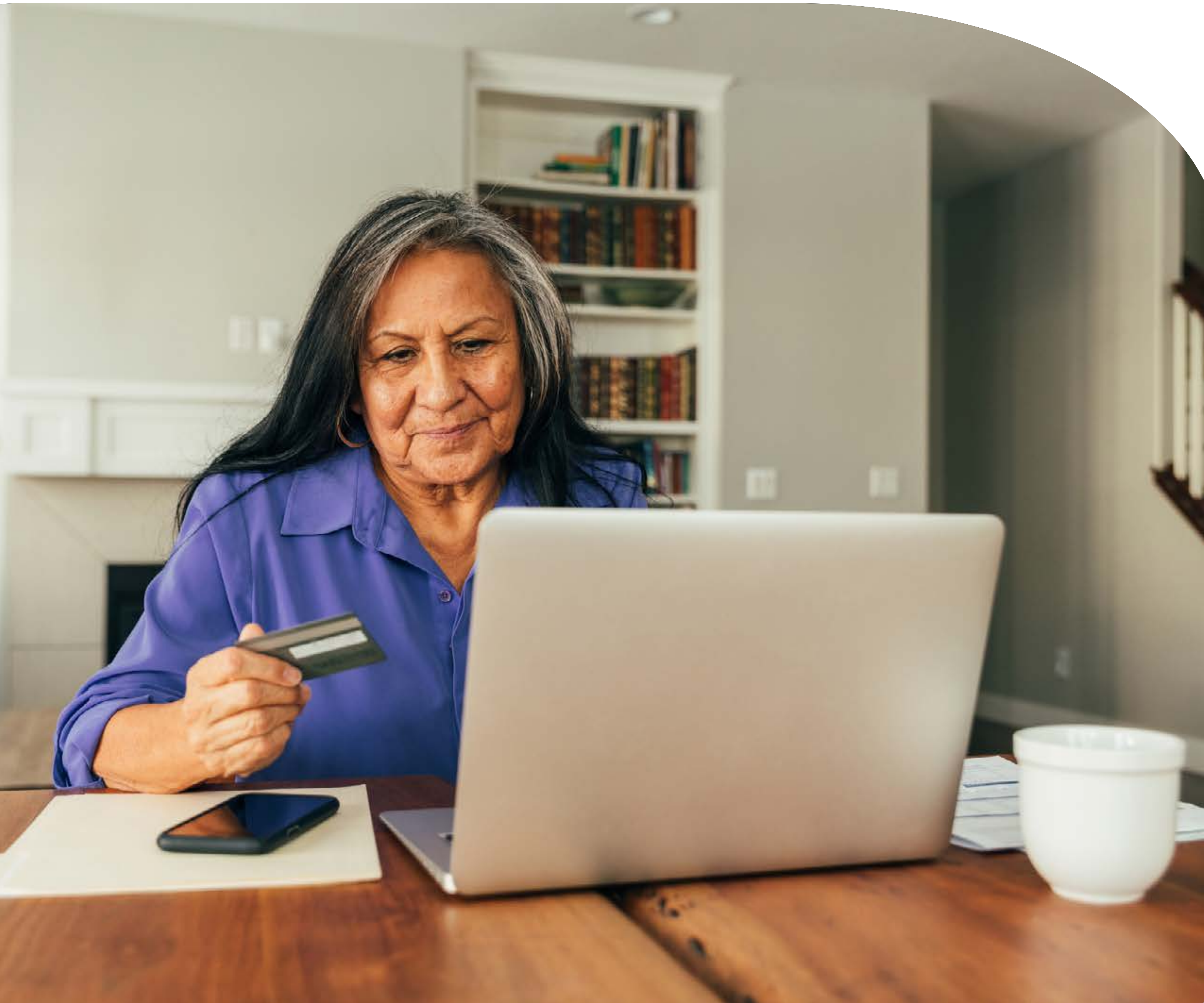
Unmasking misconceptions about Indigenous tax

Key points to help Indigenous entrepreneurs grow their business

October 2024



If you're a First Nations business owner, the following key tax pieces may fit together for you.

Understanding tax rules and regulations can be challenging for any business owner, but it doesn't have to leave you completely puzzled. Knowledge is key to uncovering the best solution for your business. By finding specific pieces that connect, you can gain clarity, confidently achieve the best financial outcome, and plan for your business' future. The process of identifying as well as sorting through which pieces work and which don't is the advantage of having a trusted advisor at your side. As an Indigenous business owner, there may be certain benefits you're entitled to that can help you continue to grow your business.

**As we navigate using the most respectful terminology possible, this article will use 'community' instead of 'reserve,' which is used in official government legislation.*

Office location

Opening a business in an Indigenous community doesn't mean it's tax exempt. While the location of your business may be an important factor, determining the tax treatment of the income earned must consider other connecting factors. The income earned by your business needs to be connected to other factors like who your customers are, where your customers are located, where you perform your services, or where you, as a business owner reside.

Corporate structure

Thinking of incorporating? The tax exemptions for corporations owned by individuals are generally limited, whereas there are more exemptions available to a nation or municipality. In general, income earned by a corporation is taxable, even if it is earned within an Indigenous community.

There may be better ways to structure your business without using a corporation to achieve your business objectives.

Employee tax

Determining whether your employees' income is taxable depends on three main factors: where they live, where they work, and where your business is located. As an employer, it's your responsibility to figure out the payroll withholding taxes required for your employees based on these factors. Here's an example:

Employee A	Lives in a community	Works **50%** or more of their time within a community	**Eligible** for all their employment income to be non-taxable
Employee B	Doesn't live in a community	Works **90%** or more of their time in a community	**Eligible** for all their employment income to be non-taxable

As the employer, making decisions using this information is critical, as you are the one issuing the employee's T4 Statement of Remuneration Paid at the end of the year. The employee's T4 must indicate whether their employment income was considered taxable or not.

Earning tax exempt business income

Income that's earned in a community can often be tax exempt income for the individual business owner. Income may flow to business owners by way of partnership income, sole proprietorship income, or dividends (depending on the structure in which it was earned). Earning tax exempt income may seem simple at first glance, however, business owners need to connect the income to being earned within a community.

For example, for a First Nations shareholder to receive tax exempt dividends from a corporation, there needs to be support directly connecting the income earned to in-community activities. If some of the income is derived from outside of the community, it may not be considered tax exempt to shareholders.

Growth

If your business is expanding, it doesn't need to be in a specific Indigenous community, province, or territory. There are certain tax exemptions across Canada that you can benefit from.

Investment income

The key is that income from your investments must be earned in the community and they must be a specific type of investment. For example, if you invest in a GIC, the interest earned would be tax exempt because the income is connected to the community. If you invest in mutual funds, it's not possible to say the money is managed in a community or can be traced back to a community, which is why it's typically never tax exempt.

We can help you make sense of all the pieces

No one wants to—or should—pay more tax than they need to. A trusted advisor can help identify the different pieces of the puzzle so you can fit them in the best way that works for your business. Often, there's small changes you can implement to maximize your advantage. We can work with you to bring clarity to every step of the process.

With deep respect, sincerity, and gratitude, Doane Grant Thornton Canada acknowledges that the clients and communities we serve, as well as our offices, are located on the traditional lands of the First Nations, Inuit, and Metis.

Want to learn more? Let's talk.

Tara Benham
National Tax Leader
T +1 250 746 3056
E Tara.Benham@doane.gt.ca

Doane Grant Thornton

DoaneGrantThornton.ca

Assurance | Tax | Advisory

About Doane Grant Thornton

Doane Grant Thornton LLP is a leading Canadian accounting and advisory firm providing accounting, assurance, tax, and advisory services to private and public organizations. We help dynamic organizations unlock their potential for growth by providing meaningful, actionable advice through a broad range of services. Doane Grant Thornton LLP is a Canadian member of Grant Thornton International Ltd, whose member and correspondent firms operate in more than 130 countries worldwide. A listing of Doane Grant Thornton offices and contact information can be found at: www.DoaneGrantThornton.ca.