Is your business on track for the 2011 tax year?

For unincorporated businesses, the month of June is a tax milestone. The halfway mark for the current tax year, it's a perfect time to take stock of your business' financial situation to see if you can save on the amount of personal income taxes you'll need to pay by next April.

Chartered Accountant Hugh J. Faloon is a Partner with Ginsberg Gluzman Fage & Levitz LLP in Ottawa. One way he contributes to the success of his clients' businesses is by helping them manage and even reduce the amount of taxes they pay. Here are a few tax-paying and tax-saving items Mr. Faloon routinely reminds his clients about in June and suggests that all small business owners take stock of before heading off to the cottage this summer.

File tax returns by June 15 – For entrepreneurs operating small- and medium-sized unincorporated businesses, late-filing penalties started on June 16. The tax balance owing for 2010 must have been paid by the end of April (technically, May 2 in 2011) to have avoided additional interest charges.

Last year's earnings determine this year's payments – The Canada Revenue Agency (CRA) bases your instalments on what your overall taxes were last year. Individual entrepreneurs pay quarterly, incorporated businesses monthly and eligible corporations also have the option to pay quarterly. If you're absolutely sure you'll make less money this year, you can reduce the amount of your instalment payments. However, if you short-change the CRA, interest will be charged – even penalties if the instalment interest is over $1,000. If this year is shaping up to be better than last, enjoy those low instalment amounts while they last. Be sure to bank some of the extra money you make, because you're going to need it when you file your 2011 tax return.

Send in your employees' deductions – Misunderstanding the CRA's definition of an employee is common, Mr. Faloon says, and can be costly. He suggests you consult your Chartered Accountant for advice about when, how, and for whom to deduct Canada Pension Plan, Employment Insurance and income tax amounts. Most modest payrolls have to send in these amounts, usually by the 15th of the month. There are penalties for failing to comply, and they aren't tax-deductible!

Answer the $128,800 question – While Mr. Faloon usually starts the conversation around the $100,000-mark, real tax planning for most people begins when income reaches $128,800 a year, he says. At that point, the marginal tax rate on your taxable income is at its maximum of 46.41 per cent in Ontario. That means it may be time to consider incorporating the business, at least to save taxes. For Canadian-owned private corporations in Ontario, the first $500,000 of business income is taxed at just 15.50 per cent. Thereafter, it increases to 28.5 per cent (as of January 1, 2011). Talk with your

Chartered Accountant to see if the savings justify the costs associated with establishing and operating a legally incorporated business.

Make the most of your family business – For successful incorporated family businesses especially, there are real tax advantages to having adult family member shareholders because they are entitled to receive dividends from the company. You can pay them from after-tax income that's subject to a lower tax rate – anywhere from zero to 32.57 per cent, Mr. Faloon says. For a spouse, adult child or other family member who is a shareholder with no other income, the dividends could even be tax-free.

Every business – and business owner – is unique and has special considerations that should be discussed with knowledgeable professionals. Schedule a proper meeting to find out about money-making and tax-saving strategies that are right for you and your company.

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