

**Ask an Information Officer**

**I just started my business. Do I need to register for HST?**

*Christine Thériault, Business Information Officer, Canada/Nova Scotia Business Service Centre*

HST is a tax that is applied to most supplies of goods and services that are made in Canada. With a few exceptions, most people pay for HST when they make purchases of taxable supplies of goods and services. Businesses who register for HST must collect HST on all taxable supplies of goods and services that they provide for their customers.

You should register your business for and charge HST if:

- you sell or provide taxable goods and services in your business activities in Canada and that your total taxable revenues were more than \$30,000 in the immediately preceding four consecutive calendar quarters (one year), or exceed \$30,000 in a single calendar quarter (3 months);
- your business involves you driving a taxicab or limousine; or
- you are not a small supplier.

Your business does not have to register for HST if:

- your only commercial activity is selling real property, other than in the course of business; or
- you are a non-resident who

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**Business Article**

**Tax Considerations When Selecting a Business Structure**

*Peter F. Wilde, CA, Wilde Timmons Michaud Inc.*

When selecting a business structure it is important to consider the impact of Canada's taxation system. Income from an unincorporated business is taxed on a calendar year basis, and the business income is added to the owner's income from all other sources.

Tax will be levied at the owner's marginal rate, which in Nova Scotia can vary between 24.29% and 48.25%, depending on the level of income. In addition, there is the impact of the Canada Pension Plan (CPP) of 9.9% on earned income up to \$43,700 in any year, so the minimum rate of personal income tax and CPP combined is 34.19%.

Compared to this, the corporate income tax rate in Nova Scotia is 18.12% on the first \$400,000 of active business income in any year, and in most circumstances, a corporation is permitted to have a fiscal year ending at any time in the year that is appropriate to the business cycle. Therefore, more after-tax dollars are available to repay business debt and otherwise invest in business growth in a corporate structure than in an unincorporated active business. Any corporate business income in excess of the annual \$400,000 small business limit will be taxed at 38.12%.

**Investments and property**

This is not necessarily the case if the company's income is derived

from investment holdings or rental property. These types of income are not eligible for the low tax rate applicable to active business income, but are taxed at the highest corporate income tax rate, which can reach as high as 51.79%. Part of this high tax rate is refundable if the company pays taxable dividends to its shareholders.

**Compensation**

A further consideration is the manner in which the business owner is compensated for his or her services to the corporation. Wages are taxed at the above-mentioned personal rates, which will save most companies only the low rate of corporate taxes. On the other hand, an individual with no other income can collect \$25,000 a year in dividends from the family company and will pay no personal income tax. This is true not only for the business owner, but will

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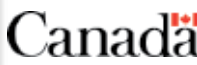

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## Ask an Information Officer

does not carry on business in Canada.

If your total revenues from taxable supplies exceed \$30,000 for a sole proprietor, partnership or a corporation, or \$50,000 for a public service body (such as a charity, non-profit organization, municipality, university, public college, school authority, or hospital authority) in a single calendar quarter or over four consecutive calendar quarters, you must register for HST since you would no longer be considered a small supplier.

Exceptions to small suppliers are the following:

- Taxi and limousine operators, for their taxi operations; and
- Non-resident performers selling admissions to seminars and other events.

Even if these businesses are small suppliers, they must register for HST.

There are instances when registering for HST voluntarily or before the \$30,000 threshold can give you certain advantages, such as having the right to claim HST that you pay on business start-up expenses from the time you register.

Now that you understand whether or not you should register for HST, how do you go about registering? First, you need a Business Number. If you have recently registered your business name with the Registry of Joint Stock Companies, you will already have a Business Number. If not, you would need to contact the Canada Revenue Agency (CRA) Business Window and explain that you are interested in registering for HST. The Business Number acts as business identification for all of your dealings with the Canada Revenue Agency. If

your business is incorporated, it will generally be registered for a Business Number.

In order to set up a Business Number, an HST account, or any other account that you may need for your business (payroll deduction, for example), you can either visit CRA's Web site at: [www.businessregistration.gc.ca](http://www.businessregistration.gc.ca) or you can call 1-800-959-5525 (CRA Business Window) to request the necessary forms.

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### Our Mission

To improve the start-up, survival and growth rates of small- and medium-sized enterprises by giving business people in every part of Nova Scotia access to accurate, timely and relevant information and referrals

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## Hot Picks

The following books are available from the Canada/Nova Scotia Business Service Centre Library. These books may also be available in our resource centres, located throughout the province.

### **Beat the Taxman: Easy Ways to Save Tax in Your Small Business, 2003 ed.**

*Stephen Thompson, CA, CFP*

As a small-business owner or a home-based entrepreneur, you have lots of questions about taxes, but very few answers. In your constant battle to be successful, the Canada Customs and Revenue Agency (now the Canada Revenue Agency) can seem like one of your biggest adversaries. But with *Beat the Taxman!* in your corner, you're sure to come out a winner in the fight to save taxes in your business.

- Packed with tax tips that will save you hundreds, or even thousands, of dollars year-round.
- Written in a question-and-answer format that's easy to understand, practical, and easy to apply.
- Features 165 "Tax Beaters" – quick-reference tips that highlight key points.
- Explains how to save taxes in every aspect and at every stage of your business.
- Includes new information on changes in the tax rules and rates, including CCRA's new positions on reasonable expectation of profit, the deductibility of fines and penalties, and providing tax-free gifts to your employees.
- Features a Year-Round Tax-Planning Calendar.

The ultimate "tax coach" for every Canadian in a small or home-based business, this book will help you *Beat the Taxman* at his own game!

### **Worldwide Corporate Tax Guide** *Ernst & Young*

The Worldwide Corporate Tax Guide summarizes the corporate tax systems in more than 150 countries. The content is based on information current to 1 January 2005, and is supplied by *Ernst & Young* professionals in the jurisdictions covered. The guide also contains a directory of international tax contacts in offices of *Ernst & Young* practices around the world.

Ernst & Young is a leading international professional services organization with 18,000 tax professionals located in 140 countries.

### **The Taxation and Financing of Aboriginal Businesses in Canada**

*Robert A. Brown and Robert C. Strother*

Topics in this two-volume set include:

- Taxation of Indians
- Federal Government Policy
- Historical Basis for Exemption from Taxation
- Criteria for *Indian Act* Tax Exemption
- Application of *Indian Act* Tax Exemption to Specific Taxes
- Canadian Municipalities and Municipal Corporations
- Real Property Taxation
- Economic Development on Indian Land
- Taxation of Other Aboriginals
- Government Policy on Land Claims
- Land Claims Agreements
- Metis Settlements Accord
- Tax Planning for Indians
- Alternative Business Structures
- Structuring an Indian-Owned Business

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## Featured Website

### **Canada Revenue Agency's Small and Medium-Size Enterprises Zone**

*Andrew Smith, Junior Content Developer, Canada/Nova Scotia Business Service Centre*

If you're starting a new small business, or are currently operating one, Canada Revenue Agency's (CRA's) Small and Medium-Size Enterprise Zone is a great resource for information related to both your business and CRA, particularly business taxation.

Pertinent topics include:

- **Setting up your business**
  - sole proprietorship/partnership/corporation, keeping records, bringing assets into a business
- **Business Number (BN)**
  - description of BN, need for a BN, registering for a BN, doing business in Quebec
- **Income taxes** – accounting for your earnings, length of fiscal period, business income, expenses, inventory and cost of goods sold
- **GST/HST** – description of GST/HST, which goods are exempt, which goods and services are charged, registering for GST/HST, how to collect GST/HST, how to calculate GST/HST, input tax credits, reporting periods, simplified accounting methods, GST/HST rulings
- **Excise taxes and duties**
- **Payroll Deductions and Remittances**
- **Objections and appeals**
  - the objection process, collection of disputed amounts, your rights and obligations, extraordinary circumstances, Problem Resolution Program
- **Audits** – how files are se-

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## Business Article

apply to other family members over the age of eighteen, as long as the shareholdings are properly structured. Thus, a family of two parents and two adult children (university students, for example) with no income other than from the family company can collectively receive \$100,000 in dividend income without paying any personal income tax. This income splitting among family members is most often achieved by the use of a Family Trust, which is set up to own the shares of the company.

On the negative side of the ledger, dividend income doesn't qualify as earned income for the purpose of generating CPP benefits or RRSP contribution room. It is therefore important to put in place plans for non-registered retirement savings. Since active business income in a corporation is taxed at the low rate of 18.12%, the corporation will have the most after-tax dollars to set aside for retirement. Discipline is required to ensure this happens. As a risk-management strategy, a sister corporation should be created to hold the savings and investments. The law permits dividends between connected corporations to be paid on a tax-free basis.

### Succession Planning

Business owners often fail to take into account the likelihood that at some time in the future the business will either be sold or transferred to the next generation of family members. The shares of a family-owned active-business corporation qualify for the Lifetime Capital Gains Exemption on disposition, either by sale or transfer, as long as certain rules are met. Currently the maximum exemption is \$750,000 per shareholder, so in the illustration given above, with a four-member family, the shares of the family business corporation could be sold for \$3 million, and as long as the rules are met, there would be no personal income tax

arising from the sale. An unincorporated business does not qualify for this exemption, so any disposition, either actual or deemed, would trigger income tax.

### Tax incentive programs

Nova Scotia has certain tax incentive programs which are designed to benefit companies located in the province. One such program is the Nova Scotia Tax Holiday, under which an incorporated new business is granted an exemption from Provincial income tax for three years. Another is the Nova Scotia Equity Tax Credit Program, which is designed to provide personal tax credits for investors in qualifying Nova Scotia companies.

Tax planning is often forgotten when setting up a business. It is always in the business owner's best interest to seek advice from a professional tax planner when determining the most appropriate business structure.

## Hot Picks

- Ventures Between First Nations and Non-First Nations
- Other Planning
- Tax Planning for Other Aboriginals
- Utilizing Special Tax Features in Land Claims Agreements
- Self-Government Taxation Options
- Government Policy
- Self-Government Models and Options
- Resource Development
- Oil and Gas Operations on Aboriginal Lands
- Mining and Timber Operations on Aboriginal Lands

### The International Income Taxation of Electronic Commerce

*Vern Krishna*

Electronic commerce (e-commerce), an ever-growing business force worldwide, refers to commercial activities that are based on the processing and transmission of digitized data, including text, sound, and visual images. The essence of e-commerce is the sale of goods, services or technology using electronic communication, which is being conducted at an increasing rate over the internet. This document discusses the issues surrounding electronic commerce taxation.

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## Featured Website

lected to audit, how audits are conducted, avoiding delays in the audit, finalizing an audit

- **E-services for business**  
– filing a return or making a remittance, registering a business, payroll deductions, getting information, refunds and payments
- **Events and seminars**
- **Important dates for businesses** – GST/HST, payroll, corporations, returns, slips and summaries, payments
- **Canada Business**
- **My Business Account**
- **Other resources**

Whether you need help calculating payroll deductions or accessing CRA's My Business Account, the information contained in the Small and Medium Enterprise Zone is readily available to you.

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