

Small Business Accounting Kit

Your guide to getting your
business started right.



www.ledgersonline.com



1.855.998.3041



info@ledgersonline.com



@ledgersonline



ledgersonline

INTRODUCTION:

Getting your new business started off on the right foot can be a daunting task. Whether you are an entrepreneur starting from scratch, or leaving the workforce to enjoy the autonomy and challenge of running your own business; this guide is for you! The world around us is ever evolving, and now, perhaps more than ever, the traditional workforce is giving way to people who are ready to pursue their dream of starting and owning a business of their own.

Unfortunately, behind the glitz and glamour of running your own business, there are a myriad of I's to dot and T's to cross. This guide will help walk you through getting your business started right.

TABLE OF CONTENTS

Introduction:.....1

What is a Business Plan?.....2

Choosing a Corporate Structure3

 Sole Proprietorship:.....3

 Partnerships.....4

 General Partnerships4

 Limited Partnerships.....4

 Corporations.....5

 Registering with the Tax Authorities5

 Business Number6

Income Tax Forms.....6

 Corporations.....7

 Partnerships.....7

 Sole Proprietorships7

 First Corporate Return.....7

 Significant Income Tax Dates:.....8

 Corporate Income Tax8

Payroll Taxes.....9

 Employed or Self-Employed?.....9

Available Publications.....10

Appendix A – What is a Business Plan11

Appendix B – Choosing a Corporate Structure11

Appendix C – Income Tax Forms.....12

WHAT IS A BUSINESS PLAN?

At its most basic level, the Business Plan is roadmap for your business. It will outline your businesses goals, as well as how your business plans to achieve those goals. Good business plans take it one step further and create buzz about the future prospect of your business. In that sense, the business plan is as much about selling your business, as it is about carefully setting goals and planning how to achieve them. Poor planning and financial management are the leading causes of business failure - don't fall victim to this easily avoided pitfall.

Composing a compelling business plan can be a nerve-wracking, and time consuming task. To help you get organized here is a logical outline of information that all business plans should include.



Each of the above sections requires careful thought and consideration. Appendix A has useful links to help guide you along. As well as, worksheets to help support your business plan.

Once your business plan is completed review it with someone you trust. Seek the advice of qualified people, and attempt to get feedback from someone who has, or is, operating a similar business. Most importantly talk to your **accountant**, as they have a wealth of knowledge and experience, and are here to help you realize your dreams.

CHOOSING A CORPORATE STRUCTURE

One of the first technical decision you will make for your business, will be to choose a legal structure. This decision will have an impact on how much you pay in taxes, it will affect the amount of paperwork your business is required to do, the personal liability you face and your ability to raise capital for your business. To a large degree this decision may be dictated by the way you have organized your operations and whether you intend to work on your own or with others.

The three basic forms of business organization are:



As eluded to above, each form has advantages and disadvantages. It's important to note that the selection of legal entity needs to be determined on a case-by-case basis, and you should not assume one form is better than another.

SOLE PROPRIETORSHIP:

A business owned and operated by one individual is typically structured as a sole proprietorship. It is not considered to be a legal entity under the law, it is considered to be an extension of the individual who owns it. Ownership of the business assets AND LIABILITIES are directly attributed to the owner-operator. This means that the owner is responsible for the debts and other liabilities incurred by the business. For income tax purposes, the income or loss realized from a sole proprietorship is recognized, together with other earnings, and reported on the individual owner-operators' income tax return.

A sole proprietorship does not require any specific legal documentation for its creation, excepting any normal requirements such as business licenses, or other licenses and/or permits.

Sole proprietors are considered self-employed for income tax purposes. Income or loss from self-employment is include, on a calendar basis, in the income tax return of the owner-operator. Self-employed individuals are required to file their tax returns by the 15th of June of the following year; however, any taxes owing are due April 30th. Failure to timely remit amounts owing for income taxes from the previous year can result in interest and penalties from CRA are non-deductible for tax purposes. Taxable sole-proprietorships may be required to make tax installment payments; if required, installments are due quarterly on the 15th of March, June, September and December.

Several other tax filings may be required as well, you should discuss this with your [Chartered Professional Accountant](#) (CPA).

PARTNERSHIPS

Partnerships, for the most part, take on one of two legal forms: General and Limited.

GENERAL PARTNERSHIPS

A general partnership is similar a sole proprietorship in that income (and its source i.e. business income, passive income, capital gains) is passed directly to the partners and reported on their personal tax returns. Partners of a general partnership are also personally liable for the debts and other liabilities of the partnership, as well, each individual partner enjoys ownership in the partnership assets. A partner's right to assets and income/loss, and responsibility for liabilities is determined based on their pro-rata share of ownership in the partnership. This is typically determined by the amount of capital each individual partner has contributed.

A partnership, unlike a sole proprietorship, does require a specific legal formation, and registration with the BC Registry ([See Appendix B](#)) because it is a legal entity recognized under the law. A partnership has rights and responsibilities in and of itself. A partnership can sign contracts, obtain trade credit and borrow money. In general, many creditors will require personal guarantees from the partners of small/new partnerships in order to obtain credit.

It's often advisable to formalize a partnership with a legal agreement governing among other things:

- Management of operations
- Partnership interests
- Obligations to fund business operations
- Exit of existing partners
- Entry of new partners
- Allocations of income and loss
- Borrowing powers
- Duties and rights of the general partner(s) - limited partnerships

LIMITED PARTNERSHIPS

A limited partnership is similar to a general partnership with a few very important difference. A limited partnership may have one or more general partners, and several limited partners. In this arrangement the general partner(s) are responsible for the day-to-day operations of the partnership. General partners(s) of a limited partnership are also personally liable for the debts and obligations of the limited partnership.

Limited Partners, on the other hand, do not take part in running the business, but are entitled to share in the profits and loss of the business. Their liability for partnership obligations is limited to their capital investments.

For income tax purposes a partnership is required to prepare financial statements (both federally and provincially) however, a partnership itself does not pay income taxes. Each partner reports their share of the partnership's profit or loss on their individual tax return as mentioned above. Partnerships with six or more partners are required to file an annual information return (T5013) by the March 31st following the fiscal year end of the partnership.

CORPORATIONS

Corporations are legal entities that exist under the authority granted by law. Corporations are viewed as individuals by the law, and have substantially all of the legal rights of an individual (i.e. is responsible for its own debts). It must also file income tax returns and pay taxes on income it derives from its operations. Unlike a proprietorship or partnership, the owners or shareholders of a corporation are protected from the liabilities of the business. When a corporation is small or in the start-up phase, creditors often require personal guarantees of the principal shareholders before extending credit. Aside from this however, the legal protection afforded the owners of a corporation can far outweigh the additional expense of starting and administering a corporation.

A corporation must obtain permission from the Minister of Finance to use or do business under a corporate name. Corporations must file annual income tax returns with the Canada Revenue Agency. The elections made in a corporation's initial tax returns can have a significant impact on how the business is taxed in the future.

Incorporating a business allows a number of other advantages such as the ease of bringing in additional capital through the sale of equity, or allowing an individual to sell or transfer their interest in the business. It also provides for business continuity when the original owners choose to retire or sell their interest.

Should you decide to incorporate your business venture, you should seek the advice of competent legal counsel and a [Chartered Accountant](#).

REGISTERING WITH THE TAX AUTHORITIES

A crucial yet often overlooked part of starting a new business is ensuring you have appropriately complied with the plethora of tax and information filing requirements from various government authorities. Failure to comply with these requirements on a timely basis, often results in punitive penalties being assessed.

Several forms are required to be filed when a business is started. This guide is an all-inclusive list of the filing requirements, it does however, highlight the more pertinent requirements common to most businesses. Industry-specific filing requirements may also exist and should not be overlooked. Qualified professional(s) within your industry should be consulted to ensure all filings are appropriately made.

BUSINESS NUMBER

Most tax forms filed for your entity with the Canada Revenue Agency require the use of a Business Number (BN). Each business is assigned a unique nine-digit registration number that is used for all four of the following Canada Revenue Agency accounts:



It is important to register promptly in order to avoid substantial confusion as well as penalties and interest for late filings. To register for a business number form RC1 E – Request for a Business Number must be completed and filed with Canada Revenue Agency. The Business Registration Form is available online at the CRA’s website at <http://www.cra-arc.gc.ca/E/pbg/tf/rc1/README.html>. CRA is also able to process registrations through the internet via the Business Registration Online webpage at <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/bn-ne/bro-ide/rstrctns/menu-eng.html>

INCOME TAX FORMS

There are only two certainties in life, death and taxes. Once you start your new business, you will have to deal with income taxes. The Canadian *Income Tax Act* is extensive and it can take years of study and training to master many of its rules and regulations. The following discussion is not an all encompassing discussion of the tax issues and compliance issues you and your business might face. It does, however, aim to provide guidance on complying with the laws and regulations within the Income Tax Act.

A qualified Chartered Public Accountant should be consulted when you are dealing with income taxes. It's no secret that Income taxes have a direct and potentially significant impact on the cash flow of your business. This point highlights the pivotal importance of thoughtful tax planning so as to maximize income tax laws, and minimize the effect of taxes on your businesses cash flow. It is highly recommended that you develop a relationship with a qualified tax professional who has experience with your industry.

Your Chartered Professional Accountant (CPA) can help you properly plan and execute, in the early stages of your new business. However, tax planning isn't just during your start-up phase, or worse, right before you return is due. **Tax planning** is a year-round, and year-over-year endeavor which requires constant communication between you and your CPA. This communication helps to ensure there are no surprises come tax season.

If you are doing business in more than one province, it is essential that you familiarize yourself with the tax laws and filing requirements of those provinces as provincial tax returns may be required.

As mentioned previously; income tax laws are quite complex and take years of study to attain proficiency. Attempting to create savings by attempting to tackle your own taxes, can be penny-wise but pound foolish. The expense you may incur if you make a mistake can far outweigh any saving you realize by attempting to tackle this enormous task on your own.

CORPORATIONS

Corporations must file a T2 Corporate Income Tax Return on an annual basis, as well as, produce financial statements for this same purpose. Your Chartered Professional Accountant will use these financial statements to complete your return. The information must be entered into the General Index of Financial Information (“GIFI”) as required by the CRA.

PARTNERSHIPS

As touched on earlier, partnerships are treated as a flow-through entities where taxable income (or loss) is passed through to the partners for inclusion in their respective individual tax returns. The partnership is required to prepare financial statements for this purpose. Form T2125 - Statement of Business and Professional Activities, should be used if the partner is an individual (<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/slprtnr/rprtng/menu-eng.html>). Where a partner is a corporation, the partner’s share of the net income of the partnership should be entered on the Corporate T2. Partnerships which have 6 or more partners are required to file Form T5013 - Statement of Partnership Income (<http://www.cra-arc.gc.ca/E/pbg/tf/t5013/README.html>) on or before the March 31st following the partnership's fiscal year end.

SOLE PROPRIETORSHIPS

A sole proprietorship should report income/loss from its business activities on a calendar year basis using Form T2125 - Statement of Business and Professional Activities. This form needs to be filed with the tax payers T1 - General Income Tax Return (<http://www.cra-arc.gc.ca/menu/LBA-e.html>) for the calendar year.

FIRST CORPORATE RETURN

A Corporation’s first tax return is very important. Several elections are made which will dictate the way the corporation is taxed for many years to come.

Some of the more significant elections that may need consideration are outlined below:

1. The selection of a method to cost inventories using the most appropriate method for your business.
2. The treatment of reporting gains on investments.
3. The selection of a year-end date.

The elections discussed above are only a few of those that may need to be considered in an initial return. A qualified tax practitioner can help plan how best to utilize elections to take advantage of some of the following provisions of the federal and provincial tax laws including:

1. Operating loss carryovers
2. Research and development tax credits
3. Business tax credits

SIGNIFICANT INCOME TAX DATES:

<i>Date</i>	<i>Task</i>
<i>2 months after Year End</i>	Corporate taxes owing on the previous year are due
<i>6 months after Year End</i>	T2 Corporate Return filing deadline
<i>January 15</i>	Fourth quarter source deduction remittance date (for qualifying small business)
<i>February 28</i>	T4s and T5s (if any) need to be filed
<i>March 1</i>	RRSP contribution deadline for credit to prior years
<i>March 15</i>	First tax installment date for self-employed individuals
<i>March 31</i>	Partnership information return deadline, and T3 trust allocations deadline
<i>June 15</i>	Second tax installment date for self-employed individuals
<i>September 15</i>	Third tax installment date for self-employed individuals
<i>December 15</i>	Fourth tax installment date for self-employed individuals

CORPORATE INCOME TAX

- Monthly installments due by the end of each month
- Remittance deadline for balance due is three months after corporate year end for Canadian controlled Private Corporations eligible for the Small Business Deduction; two months for all other corporations
- Tax return due six months after the corporate year end
- For more information on tax remittances and deadlines see the CRA website: (<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/pymnts/menu-eng.html>)

PAYROLL TAXES

Irrespective of the form of business in which you operate, if you are going to have employees then you will have to contend with payroll deductions and remittances. The brief summary that follows will give you some guidance in the rules and regulations of the various taxing authorities.

- Employers must withhold income tax, Canada Pension Plan (“CPP”) & Employment Insurance (“EI”) premiums from wages each pay period and remit these withholdings along with the employer’s share of CPP and EI
- New businesses are required to remit payroll deductions on a monthly basis. Remittances are due on the 15th of the following month
- Every company is required to prepare a T4 information return consisting of a summary and slips. Slips for each employee must be prepared summarizing his or her wages, benefits, CPP, EI, and union dues amongst others paid during a particular calendar year. Your employees must receive a copy of their T4 slip by the end of February of the following year. In addition, a copy of each T4 Information Return must be received by CRA by the same date.

EMPLOYED OR SELF-EMPLOYED?

Income earned from employment and income earned from self-employment are treated differently for tax purposes. Revenue Canada has strict regulations to determine whether an individual is an employee or is self-employed. The regulations are broken down into four tests:

Control	An employee-employer relationship exists if the payer controls the time, place and manner in which the work is performed.
Ownership of Tools	An employee-employer relationship exists if the payer supplies the equipment and tools required by a worker.
Chance of Profit / Risk of Loss	An employee-employer relationship exists if the payer bears the risk of financial risk and the worker receives full compensation regardless of the health of the business.
Integration	An employee-employer relationship exists if the worker has integrated his or her business into the payer’s business and is dependent on it.

An individual is not considered to be self-employed if he or she meets any of the above tests. Each employment situation is unique and should be analyzed based on the facts of the specific situation.

If your employment fits the parameters of a self-employed business, then:

1. Your payer is not required to withhold source deductions on your behalf,
2. You are no longer entitled to employment insurance benefits should you be laid off and
3. You will have to remit the employee and employer portion of Canada Pension Plan

Your **Chartered Professional Accountant** can help you establish whether you are an employee or a self-employed individual.

AVAILABLE PUBLICATIONS

The publications "Employers' Guide - Payroll Deductions and Remittances T4001", which cover the payroll reporting and remittance requirements, can be obtained through the CRA's website at <http://www.cra-arc.gc.ca/E/pub/tg/t4001/t4001-e.html> or from the CRA's local office located at:

1166 West Pender Street Vancouver, B.C. V6E 3H2 Phone # (604) 666-4664 or Fax # (604) 691-4446.

Commissions, directors' fees, overtime pay, benefits (such as auto allowances) and other remuneration amounts are also subject to payroll deductions. Canada Revenue Agency will assess penalties and interest charges on insufficient and delinquent payroll deductions and remittances. These penalty and interest charges are normally not deductible for income tax purposes. Your Chartered Accountant can discuss your business' payroll requirements with you in detail.

APPENDIX A – WHAT IS A BUSINESS PLAN

Business Plan: Article on How-to

<http://articles.bplans.com/writing-a-business-plan/what-is-a-business-plan/33>

BDC - Business Plan: Template

http://www.bdc.ca/EN/advice_centre/tools/business_plan/Pages/default.aspx

SBA - Business Plan: Resources

<http://www.sba-bc.ca/business-planning/key-resources/business-plans>

CYBF - Business Plan: Writer

http://www.cybf.ca/cybf_resources/starting-my-business-plan/business-plan-writer/

CB - Develop a Marketing Plan

<http://www.canadabusiness.ca/eng/page/2690/>

BDC - 5-step marketing Plan

http://www.bdc.ca/EN/advice_centre/articles/Pages/marketing_plan.aspx

BDC - Marketing Basics:

<http://www.canadabusiness.ca/eng/page/2805/>

APPENDIX B – CHOOSING A CORPORATE STRUCTURE

Employee v Self-Employed

<http://www.cra-arc.gc.ca/E/pub/tg/rc4110/rc4110-e.html>

Employee v Contractor

<http://www.labour.gov.bc.ca/esb/facshts/employee.htm>

APPENDIX C – INCOME TAX FORMS

Start-up cost calculator

http://www.bplans.com/business_calculators/starting_costs_calculator/

RBC Net Worth Calculator

<http://www.rbcroyalbank.com/cgi-bin/retirement/networth/start.cgi/start>

CIBC Net Worth Calculator

<https://www.cibc.com/ca/tools/net-worth/net-start.html>

Operations Planning

<http://www.canadabusiness.ca/eng/page/2797/>

Co-operative Associations BC

http://www.coopscanada.coop/assets/firefly/files/files/pdfs/ProvAndSectoralProfiles/BC_co-ops_jun07.pdf

Co-operatives -

<http://www4.agr.gc.ca/resources/prod/coop/doc/creatcoopguide.pdf>

<http://bccacoop/content/what-co-op>

Societies

<http://www.bcregistryservices.gov.bc.ca/bcreg/corppg/societies/index.page?>