



**TORO  
FINANCIAL  
INC.**

# **SMALL BUSINESS GUIDE**

A practical manual for the entrepreneur  
in Canada.



# Welcome

Welcome to our Guide to Small Businesses in Canada. This guide has been designed to help you understand and comply with the tax and registration requirements necessary to successfully run your business in Canada.

We will explore topics such as tax obligations, filing, benefits and deductions, and business registration requirements. Our goal is to provide you with practical and relevant information that you can directly apply to your business.

This guide was updated in 2024. Remember that tax laws and registration requirements can change, so we recommend consulting a qualified professional for personalized and up-to-date advice.

Let's get started and explore the world of small business tax management in Canada together!







# Contents

02. **WELCOME**

---

05. **MAP OF THE ENTREPRENEUR**

---

09. **BUSINESS STRUCTURE**

---

14. **BUSINESS REGISTRATIONS**

---

21. **EXPENSE DEDUCTIONS**

---

31. **SALES TAX AND HST/GST**

---

39. **PAY YOURSELF**

---



# 2. ENTREPRENEUR MAP





# "Everything starts with an idea"

The entrepreneur map (this is you) includes a series of key steps that can help you develop and grow your business. Below are the steps on the entrepreneur's path:

## MAP OF THE ENTREPRENEUR

IDEATION

DEVELOPMENT

LAUNCH

ACCELERATION



## IDEA STAGE

It may have started as a passing thought, but now you're convinced that your idea could solve a universal problem and launch you into the world of entrepreneurship. It's time to test your theory and bring your idea to life. At this stage, you'll identify potential buyers, articulate a unique value, evaluate the competitive landscape, and nail down your feature set.

### OBJECTIVES OF THIS STAGE

#### ARTICULATE YOUR CONCEPT

Describe your idea in a clear and concise manner using verifiable facts. Who are you? What are you doing? Why will it work?

#### VALIDATE YOUR MARKET OPPORTUNITY

How are you solving a problem and who is willing to spend money on your solution?

## RESULTS OF THIS STAGE

### VALUE PROPOSAL

Statement or statements that clearly identifies the value of your offering.

### PROBLEM STATEMENTS

Establish the pain point or challenge that your client is experiencing that you are going to alleviate.

### MAIN USE CASES

A written summary of how customers will use your offer(s)

### BUSINESS MODEL CANVAS

Page or template to help brainstorm a business model

### REGISTRATION/ INCORPORATION

The formal documents necessary to start your business.



# LAUNCH STAGE

A product launch is an event to celebrate. It's also where the real work begins. At this critical juncture, you will validate the work you have done to date, testing your value propositions, purchasing cycles, product functionality, and user or customer demands, so you can incorporate the data into the evolution of your company. and demonstrate product market fit.



## OBJECTIVES OF THIS STAGE

### **DEPLOY PILOT PRODUCTS TO REFINE YOUR MINIMUM VIABLE PRODUCT (MVP)**

Leverage early customers/users to validate product-market fit.

### **START BUILDING YOUR FUNNEL**

Create a formal process to lead customers to knowledge of your product, participation and purchase.

# ACCELERATION STAGE

You're gaining momentum and it's time to consider how you can scale in a way that meets your customer base while branching out into adjacent markets. This is where your thoughtful approach to planning and strategy pays off and traction really comes into play.

## OBJECTIVES OF THIS STAGE

### EXPANDED LAUNCH FUNCTIONALITY

Make product improvements based on customer feedback

### CUSTOMER ACQUISITION

Demonstrate business model and customer acquisition tactics

### TALENT ACQUISITION

Identify and hire key personnel around commercial and technical functions







# 3. BUSINESS STRUCTURE



# BUSINESS STRUCTURE

The type of structure you choose for your business has a significant effect on how you report your income. The structure of the business affects the type of tax returns you file each year and many other issues.

To find out the impact each structure would have on your business, check out the following list below:

## SOLE PROPRIETORSHIP

A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest type of business structure.

### Advantages:

1. **Simplicity:** It is easy to establish and requires less legal and administrative procedures compared to other business structures.
2. **Control:** The owner has exclusive decision and operation.
3. **Tax Benefits:** Reporting income and expenses in a personal statement is simpler and less expensive.
4. **Minimal Costs:** Compared to other forms of business, a sole proprietorship tends to have lower startup and ongoing costs, making it more accessible to entrepreneurs with limited financial resources.

### Disadvantages:

1. **Personal liability:** The owner is responsible for the debts of the business, putting his personal assets at risk.
2. **Limitations:** The owner may have more difficulty accessing capital and financing without a corporate structure. Without the ability to issue shares or bring in additional partners, growth opportunities may be restricted.
3. **Continuity:** Continuity of the business may be in peril in case of disability or death of the owner.
4. **Credibility:** A sole-proprietor may be perceived as less stable and credible compared to larger companies.



# PARTNERSHIP

A partnership is an association or relationship between two or more individuals, corporations, trusts or associations that come together to carry on a trade or business.

## Advantages:

1. **Ease of establishment:** It is easy to establish and requires fewer formalities and legal costs to incorporate.
2. **Distribution of work:** Partners share responsibilities and decisions, which can ease workload and promote collaboration.
3. **Financial resources:** Partners can contribute capital and resources, making it easier to obtain financing and invest in the business.
4. **Diversity of skills:** Partners can bring different skills, knowledge and contacts to the business, which can improve its ability to address challenges and seize opportunities.

---

## Disadvantages:

1. **Unlimited liability:** Partners are personally responsible for the debts and obligations of the business, which can put their personal assets at risk.
2. **Difficulties in decision making:** Decision making can be slower and more complicated due to the need for consensus between partners.
3. **Profit division:** Profits must be shared between partners according to the terms of the partnership agreement, which can result in unequal distribution.
4. **Limited continuity:** The dissolution of a partnership can easily occur due to changes in the relationship between the partners, which can affect business continuity.



# CORPORATION

Incorporating your business creates a new legal entity separate from its owner(s), called a corporation.

## Advantages:

1. **Limited Liability:** Shareholders have limited liability, meaning their personal assets are generally not at risk beyond their investment in the corporation.
  2. **Access to capital:** Corporations can raise capital by issuing shares on the market or attracting investors, allowing them to finance expansion and growth projects.
  3. **Continuity:** Corporations can exist beyond the lives of their founders and shareholders, providing long-term stability and continuity.
  4. **Flexibility:** Corporations can have multiple share classes and ownership structures, allowing founders and shareholders to adapt the governance and ownership structure as needed.
  5. **Tax benefits:** Corporations can take advantage of various tax strategies, the ability to defer taxes on certain withheld income in the corporation, and in many cases result in less taxes in total.
- 

## Disadvantages

1. **Administrative complexity:** The corporation requires legal and tax filings each year to stay in good standing with the authorities. This requires attention and is a time commitment for the owner(s).
2. **Start-up and ongoing costs:** Establishing and maintaining a corporation can involve significant costs, including legal, filing, and ongoing compliance fees.
3. **Taxation:** With an increased complexity, corporate income is taxed at the corporate level and again when distributed to shareholders as dividends. In some cases operating as a corporation means paying more taxes than a sole proprietorship.
4. **Losses Harder to Use:** If your business suffers financial losses, it is more difficult in a corporation than in a sole proprietorship to use those losses to reduce future taxes.
5. **Potential loss of control:** As a corporation issues more shares and attracts more investors, the founders and original shareholders may lose some control over business and strategic decisions.





## WHICH SHOULD YOU CHOOSE?

This depends on your specific situation. These points are important to consider:

- Incorporating brings more costs than a sole proprietorship, or a partnership.
- The annual returns required for a corporation are typically more expensive than those for a sole proprietorship or partnership.
- Incorporating is more prudent if you expect to make more income in your business
- Incorporating may be more appropriate if you are concerned about limiting your legal and financial liability in your business.
- Incorporating can help you plan taxes better because small businesses have smaller tax rates than individuals, which allows you to reinvest more in the business.





# 4. REGISTRATIONS FOR YOUR BUSINESS





# WHAT SHOULD I REGISTER?

Apart from incorporation, let's look at other registrations that you as the owner of your business need to know:

## REGISTER YOUR NAME

Each province has its own site to register your name. In Ontario you can register your name here: [bit.ly/3r5uwi3](https://bit.ly/3r5uwi3)  
The cost is around \$60 for a Sole Proprietorship or Company, and \$300 for incorporation.

If you have federally incorporated and have chosen a name for your business and it has been approved, this name may have federal protection.

## REGISTER A BUSINESS LICENSE WITH YOUR MUNICIPALITY

Find what municipality and municipal permits your type of business requires at [bizpal.ca](https://bizpal.ca). It's totally free and lets you know what permits and licenses are needed. They are open 24/7 to help you navigate government requirements specific to your type of business.

## GET A NUMBER WITH THE CRA

If you have not incorporated you will need a business number with the CRA. This number will be needed to begin collecting GST/HST and to make payment and withholding of wages. You can do it here:

[bit.ly/3NKUQal](https://bit.ly/3NKUQal)

## REGISTER FOR SALES TAX

If you sell services or products to British Columbia, Manitoba, Saskatchewan or Quebec, you may need to register provincially to collect and remit provincial sales tax RST/PST/QST.



# CRA MY ACCOUNT - INDIVIDUALS

Individuals will benefit by registering for CRA's My Account. This online account allows you to manage your personal tax information, including viewing your account balance for outstanding payments, as well as your TFSA and RRSP contribution limits. You can also make changes to your personal information (e.g. marital status, residential address), view government benefits and credits, and file a GST/HST refund.

## HOW TO SET UP MY CRA (CANADA REVENUE AGENCY) ONLINE ACCOUNT

Setting up your My Account account on the CRA website is simple and straightforward. Before you begin, make sure you have the following personal information on hand:

- Social Security Number (SIN).
- Birthdate.
- Current address.
- Copy of your most recent tax return.

Follow these steps to set up your online account:

- Access the [CRA website](#).
- Click on the "[My Account](#)" link
- Select the "[CRA register](#)" option.
- Provide your social security number (SIN) and date of birth when prompted.
- Verify your identity by answering security questions based on your credit history or other personal information.
- Create a username and secure password to access your account.
- Provide your current address and other personal information as requested.
- Verify the information provided and confirm your registration.

# CRA MY BUSINESS ACCOUNT - SOLE PROPRIETORS & CORPORATIONS

If your business is incorporated or files GST/HST returns, then the My Business Account is for you. In addition to viewing your Corporate Income Tax, the My Business Account allows you to manage your payroll, file returns, view account balances and manage direct debits. You can also file or adjust a GST/HST return and check your account balances. Other services include authorizing access for representatives such as an accountant, the ability to file documents electronically and file Excise tax returns.

## HOW TO SET UP MY CRA (CANADA REVENUE AGENCY) ONLINE BUSINESS ACCOUNT

The information needed to set up your My Business Account online is the same as for My Account. You will need to:

- Social Security Number (SIN).
- Birthdate.
- Current address.
- Copy of your most recent tax return.

**Step 1** - Go to [CRA My Business Account website](#).

Scroll down to Option 2 - Using a CRA user ID and password and click the CRA Register link.

**Step 2** - Start the registration application.

Have your business number and copies of your corporate and personal tax returns from the current and previous tax years ready. The applications will ask for specific information from these returns.

**Step 3** - Have your code sent to you by mail or email (if you select email, you will have to call the CRA, which can take a lot of time).

Receiving your CRA code by mail typically takes 10 business days. Make sure they have your current address on file. The CRA's phone number is 1-800-959-5525.

**Step 4** - Sign into your CRA My Business Account for the first time.

To access your account, go to [My Business Account](#), scroll to Option 2 – Using a CRA user ID and password, then click CRA login and enter your CRA user ID and password. When prompted, enter your CRA security code.



# OTHER REGISTRATIONS

## REGISTER WITH YOUR PROVINCE'S WORKERS' SAFETY COMPENSATION BOARD

Most businesses need to register with the workers' compensation board of the province in which they operate. The compensation board provides wage loss benefits, medical coverage and support to help people return to work after a work-related injury or illness.

Each province has its own board, for Ontario go to [wsib.ca](http://wsib.ca)

## GET BUSINESS INSURANCE

If you have a home business or work from home, you should consider getting business insurance. Business insurance can protect you against loss or damage to physical property or the loss of your business's ability to operate and generate income. Home or renters insurance generally will not pay claims related to a home-based business.

## These are the main types of commercial insurance and their characteristics:

Commercial Insurance Type	How does it work
Commercial property insurance	pays for damage or loss to your business premises. It also protects against damage, theft or loss of business property or inventory.
Liability insurance	protects your business against third-party liability claims (for example, if a courier slips and falls at your workplace and is injured).
Errors and omissions insurance	It protects your business from claims made against you due to a mistake you may have made.
Purchase and sale agreement	allows a business partner to use a life insurance death benefit to purchase a partner's interest simply and quickly after the partner's death.
Life insurance for key people	provides money to the company if a key employee dies.

# OTHER RECOMMENDED STEPS

## OPEN A SEPARATE BUSINESS BANK ACCOUNT

This simple first step will make your accounting much easier. It may be tempting to use your personal bank and credit card accounts when starting a business, but if you keep your business accounts separate, you'll spend much less time sorting through transactions trying to determine which ones are related to the business.



## KEEP YOUR RECEIPTS AND RECORDS

It is important to maintain complete and organized records to identify sources of income, determine whether to charge GST/HST, take advantage of tax deductions and credits, and be prepared for audits. By law, people who file tax returns, carry out business activities, pay or collect taxes, file GST/HST returns, request refunds, among others, must maintain records (receipts, etc.) for 7 years. Records provide information about the financial position of the business, enable analysis and planning, and show performance trends and comparisons.



## KEEP A SYSTEM

Having someone to help you set up a system and train you on how to do bookkeeping properly will be a valuable investment. It is highly recommended to seek help, because although software companies promise that everything is easy, things can get complicated quickly. You'll avoid some potentially costly mistakes if you get organized from the beginning. With a little initial work, a good system will provide years of peace of mind and good information.



We recommend Quickbooks Online as an accounting system, but in your first year your expenses and profits may be easy to record in a spreadsheet in Excel or Google Sheets, but especially if you have a corporation, we recommend eventually having an accounting system that is robust and can connect with your bank to facilitate your finances and tax requirements.





# 5. TAX DEDUCTIONS (BUSINESS EXPENSES)



# COSTS YOU CAN DEDUCT

Being aware of the specific tax deductions that pertain to your business can help you plan and stay organized. As a general rule, you can deduct any reasonable current expense you incur to earn income. The following list is not exhaustive, but contains some of the most common operating expenses for business owners.

## COSTS TO START YOUR BUSINESS

When you start a business, miscellaneous fees can add up quickly. These costs typically include the purchase of inventory and fees vital to your business operations as incorporation costs.

You can claim these expenses, but only if they are incurred after the start date of your business. The Government of Canada specifies that you must be accurate about the start date of your business to be eligible for tax refunds.

**Total amount you can claim:** You can claim up to \$3,000 in incorporation costs. Incorporation costs of more than \$3,000 must be capitalized under the capital cost allocation (CCA) system - Explained on the next page.

## ADVERTISING

You can deduct advertising expenses, including advertising in Canadian newspapers and on Canadian television and radio stations. You can also include any amount you paid as a finder's fee.

To claim expenses, you must meet certain Canadian content or Canadian ownership requirements. These requirements do not apply if you advertise on foreign websites.

**Total amount you can claim:** You can claim 100% of advertising on Canadian TV or Radio. You can claim 100% on Canadian periodicals if it has at least 80% original editorial content. If the newspaper has less than 80% editorial content, you can deduct only 50%.



To the government, items like desks, chairs, and computers are considered capital costs. Capital costs are one-time purchases that are integral to creating income and provide a benefit that typically lasts several years.

Capital costs generally depreciate over the period of time you use them.

Capital costs can be taken into account in your small business deductions, but they must be deducted over a period of several years under the Capital Costs Allowance (CCA) system and cannot be deducted immediately.

Here are the most common types of depreciable property:

Class	Depreciable property	Annual rate
1	Most buildings purchased after 1987. The rules for buildings are complex and the class (and rates) of CCA depend on the type of building, how it is used and when it is purchased.	4% (varies)
8	Furniture, accessories and various capital goods. Various assets that cannot find another class of CCA.	20%
10	Most automobiles and other automotive equipment (if not in class 10.1 or 16)	30%
10.1	Passenger vehicles costing more than the prescribed amount (\$36,000 after January 1, 2023).	30%
12	Tools, medical or dental instruments, and kitchen utensils that cost less than \$500.	100%
14.1	Indefinite-term intangibles such as goodwill, incorporation costs greater than \$3,000, customer and franchise lists, among others purchased after 2016.	5%
16	Taxis and vehicles that you use in a daily car rental business.	40%
50	Hardware software and computer systems for that equipment, including ancillary data processing equipment.	55%

**You can deduct:** Accelerated investment incentive in eligible properties of 150% of the CCA the first year until 2028 For example: Juan Inc. purchases a computer (class 50) for \$2,000 in 2023. The CCA of the 1st year is  $\$2,000 \times 55\% \times 150\% = 1,650$ . The 2nd year CCA is  $(\$2000 - \$1,650) \times 55\% = \$192.50$



## BILLS (EX. TELEPHONE AND UTILITIES)

As a business owner, you can deduct the costs of certain bills such as electricity, water, telephone and cable, if these expenses allow you to obtain business income. However, you can only deduct the percentage of costs related to running your business.

You can deduct expenses for business use of a workspace in your home, as long as it meets one of the following conditions:

- It is your main place of work
- you use the space only to earn income from your business, and you use it regularly and continuously to meet your clients, customers or patients

You can deduct part of your maintenance costs, such as heating, home insurance, electricity and cleaning materials. You can also deduct part of your property taxes, mortgage interest and capital cost allowance (CCA). To calculate the portion you can deduct, use a reasonable basis, such as the area of your workspace divided by the total area of your home.

**Amount you can deduct:** Any percentage of your invoices that you use for business operations.

**For example:** If you pay \$600 each month for bills that you use to generate business income 30% of the time, you can spend 30% of \$600, or \$180 monthly.

## UNCOLLECTIBLE DEBTS

Generally, you can deduct an amount for a bad debt if:

- You had determined that an account receivable is a bad debt in the year
- you had already included the account receivable in income

**For example:** If you were unable to collect \$10,000, and a debt collection agency was able to collect \$3,000 on your behalf, you can claim \$7,000 that could not be collected.



## MEMBERSHIPS AND CLUB DUES

If your type of business requires you to pay membership dues or similar fees, this may be a potential tax deduction. This includes things like a membership in a governing body or association, or even a subscription to a publication. However, it does not include recreational memberships (such as a gym, golf club, or athletic club membership)

**Amount you can deduct:** You can claim 100% of business licenses and fees as long as they are used in the operation of your business. If your license is only partially used for your business, you can only deduct that percentage of the business license.

**For example:** You pay \$2,000 in commercial licenses for your business, and you pay \$1,500 in golf club fees. You can only deduct the \$2,000 for business licenses.

## OFFICE EXPENSES

You can deduct the cost of office expenses. These include small items such as:

- Pens, Pencils, Paper clips, Stationery, Stamps

Office expenses do not include items such as:

- Filing cabinets, Chairs, Desks

These are capital items, you must use the CCA system

**Amount you can deduct:** You can claim 100% of the cost of your office supplies, as long as they are necessary for your work and are used solely for business purposes.

**For example:** If you spend \$2,500 a year on office supplies like paper, pens, file folders, stamps, etc., you can claim \$2,500 as a business expense.

## PROFESSIONAL FEES

If you seek advice related to the operation of your business, you can deduct the fees paid for these services from your taxes. This may include individuals such as accountants, lawyers, and other professional consultants.

**Amount you can deduct:** You can claim 100% of professional fees related to your business operations. For example: If you hire the services of an accountant that costs \$1,500 per year, you can claim the entire \$1,500 as a business expense.

## EMPLOYEE SALARIES

You can deduct gross wages and other benefits you pay to employees.

Do not include:

- Owner Dividends
- Owner salaries if the business is not incorporated.

**Amount you can deduct:** You can claim employees' gross wages, as well as CPP or QPP contributions, EI (Employment Insurance) premiums, workers' compensation amounts, and parental insurance plan premiums (in Quebec) . For example: If your employees' gross salaries equal \$50,000 per tax year (this figure includes all CPP contributions, EI premiums, etc.), then you can deduct the entire \$50,000 as a business expense.

## SHIPPING COSTS

You can deduct the cost of delivery, fleet and express shipping incurred in the year related to your business.

**For example:** If you spend \$1,500 in a tax year on delivery fees, you can claim the entire \$1,500 as a business expense.



## MOTOR VEHICLE EXPENSES

Depending on the nature of your trip, you may be able to deduct some of the costs associated with operating a motor vehicle on your taxes. However, the amount you deduct depends on how often you use your motor vehicle for business purposes.

**Amount you can deduct:** Depends on the amount of time or mileage you use your motor vehicle for business use only, and whether you own or lease your vehicle. For example: If you're leasing a car for business 40 percent of the time, you can deduct 40 percent of your monthly lease payment. So if you pay \$10,000 per year in lease payments, you can claim \$4,000 as a business expense. Some limits

## COMMERCIAL INSURANCE

You can claim any insurance premiums you incur, as long as they pertain to buildings or equipment you use in the operation of your business. You may be eligible to claim home or car insurance premiums. However, they must be reported as part of your household expenses or motor vehicle expenses, respectively. In most cases, life insurance premiums are not eligible for deduction.

**Amount you can deduct:** You can claim any insurance premium paid in full. For example, if you spend \$1,500 per year on vehicle insurance (and the vehicle is used 100% for business) and \$9,000 on property insurance, you can claim \$10,500 as a business expense as long as you can show proof of payment (that is, you cannot claim insurance that has not yet been paid).

## CHARITABLE DONATIONS

In certain cases, you may be able to count a charitable donation as a business expense. To be eligible, the donation must be made through your business to a registered Canadian charity.

**Amount you can deduct:** Generally, up to 75% of charitable donations are tax deductible. For example, if you donate \$1,000 in a year on behalf of your business, you can claim  $\$1,000 \times 75\% = \$750$  as a business expense.

## SHIPPING COSTS

You can deduct the cost of delivery, fleet and express shipping incurred in the year related to your business.

**For example:** If you spend \$1,500 in a tax year on delivery fees, you can claim the entire \$1,500 as a business expense.

## RENT

A percentage of the amount you pay in rent for the property where you do business can go toward your tax deductions. This is true whether you rent a separate office space or conduct business within your personal living space. However, how you claim this will change depending on which category you fall into.

**For example:** If you use 30 percent of your home to run your business, you can deduct 30 percent of your rent on your taxes. For example, if you work from home and your rent costs \$1,000 per month, and you use 30 percent of your home for work, you can claim \$300 per month (or \$3,600 per year) as a business expense. However, if you rent a space and the entire space is used for business purposes, you can deduct the entire rent as a business expense.



## TRAVEL AND FOOD COSTS FOR BUSINESS

If you participate in related travel for your small business, you can deduct this expense. This includes transportation, hotel accommodation, as well as meals. A 50 percent limit will apply to all food and beverage purchases made during the trip.

**Amount you can deduct:** 100% of travel expenses, 50% of food and beverage expenses. For example: If you take a business trip and spend \$1,000 on hotel accommodations and \$400 on meals, you can claim \$1,200 as business expenses (\$1,000 for hotel and \$200 for meals).

## SALES TAX

Sales tax appears as GST and PST in Alberta, British Columbia, Manitoba and the territories, as GST and QST in Quebec, and as HST in Ontario, Prince Edward Island, Newfoundland and Labrador, Nova Scotia and New Brunswick. Certain businesses must charge sales tax on their services. However, as a small business owner, if you are registered, you can receive refunds on the sales tax you pay through something called input tax credit (ITC).

When you file your small business taxes, the CRA will determine if the amount of sales tax it has collected is less or more than your ITC. If you have a negative balance, the government will provide you with a sales tax refund. We will see more details later

**Amount you can deduct:** You can allocate 100 percent of the small business taxes you claim from your ITC. For example: If you collected \$13,000 in business taxes for the tax year, you can put \$13,000 toward your ITC. If you exceed your ITC during the year, you will receive a refund.



# COSTS YOU CANNOT DEDUCT



While it would be great if small business deductions were all-encompassing, there are some common expenses that are not eligible for tax deductions. These include:

- Parts of any bill used for personal matters (or living expenses: groceries, housing, clothing, vacations, etc.)
- Use of recreational facilities and Club fees (ex. Golf)
- Political contributions (not a business allowable expense, may be claimed as a credit on the personal TI filing)
- Tax payments, government fines or illegal payments.
- Interest you have incurred on personal loans that were borrowed to pay back income taxes
- Prepaid expenses for a future year.







# 6. SALES TAXES (HST/GST)



# "Consumption taxes have different rules than income taxes."

HST (Harmonized Sales Tax) is a Value Added Tax (VAT). HST is a consumption tax that is levied at every stage of the supply chain, from production to the final sale of a product or service. It is designed to tax any "value added" at each stage of production and distribution.

## Differences with the PST/RST/QST

Unlike a retail sales tax (such as the BC or SK PST, MB RST, or QC QST), which is levied only on the final sale to the consumer, a value-added tax such as the HST is collected at each stage of the production and distribution process. This means that companies can claim credits or refunds for the tax paid on inputs (purchases made for the production process), which means that the tax is effectively borne by the final consumer.





# TAXABLE SUPPLIES

Most goods and services in Canada are considered taxable supplies. This includes everything from car repairs, hotel accommodations, clothing and footwear, to legal and accounting services. Most of these items have the full 5 percent sales tax (GST) rate (in some provinces) or the full 13 or 15 percent (on HST provinces) applied to them.

Some goods and services are classified as "tax-exempt" supplies, meaning they are taxed at a rate of 0 percent. Tax-exempt supplies include basic grocery products, prescription drugs, and some goods and services sold to customers outside of Canada. However, other supplies are non-taxable, such as child care services and residential rentals.

If your business sells taxable supplies in Canada (either at 13%, 5% or 0%), you must register for GST/HST, unless you are a small supplier of less than \$30,000 in sales in a 12-month period.

If you drive as a taxi or uber, you also have to register for HST even if you don't meet the sales threshold.

# THE HST AND THE GST

The HST combines the federal Goods and Services Tax (GST) with the provincial sales tax in certain provinces of Canada. It simplifies the tax system and reduces administrative burdens by having a single tax rate and unified administration for both levels of government.

## SHOULD I REGISTER FOR HST/GST?

### Registration Requirements:

- If your business's total worldwide taxable sales exceed CAD \$30,000 in a 12-month period, you must register for HST.
- If you are a Taxi or Uber driver, you must register for HST even if your sales are less than \$30,000.

### Voluntary Registration:

- Even if your business's total taxable sales do not exceed the threshold, you can choose to voluntarily register for the HST.
- Voluntary registration allows you to claim tax credits for taxes paid on eligible business expenses and take advantage of potential benefits.

**We recommend that you register the HST as soon as possible, because if you collect GST/HST you have a couple of benefits:**

- Registering for the HST allows you to collect up front and then remit the tax to the government on taxable sales. This can help you with cash flow (but be careful because the net money is from the government)
- It also allows you to claim tax credits for taxes paid on eligible business expenses, which reduces the amount of HST you owe and in some cases you can receive a refund if you paid more HST/GST than you collected.

### Registration process:

- To register for the HST, you can complete the application online through the [CRA website](#).
- You will get a Business Number (BN) and a GST/HST account.

Please remember that this guide provides general information, and it is recommended that you consult with a tax professional or the CRA for specific advice based on the circumstances and location of your business.



# PST (RST & QST)

In British Columbia, Saskatchewan, Quebec and Manitoba, the retail sales tax (PST) is separate from the retail sales tax (GST). Therefore, if you operate in one of those provinces, your business may need to collect, collect and remit both PST and GST using two different sets of forms.

## PST AND BRITISH COLUMBIA (B.C.)

### Registration Requirements:

- You must register to collect and remit PST if you are in B.C. and do any of the following in the ordinary course of your business in B.C.:
  - Sell taxable goods in B.C.
  - Income from property subject to tax in B.C.
  - Provide related services in B.C.
  - Providing legal services in B.C.
  - Providing online marketplace services in B.C.
  - Provide telecommunications services in B.C.
  - Provide software in B.C.
  - Act as liquidator, receiver, administrator or trustee and dispose of assets as part of your business

If any of the following statements apply to you, you may also be asked to register. See [PST Bulletin 001, Registering to Collect PST](#) for detailed information to help you determine whether you should register:

- You are located outside of B.C. and make sales to customers in B.C.
- You enter into contracts to improve real estate on which your clients have agreed to pay PST
- You sell exclusive products as a direct seller to an independent sales contractor in B.C. for resale
- You sell accommodation in B.C. (see hosting providers below)
- You are a marketplace facilitator who operates, owns, or controls an online marketplace (see [PST Bulletin 142, Marketplace Facilitators, Marketplace Sellers, and Online Marketplace Services](#))

### Small sellers

If you qualify as a small seller, you are not required to register to collect and remit PST. Small sellers pay PST when purchasing products for resale and do not charge or collect PST on their sales.

You can be a small seller if:

- You are in B.C.,
- You have \$10,000 or less in gross receipts from all retail sales of eligible goods, software, and services in the previous 12 months, and
- Your estimated gross receipts from all retail sales of eligible goods, software, and services in the next 12 months are \$10,000 or less.

This is not a complete list. For more information and to see if you qualify as a small seller, see Bulletin [PST 003, Small Sellers](#).

### Register to collect PST

You can apply to register to collect and remit PST online, in person, or by mail or fax. For information on how to register to collect PST, please see our [Register to Collect PST](#) page.



## PST IN SASKATCHEWAN (S.K.)

In Saskatchewan, businesses must register to obtain a PST number. Depending on the nature of the business, a seller license number or a registered consumer number will be issued.

You can see the requirements and more information on the [Government of Saskatchewan website](#).

## RST IN MANITOBA (M.B.)

Your business is required to be registered for sales tax if:

- You carry on business in Manitoba, selling taxable goods or services at retail.
- You are a manufacturer, wholesaler or importer in Manitoba (directly or through an agent).
- You bring or receive taxable property into Manitoba for use in your business.
- You are an out-of-province business that solicits and sells goods in Manitoba.
- You are a mechanical or electrical contractor performing work in Manitoba.
- You operate a retail business in Manitoba on a temporary, short-term or intermittent basis.

You do not need to register for sales tax if:

- Your business sells only non-taxable goods or services.
- You are a contractor (except a mechanical or electrical contractor) who only supplies and installs goods on real property and purchases all goods from sellers registered for Manitoba retail sales tax.
- Your business's annual taxable sales volume is less than \$10,000 and you purchase all goods from sellers registered for Manitoba retail sales tax.

For more information visit the [Manitoba Finance Minister's website](#).

## QST IN QUEBEC (Q.C.)

You must apply to enroll in the QST system before making your first taxable sale in Quebec, unless you are a small supplier (less than \$30,000 in sales in 12 months). You must collect the QST from the moment you are required to be registered.

If you are a tobacco or fuel retailer, a seller of new tires, road vehicles or alcoholic beverages, or are not a resident of Quebec and charge admission to the public, you must also apply for registration before making your first taxable sale in Quebec.

If you have a taxi business, you must apply for registration before making your first taxable sale in Quebec.

### SUPPLIERS TO Q.C. OUTSIDE Q.C.

Some suppliers outside of Quebec who are registered for GST must be registered for QST in order to collect QST on supplies of tangible personal property, incorporeal personal property or services performed in Quebec to consumers in Quebec and remit the tax to Revenu Quebec. Operators of certain digital platforms for the distribution of goods or services that allow suppliers to make taxable supplies in Quebec of incorporeal personal property or services to consumers in Quebec are subject to the same requirements.

If you find yourself in one of these situations, you may need to register for the QST using the registration service reserved for providers outside of Quebec. For more information, visit [revenuquebec.ca](http://revenuquebec.ca).





# 7. PAYING YOURSELF



## "Paying yourself may seem simple, however there are some considerations"

How you compensate yourself will depend on the structure of your business and your personal circumstances. Below, we have a general guide to help you in this process:

### **1. DETERMINE THE STRUCTURE OF YOUR BUSINESS**

Before paying yourself, it's important to understand the structure of your business. If you operate as a freelancer or in a partnership, your business income is considered personal income. If you have a corporation, you'll need to follow specific guidelines for paying yourself.

### **2. SET UP A SEPARATE BANK ACCOUNT:**

It is recommended to have a separate bank account for your business, to keep your personal and business finances separate. This will make it easier to track business income and expenses.

### **3. DECIDE BETWEEN SALARY AND DIVIDENDS:**

If you have incorporated, you can pay yourself a salary or receive dividends from your corporation. Salaries are considered earned income subject to income taxes and contributions to the Canada Pension Plan (CPP). Dividends are a distribution of the corporation's after-tax profits and are subject to dividend tax rates.



# DIVIDENDS

Withdraw money from the company and designate these withdrawals as dividends. Dividends are paid to you using after-tax dollars. This means that withdrawals are not considered company expenses, but rather are taken from profits on which the company has already paid taxes. It is important to keep the following in mind when paying yourself dividends:

## Consequences of paying Dividends

- No deductions are withheld or remitted, so you may be faced with a large personal tax bill if you don't make early tax payments.
- The company must prepare tax receipts (T5) to report the dividend.
- Paying dividends to yourself may affect your ability to contribute to your RRSP, since dividend income does not generate RRSP contribution room like employment income does.

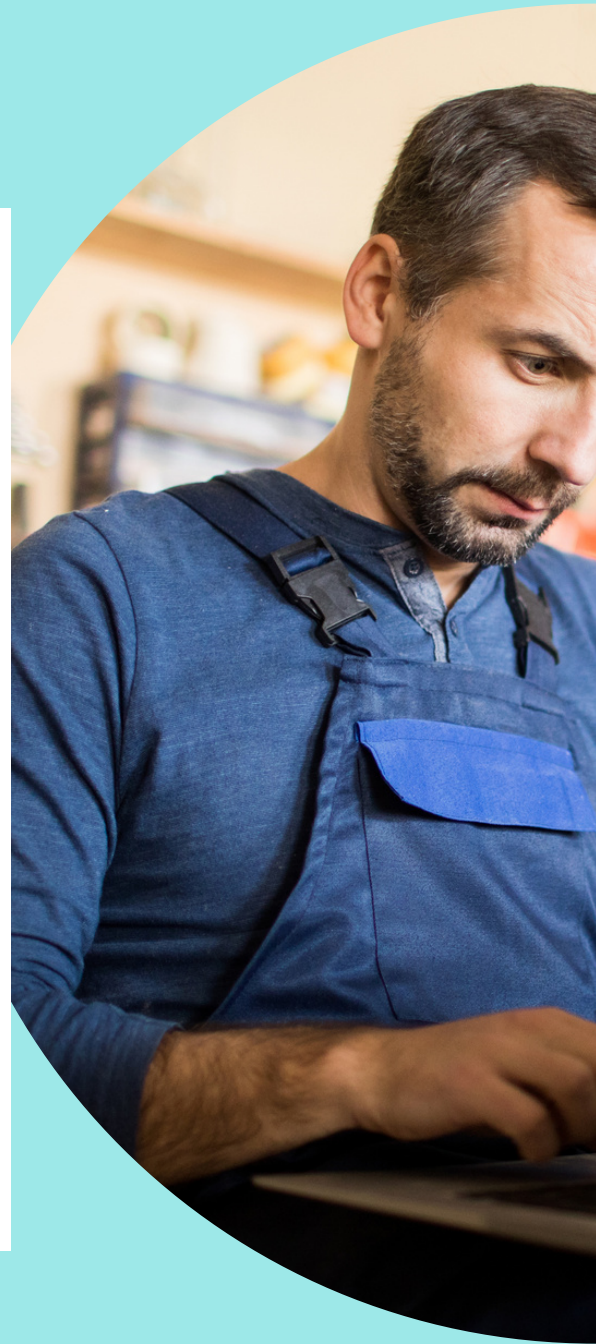


# WAGES

Paying yourself as an employee requires a little more planning, but it's a good way to avoid surprise tax bills and build up RRSP contribution room. Wages are deducted as business expenses and then reported as employment income by the employee(s). Important considerations when paying you salaries:

## Consequences of paying you salary:

- Source deductions (CPP, EI, and income taxes) must be withheld from each paycheck and forwarded to the Receiver General (CRA). The frequency of referral depends on several factors, but monthly referrals are the most common.
- The company must prepare tax receipts (T4) to report employment income.
- Employment income creates additional room to contribute to the RRSP each year.





## WHICH METHOD IS THE BEST?

A common misconception is that dividends are cheaper, which is true if you only look at personally paid taxes. However, to make a fair comparison, you must consider the taxes the corporation paid before distributing the dividends. We often find that salaries result in a lower total tax payment, but may be slightly more expensive overall due to the Canada Pension Plan (CPP) contribution.

Generally, the Canadian tax system is set up so that there is very little difference in the total taxes paid when comparing dividends and salaries, but there are some situations where having a conversation about this with your accountant can help save taxes.



# Congratulations!

You finished section 7!

We hope that this business guide has provided you with valuable information and practical tips to help you on the path to business success.

You've learned about the fundamentals, such as planning, legal structure, taxes, and finances.

## Remember:

Building a successful business requires dedication, perseverance, and an entrepreneurial mindset. Don't be afraid to seek support and advice when necessary, whether from accounting professionals, lawyers or mentors in your industry.

Always keep in mind the importance of adapting to market changes, innovating and maintaining a long-term vision. The entrepreneurial path can be challenging, but with passion, determination and the knowledge gained, you are in a strong position to achieve your goals and grow your business.

We wish you much success in your business adventure!



- Camilo Toro, Toro Financial Inc.










---

# THANK YOU!

We wish you the best in your venture.  
Let us know if you have any questions.

 (647) 459-1013

 [info@torofinancial.ca](mailto:info@torofinancial.ca)

 [torofinancial.ca](http://torofinancial.ca)