

# You never pay tax? I'm sorry to hear about it

Quick: how much tax have you paid this year? If you're an employee, you probably won't know until you get your T4 slip next January or February.

That's because your employer deducts your Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, and income tax from each paycheck.

You probably pay more attention to the amount you're getting paid, not what's being withheld for Canada Revenue Agency.

If you're self-employed, you have a different take. You have to record all your income and expenses and pay tax in installments.

When you have to write a cheque to the government each month or quarter, you're keenly aware of how much tax you pay.

Occasionally you'll hear a blowhard owner/operator yammering on about how he pays very little or no tax at all.

Personally, I'd feel bad for the guy. The only legal way to not have a tax obligation is to have a reportable income of \$3,500 or less.

It's tough to get financing on a new truck or mortgage on that, let alone feed a family.

The point of all this is perspective. Your tax bill is a business expense – another bill that has to be



Tax Talk

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paid. So take steps to understand why you owe what you do. Keep these points in mind:

1. Just because your tax bill is low doesn't mean it's correct. Maybe it should be even lower. Conversely, just because your tax bill is high doesn't make it wrong, either.

Whether you do your books and tax returns yourself or have someone do them for you, review your financial statements and make sure all the numbers make sense. Review the income statement on your tax return.

Do you see how your lease payments are handled? Is all your loan and credit card interest claimed?

Where is your health insurance? What percentage was used

for your office in the home expenses?

2. As an accountant, I can help you find ways to reduce your tax liability and take advantage of every available deduction, but there's no escaping your legal obligation to report all your income to CRA and pay the tax you owe. Don't fudge the numbers.

3. When you compare an employed person and a self-employed person earning a similar income, the self-employed person will owe approximately \$800 more in total to CRA.

For instance, on \$30,000 net income, a self-employed person in Ontario will pay \$3,980 in tax and \$2,630 in CPP.

An employee earning the same \$30,000 a year will have deductions from their paycheques totaling to the same amount of tax, half the CPP (about \$1,315), but will also pay EI of \$525.

I ran these numbers through a 2005 tax return to see how they compare to today. The CPP on

\$30,000 is exactly the same, the EI in 2009 is \$60 less, and the taxes in 2009 are also \$400 less. Do you feel richer?

4. This is an expensive country to live in. Let's go back to that example of \$30,000 in income. The tax rate on \$30,000 is 22% or \$6,600 – a big chunk of change. That leaves \$23,400 or \$1,950 a month to live on.

By the time you've paid for a place to sleep, eat, drink and be merry, there probably isn't much left over.

You need to run hard and smart in order to make as much money as possible.

Because the more you earn, the more tax you'll pay, it makes managing your taxes that much more important to your success in business. Next time you hear someone say they pay no tax, remember there are only two logical explanations: he is independently wealthy and doesn't have to work very hard or he doesn't have the cash to pay his bills. Maybe you should buy him a coffee. □

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