

► wealth planning

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The costs of being boss: Tax tips for the self-employed

The self-employed represent a significant portion of Canada's workforce. Here are some points to ponder if you're heading out on your own.

Taxation

First, make sure the tax department will consider you self-employed. You can check your status using the Canada Revenue Agency's booklet called: Employee or Self-Employed? (RC4110). Once you've determined your status, get professional advice as soon as possible on:

- **Record-keeping.** You'll need a filing system for receipts. For record-keeping, it's helpful from the start to use the expense categories found on the business tax return, form T2124.
- **Income tax and Canada/Quebec Pension Plan contributions.** Because nobody is making payroll deductions for you any more — and you must pay twice as much towards CPP/QPP since there's no employer to split the bill — it's a good idea to systematically set aside money for these.
- **Whether to incorporate.** Usually, incorporation is best delayed until the business is solidly profitable.
- **Income-splitting.** You may reduce your family's total tax bill if you pay salaries to family members who work for you. If your spouse is a partner in your unincorporated business, business losses during the start-up years can be deducted from his or her employment income from other sources.
- **Expenses.** Don't go overboard; business deductions are not as rich as many think. Their value reflects your marginal tax rate. At a 45% marginal rate, \$100 worth of supplies still costs you \$55 after the tax break.

Insurance

Check out your coverage for:

- **Disability.** Disability coverage is important, since you will no longer be under an employer's plan, federal Employment Insurance, or Worker's Compensation. If you have employees or other major expenses, add business interruption coverage to your policy.
- **Life.** Price life insurance before leaving your job. You may be able to convert our employer's group coverage to an individual policy.

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- **Medical.** Medical, dental, and drug plans could cost more than your current employer's group plan, but the premiums can be tax-deductible.
- **Home and Business.** Will you work from home? House or apartment insurance generally won't cover business equipment such as a computer. You may be able to add it at modest cost.

Retirement Planning

You may be due a pension plan transfer or severance payment. It could be a large sum, so you'll want professional advice on how to invest it. Because you'll no longer have a company pension plan, you need a tailored program of contributions to your Registered Retirement Savings Plan (RRSP) that reflects your fluctuating cash flow and changing tax situation.

Starting your own business is a big step. If this is something you are contemplating, let's work together to ensure that you have considered all important aspects. Give me a call today.

At DundeeWealth, we believe that having a financial plan forms the foundation necessary to grow, protect and transfer wealth from one generation to the next. We are committed to provide information on a variety of financial planning topics so our clients are able to make informed decisions.

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