

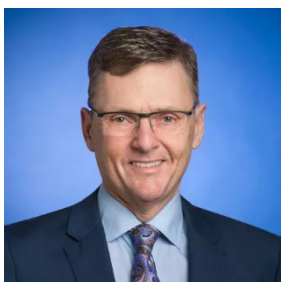
# Enterprise Tax on Demand

Structuring for success: Tax tips for the start-up phase of your private business

## Episode 2: Structuring for success: Tax tips for the start-up phase of your private business

The most critical stage in a private business is considering the structure of your business during the start-up phase, as decisions made early on can provide you with significant tax savings. This episode reviews the structural questions owners should address first, and shares tips on maximizing tax credits and incentives.

*Speaker: Daniel Gosselin, Partner, Enterprise Tax*



Daniel has more than 30 years of experience in providing proactive solutions to tax compliance, mergers, acquisitions, and divestiture issues. He also provides advice on corporate reorganizations, tax credits and trusts set up. He is a member of the KPMG National Enterprise Tax Committee which mandate is to design and implement innovative tax strategies that are exclusive to KPMG. Daniel is also a member of the Association de Planification Fiscale du Québec which he presided in 2004. He has also sat on its board of directors for 12 years and is currently responsible for its relations with Quebec tax authorities.

### Episode highlights

Time	Topic
00:00 – 01:44	Introduction
01:44 – 03:30	Choosing the right legal structure
03:30 – 04:24	Identifying and claiming tax credits
04:24 – 05:15	Reduced corporate tax rate for small businesses
05:15 – 06:06	Accelerating the purchase of assets
06:06 – 07:05	Choosing the best compensation
07:05 – 08:22	Creating a trust
08:22 – 08:58	When to create a holding company
08:58 – 10:18	Summary and conclusion

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**Daniel Gosselin**

Hello everyone! I'm Daniel Gosselin, tax partner at KPMG in Canada.

This presentation is about tax tips for the start-up phase of your private business. These tips can also apply to businesses that have been in business for several years.

During my career, I have advised many entrepreneurs to establish the right starting structure. It is a critical stage for anyone with a great business idea.

During the first meetings, we talk about the growth potential of ideas. I need to know where entrepreneurs want their business to be 6 months, 2 years, 5 years from now. Stores across Canada? Global web presence and selling to customers around the world? Build a business and sell? Knowing where people want their ideas to go helps me establish the most effective starting position to get them there.

Let's take a small family business as an example – a window and door manufacturer. The parents have recently started a business and they're selling well to local homebuilders.

At this point, it's my role as tax advisor to provide tax solutions that complement the business objectives.

In the next 7 minutes I will present 7 important tips to reduce income tax.

**Tip #1: Choose the right legal structure**

There are many forms to consider in structuring a business. Owners need to decide what form that should take, whether a non-corporated business, corporation, general partnership, limited partnership, or joint venture.

The right choice of legal entity depends on several factors: legal liability, tax deferral, the number of partners, the expected profitability (or start-up losses) over the first few years of operation, the business sector, to name a few. Many real estate businesses, for instance, choose partnerships.

I usually suggest incorporating a start-up business because of the tax advantages, and the limited liability for owners and shareholders.

When creating the corporation, creating discretionary shares dividend will give flexibility for tax planning.

Owners who do decide to incorporate need to do a little more paperwork at the beginning. They should create a shareholder agreement to avoid future disputes, and owner-shareholders should update their wills to include the new corporation.

The owner may have initially started the business as a non-incorporated business and may later incorporate. In such case, the structuring typically relates to a transfer of the business to the corporation on a tax deferred rollover basis.

There is an opportunity to create a capital gain to be able to withdraw an amount from the company at a tax rate of 25%.

**Tip #2: Identify and claim tax credits**

Okay. Let's say our window and door family business has incorporated the business during its start-up. The next thing they need to do is to generate cash – to expand their facilities, develop new products and hire more people.

The good news is there's a lot of support available for start-up businesses, including tax credits and financial assistance.

In Canada, the main source of assistance for start-ups is tax credits for R&D (Scientific Research and Experimental Development). New businesses can save about \$65,000 in federal and provincial tax for each \$100,000 they put towards R&D.

**Tip #3: Preserve the reduction of tax rate on the first \$500,000 taxable income**

Another benefit that will help our family business start-up get off the ground is the reduced corporate tax rate for small businesses. On their first \$500,000 of taxable income, the combined federal and provincial tax rates is around 12%.

However, new businesses can lose access to that reduced rate if their company or associated companies earn passive investment income or have too much taxable capital. Being aware of the tax rules and planning for them is key.

**Tip #4: Accelerate the purchase of assets**

So now, our family business is off and running, but they need to buy delivery trucks, set up warehouses, and acquire new equipment. Well good news: there are tax allowances available on purchases of fixed assets. But the timing of these purchases is important.

For corporations that are CCPCs (Canadian Controlled Private Corporation), new property worth up to \$1.5 million per year, acquired after April 19, 2021, and available for use before 2024, may be eligible for 100% upfront deduction under accelerated capital cost allowance rules.

**Tip #5: Choose the best compensation**

The next thing our family owners need to think about is the form of compensation. They're working harder than ever to grow their business and would like to extract funds from the company for lifestyle and retirement planning. Several elements can influence the salary dividend decision, but most simulations come to the conclusion of paying salaries rather than dividends for our start-up.

One important thing is that a salary could allow the company to claim R&D tax credits, unlike the dividend.

There is a lot to consider around salary, dividends, and taxes, but the most important thing to do is to weigh the options and plan ahead as tax rates change.

#### Tip #6: Create a trust

The timing of establishing a trust is after the main discussion point as you don't want to set up the trust too early or too late in the business journey. Too early is considering the 21-year life of a trust and too late is not having sufficient time for value to accrue to the trust assets.

There are two main tax advantages of a trust. First, you can allocate capital gains on the sale of family business shares to beneficiaries who are often family members and claim the \$914,000 life capital gain exemption for 2022. Each lifetime capital gain exemption represents an income tax saving of about \$245,000 on the sale of company stock.

The second advantage is the possibility of distributing the shares to the children tax free and the deferral of tax on the death of the shareholder.

#### Tip #7: Discuss when to create a holding company

The last big question to consider during the start-up phase is whether to create a holding company. I usually recommend holding off until the company has sufficient excess cash or until valuable property is acquired, such as real estate. Any holding company will likely be a beneficiary of the family trust, so it can be set up at a later time.

Returning to our family business, they've incorporated, they're getting tax credits for R&D and a small business reduction on early profits. They've timed their fixed assets purchases to qualify for the enhanced capital cost allowances. They've calculated the ideal balance of salary and dividend and set up a family trust.

The next step in the lifecycle of this private enterprise business is to build from their start-up phase and expand the business operations. Join us in our next episode of Enterprise Tax on Demand where we'll discuss tax advantages related to business growth.

Thank you for joining us today for the second episode of Enterprise Tax on Demand. This video series shares thought leader perspectives on key enterprise tax topics across Canada, The United States, and around the world.

Stay tuned for more episodes and visit our site at:  
[kpmg.ca/enterprisetaxondemand](https://kpmg.ca/enterprisetaxondemand)

Thank you very much.

*Musical outro*