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CANADA

FREE OWNER'S GUIDE

The Canadian Small Business Tax Guide

The plain-English essentials every owner should know — in four pages.

> You'll get value from this if: you run, or are about to start, a Canadian business — sole proprietor, partnership or corporation — and want to understand what you owe, what you can claim, and when.
>
> You can skip it if: you already have a tax professional running all of this for you (lucky you).
>
> You'll walk away with: the core rules on one page, a structure decision tree, a deduction checklist, and a 30-day plan.

The cheat sheet — if you remember nothing else, keep this page

Pick a structure	Sole proprietors report business income on their personal return. Corporations are separate taxpayers and file their own return (the T2) every year — even with no activity.
The small business advantage	A Canadian-controlled private corporation pays a much lower corporate rate on its first $500,000 of active business profit — the small business deduction.
Corporate deadlines	The T2 return is due 6 months after your fiscal year end; the tax itself is due earlier — 2 to 3 months after year end. Yes, paying comes before filing.
Personal-side deadlines	Self-employed owners file by June 15, but any balance owing is still due April 30.
Sales tax trigger	Once worldwide taxable sales pass $30,000 over four consecutive quarters, GST/HST registration is mandatory — charge the rate of the buyer's province.
Hiring means remitting	Payroll deductions (tax, CPP, EI) are generally remitted to the CRA by the 15th of the month after you pay your team.
Instalments sneak up	Owe more than $3,000 at filing time and the CRA usually expects quarterly instalments the following year.
Keep everything	Records and receipts must be kept at least 6 years. Digital copies attached to your bookkeeping count.

These are the long-standing structural rules of Canadian business tax. Dollar thresholds and rates are adjusted by governments from time to time — confirm the current year's figures at canada.ca or with a tax professional before filing. Free calculators with current rates: taxfilings.ca/tools

01 How each structure is taxed

Structure	Who pays the tax	What gets filed	Best suited to
Sole proprietor	You, at personal rates on all profit	Business schedule inside your personal return	Starting out, modest profit, low risk
Partnership	Each partner personally, on their share	Partners' personal returns (an information return in larger cases)	Two or more owners, simple sharing
Corporation	The corporation itself, at corporate rates; you're taxed again on what you take out	Its own T2 return, every year, no exceptions	Profit beyond your living needs, liability concerns, growth

02 Should you incorporate? The two-question test

Q1 — Does the business earn more than you need to live on?

NO — staying simple usually wins.
Incorporating adds a corporate return, separate books and legal costs, but its main tax benefit — leaving profit inside at low corporate rates — only helps if there's profit to leave. Revisit yearly.

YES — ask question two.
The profit you don't withdraw can sit in the corporation taxed at the small business rate — often roughly half a mid-range personal rate — and compound before you pay the personal layer later.

Q2 — Do you also want liability protection or plan to sell one day?
A corporation separates business debts from your house, and a future sale of shares may access the lifetime capital gains exemption. Two YES answers make incorporation worth pricing out properly.

Maya's numbers — the same profit, two ways

Maya's design studio clears a healthy profit, but she only needs about 60% of it to live on. As a sole proprietor, *all* of it is taxed at her personal rates in the year she earns it. Incorporated, she pays herself the 60% (salary or dividends) and leaves 40% inside the company at the small business rate — deferring the difference, often for years, while it funds equipment, a slow season, or investments. That deferral, multiplied over several years, is the incorporation case in one paragraph. Run your own split at taxfilings.ca/tools — the corporate tax and salary-vs-dividend calculators use current rates for every province.

COMMON MISTAKE

Incorporating and then treating the company account as a personal wallet. Money you take out is taxable to you — salary, dividend, or a shareholder benefit the CRA finds later, taxed with none of the credits. Decide *how* you pay yourself before you spend a dollar.

03 The deduction checklist

Deductible when the cost was incurred to earn business income, and you kept the receipt. Tick what applies to you:

- ☐ Home office — the business-use share of rent or home costs, by area
- ☐ Vehicle — the business-kilometre share of costs, backed by a logbook
- ☐ Phone & internet — the business-use portion
- ☐ Advertising, website and software subscriptions
- ☐ Professional fees — bookkeeping, legal, tax preparation
- ☐ Insurance on the business and its property
- ☐ Meals with clients — generally only 50% deductible
- ☐ Salaries, wages and subcontractors (paper the arrangement)
- ☐ Bank charges and interest on business borrowing
- ☐ Equipment & computers — deducted over time as capital cost allowance, not all at once
- ☐ Training that upgrades skills for your current business
- ☐ Rent, utilities and supplies for business premises

> PLANNING TIP
> The claim isn't the receipt — it's the receipt *plus* the business reason. A one-line note on the invoice ("client lunch — Jensen file") turns a grey expense into a defensible one, years later, in minutes.

04 GST/HST in five lines

1. Registration becomes mandatory once taxable sales pass $30,000 over four consecutive quarters — and you may register earlier voluntarily to recover the tax you pay on costs. 2. You charge the rate of the buyer's province, not yours. 3. The tax you collect is never your money — set it aside. 4. The GST/HST you pay on business costs comes back as input tax credits when you file. 5. File on your assigned cycle even when the balance is zero; silence earns letters.

05 Hiring? Payroll in four lines

1. Open a payroll account before the first payday. 2. Withhold income tax, CPP and EI from every cheque — and match the CPP (plus 1.4x the EI) as the employer. 3. Remit to the CRA by the 15th of the following month to start; the CRA moves frequent payers to faster schedules. 4. T4 slips are due at the end of February for the prior year. Late remittances are the most expensive routine penalty in small business — automate them first.

06 Myth vs. fact

MYTH	FACT
"I made under $30,000, so I don't have to file."	The $30,000 line is about GST/HST registration only. Business income is reportable from the first dollar.
"A deduction means the CRA pays for it."	A deduction reduces taxable income — it saves you tax at your rate, not the whole cost. A $100 expense might save $25–$45.
"Incorporating always saves tax."	Take every dollar out to live on and the total tax is about the same — sometimes more, with two returns to pay for. Incorporation shines when profit stays in the company.

07 Sixty-second self-check

Count your YES answers.

1. I have a separate bank account used only for the business.	YES / NO
2. I know my filing deadline and my *payment* deadline (they differ).	YES / NO
3. I track sales against the $30,000 GST/HST threshold.	YES / NO
4. Every expense I claim has a stored receipt with a business reason.	YES / NO
5. I set money aside for tax as income arrives, not in April.	YES / NO
6. If incorporated: I decided salary vs. dividends on purpose.	YES / NO
7. If I have staff: remittances go out by the 15th, every month.	YES / NO
8. I could hand the CRA six years of records this week.	YES / NO

7–8 · Green
You're running a tight ship. A yearly planning review is all you likely need.

4–6 · Yellow
Solid base, real gaps. Fix the receipts and set-aside habits first — they compound.

0–3 · Red
You're flying blind on taxes. Get help this month, before the next deadline finds you.

08 Your 30-day plan

Week 1
Open the separate business account. Pick a bookkeeping tool and connect the bank feed.

Week 2
Photograph and file this year's receipts. Start the vehicle logbook today, not January.

Week 3
Check sales against $30,000. Register for GST/HST if needed — and open a tax set-aside account.

Week 4
Map your deadlines into your calendar. Price out incorporation if page 2 said two YES answers.

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Udit Gupta has over 15 years of experience helping corporations and business owners with corporate structuring, corporate tax filing, bookkeeping, payroll, GST/HST, cross-border tax and CRA representation. Big 4 trained at Ernst & Young and Deloitte, and qualified as a chartered accountant in India and Malaysia, he founded Tax Filings Canada in 2019 to serve entrepreneurs, startups and non-resident business owners across Canada. View Full Member Bio — including step-by-step instructions to verify each membership on the issuing body's public register.

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Editorial policy. Every guide is researched against primary sources — the Income Tax Act, CRA publications and CPA Canada materials — fact-checked by Udit Gupta, and updated when the rules change.

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