



From salaried employee to equity partner

Three tax tips to consider

1. Save at least 1/3 of your income to pay the taxes that will be owing.

Salaried employees have their income tax deductions withheld from their regular pay cheques. The moment of reckoning at tax time is usually manageable.

Equity partners receive a portion of the income earnings of the partnership and no taxes are withheld. You are on your own to set aside money to pay your taxes when they are due.

During the first year as an equity partner, the Canada Revenue Agency will not know about your new status and will not ask you to pay your taxes by quarterly installments. Come tax time you may owe a substantial amount of money in taxes. Be prepared. Be especially careful about cash flow in your first year.

*** Be prepared for tax time by setting aside 1/3 of your income up to \$150,000 and 45% of any income over \$150,000.

2. Keep track of your income and partnership benefits to avoid surprises at tax time.

Partnership expenses are not all tax deductible. For example, only 50% of the costs of partner meals and entertainment expenses are deductible, even when doing business with clients. At tax time, you may discover that your income statement from the firm adds in money that you never received but is included as your share of the non-deductible business expenses that was paid to partners. Firms often provide this information on a monthly statement.



*** Keep your eye on the non-deductible business expenses to avoid unwelcome surprises at tax time.

3. Save all your receipts.

A partner is an independent business person and may deduct from income allowable expenses needed to run and grow the business. This includes money paid for professional fees, training, research materials, convention expenses, business promotion, home office expenses, and non-cash gifts to support staff. Some of these expenses may be reimbursed by the firm. Others may be expenses for which you are out-of-pocket. Allowable out-of-pocket expenses, such as having a home office, may be deducted from income and therefore reduce the amount of taxes owing.

*** Save all your receipts related to your legal practice, law firm, and home office, if applicable, to minimize income tax owing. If you are unsure about which expenses are allowable under income tax rules, consult an expert.