

Taxes for the Proprietor

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About me

- I am a Chartered Accountant
- Completed CICA's In-depth tax course (2016)
- My own practice for 3 years
- Personal & corporate tax, tax planning, estate planning, business advisory, succession planning etc.
- New location 304B Dunlop St. W., Unit 20 Barrie, On

Proprietor vs. Corporation

- As a sole proprietor you are your business
- For tax purposes you and the business are one and the same
- A corporation is a separate legal entity from you. It is defined as its own person under the Income Tax Act, Canada

Recordkeeping Options

- QuickBooks, Sage50(Simply accounting), Wave....
 - Excel
 - File folders/envelopes & tally
 - Shoebox & card statement
 - Hire a bookkeeper
-
- All have different costs & benefits (financial/time)
 - It's all about what works for you & should the CRA request, can you produce the receipt?

Form T2125

- Statement of Business or Professional Activities
- Used to report your income and expenses
- See handout

Income

- Sales, commissions, fees...
- Whether you offer products or services, or both, they are all sources of income
- Revenue streams should be tracked separately
 - For information purposes
 - For the CRA
- Example: Realtor sells homes, does staging & babysits
- Statement from doTERRA

Expenses, Bills, Costs, Payables

- Your expenses are what you have spent money on to run your business
- **“Ask yourself – what is the business purpose for the expense?”**
- Must be reasonable
- Expenses can be separated into most of the categories you find on the T2125 that you will need to complete your tax return.

“

Always, Always, Always get a Receipt.....

”

*** If you do not have a receipt, you DO NOT have proof of the purchase, and the CRA will deny your expense claim.***



Receipts

- The purpose of keeping receipts is to help offset the income you have earned.
- Having the purchase show up on your bank or credit card statement is not enough to prove to CRA that it is a business purchase if you do not have the physical receipt to show them.
- Have a separate filing system for your business and personal expenses. It will make it much easier to find what you need down the road, and helps build the habit of separating your expenses.
- Debit card slip is not a receipt.

Donations vs. Sponsorship

- Sponsorship is deductible
 - Generally there is an advertising or marketing component to this
- Donations are not deductible against your business income as a sole proprietor
 - 2 main ways donations are made by proprietors

Donate a Service (your time)

- Contributions of services, that is, of time, skills or efforts, are not property, and therefore they do not qualify as gifts for purposes of issuing official donation receipts. Accordingly, a charity cannot issue an official donation receipt for services rendered free of charge.
- The FMV of the services donated is not relevant
- Gift/donation not subject to HST.
- If you can demonstrate it was for the purpose of earning income you can deduct corresponding expenses only.
 - Paper, hydro, motor vehicle...

Meals & Entertainment

- 50% deduction
- If you are registered for HST make sure you are accounting for this correctly.
- Write your clients name & purpose on the back of your meals and entertainment receipts
- Exception: when incurred to provide a party or event to which **all** employees from a particular location are invited (max 6 per year). The cost will be 100% deductible even if clients are invited as well.
- If a party or event is only available to, or is primarily aimed at, selected employees or the owners, partners, managers or shareholders, the costs are not exempted from the 50% limitation.

Gift Certificates

- Generally deductible as advertising and promotion.
- If for meals or entertainment, should be categorized as such.
- The CRA's opinion:

*In the absence of supporting documents to the contrary, the cost of a gift card used for promotional purposes constitutes an expense for food or beverages when the gift card is exchangeable for merchandise in an establishment that is **primarily** engaged in selling foods and beverages. Thus the expense in question would be subject to the 50% limitation **unless** the corporation could establish that the gift card was in reality exchanged for products or services which did not come within the ambit of subsection 67.1(1).*

Interest

- Borrowed money used for the purpose of earning income from a business or property. (not capital)
 - Use of funds
 - **Direct** vs indirect
 - Don't comingle
 - Use a separate credit card / Line of credit

Credit Card Interest

- The amounts charged for business and personal use can readily be determined. Generally, where the credit card balance is not paid in full, the payments are applied firstly to interest and secondly to the oldest charges, with the result that the outstanding balance on which interest is charged can be divided between amounts owing for business and personal use.
- In situations where this cannot be done, the CRA will allow the interest to be apportioned according to its use (business vs. personal) based on the proportion of total business charges to total personal charges on the credit card for the period in question.
- Generally it will benefit you to have two cards. Always pay off the personal card first.

Clothes vs. Uniform

- Clothing is not deductible.
 - Dry-cleaning that clothing is therefore not deductible.
- A uniform is deductible if:
 - **Distinctive** uniform you wear while carrying out the employment duties.
 - Special clothing (including safety footwear and safety glasses) designed to **protect from hazards**.
 - The tax court of Canada has ruled time and time again that any attire or personal effects, that can be used in everyday life, are NOT tax deductible.

Training

- Where training is taken merely to **maintain, update or upgrade** an already existing skill or qualification, the related costs can be expensed.
- Where the training results in a lasting benefit to the taxpayer, i.e., where a new skill or qualification is acquired. – Capital in nature.
- Training costs incurred by the taxpayer in connection with a course which he or she takes to obtain a credit for a degree, diploma, professional qualification or similar certificate would be considered capital in nature.
 - Eg. An accountant pursues a history degree.

Conventions

- Subsection 20(10) permits a self-employed taxpayer who is carrying on a business or practising a profession to deduct, in computing income for a taxation year from a business, expenses incurred in attending not more than **two conventions** a year provided that the conventions were:
 - (a) held by a business or professional organization;
 - (b) attended in **connection** with the taxpayer's business or professional practice; and
 - (c) held at a location that may reasonably be regarded as consistent with the **territorial scope** of the organization.
- Meals – 50%
- Pro-rate hotel if non-convention days.

Apportion for Personal Use

- Sometimes you might use goods or services you bought for the business for personal use. When this happens, you have to subtract the cost of these goods from your total purchases for the year.
 - Telephone/Internet
 - Reasonable
 - Based on usage

Vehicle

- Prorated for KM's
- Fuel, maintenance, insurance, license, loan interest, depreciation if owned(\$30,000), lease if leased. Max lease \$800/mth+HST.
- Vehicle wrap does not make all driving business.

Keep Track of your Mileage

- See handout
- Odometer reading at the beginning of the year, and at the end of the year
- Include trips to the bank, suppliers, post office, and activity that is related to your business
- Mileage starts from your place of business, not home until you have an office
- Track mileage to and from your clients
- This is used to track the percentage of vehicle usage for business purposes



The screenshot shows a mobile application interface for adding a trip. At the top, there are three buttons: 'Cancel', 'Add Trip', and 'Save'. Below the buttons is a list of input fields, each with a right-pointing chevron. The fields are: 'Start Time' (Mar 11, 2009 10:52 PM), 'End Time' (Mar 14, 2009 12:07 AM), 'Start Odometer' (12,864), 'End Odometer' (12,898), 'Went' (34), 'From' (Office), 'To' (Airport), 'For' (Meeting), and 'Notes'. At the bottom of the form is a 'Choose Category' button.

Field	Value
Start Time	Mar 11, 2009 10:52 PM
End Time	Mar 14, 2009 12:07 AM
Start Odometer	12,864
End Odometer	12,898
Went	34
From	Office
To	Airport
For	Meeting
Notes	

Home Office

- You can deduct expenses for the business use of a work space in your home, as long as you meet **one** of the following conditions:
 - It is your **principal place of business**; or
 - You use the space **only** to earn your business income, **and** you use it on a **regular and ongoing basis** to meet your clients, customers, or patients.
- Watch tainting principal residence exemption

Capital Assets

- No limitation, generally > \$500
- Passenger vehicle limit \$30,000
- Capital Cost Allowance – similar to depreciation every year get a portion as an expense.
- Lease or purchase

HST

- \$30,000 from all business activities.

Filing requirements

- Proprietors and their spouse due June 15th. If balance owing must be paid by April 30.
- **Don't file on-time:** The penalty is **5%** of your 2018 balance owing, **plus 1%** of your balance owing for each full month your return is late, to a maximum of **12 months**.
- **Late more than one year in a row:** **10%** of your 2018 balance owing, **plus 2%** of your 2018 balance owing for each full month your return is late, to a maximum of **20 months**.
- **Failure to report income/false statements:** 50% of the understated tax.

Records must be kept for 7 years



- Records have to be kept for a minimum of six years from the end of the last tax year to which they relate.

Thank you !

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