



SMALL BIZ TAX GUIDE



Accountess Bookkeeping

bringing etiquette back to your books

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A BRIEF SUMMARY OF WHAT WE'VE TACKLED IN THIS LITTLE BOOK

You are a Sole Proprietor,
What does that mean at tax time?

What is an allowable tax deduction?

What about business use of my car?

Do I have to track my mileage?

What about business use of my home?

These are common questions that I get asked by my clients who are self employed.

I hope this guide will help to answer some of your small business tax questions.

First, How is your business income taxed? And what type of business owner are you?

How does it work?

There are 3 types of business ownership:

Sole Proprietor (you are your business, so you file your business taxes with your personal tax return by using for T2125, remember to claim all of your worldly income)

Partnership is treated like a sole proprietorship, except each partner will only claim 50% of the business income and expenses

Corporations are a separate entity all together, and require a consultation, as there are many variables.

YOU ARE TAXED ON YOUR PROFIT

YOU ARE TAXED ON YOUR PROFIT not your gross business revenue.

(Which means after all of your expenses have been taken into consideration)

Your self-employed business profit is reported on Form T2125 and then carried forward to line 135 of your T1 Income Tax and Benefit Return.

Doing home business tax planning is crucial to maximizing tax deductions and putting money back into your business.

Please keep in mind that the expense must be reasonable, not personal in nature, made with the expectation of making a profit and have you should have the original source documents. Cell Phone pictures are a great way to track your expenses.

Why not check out the NEW QUICKBOOKS SELF-EMPLOYED APP To track your income and expenses. It is only \$ 4.50 per month.

SELF-EMPLOYED TAX DEDUCTIONS

Advertising and promotion: Line 8521

Think newspaper add, Facebook promotions, networking handouts, business cards, flyers. What about my website domain registrations, web hosting services, web design services? All though these are all an allowable business expense, anything over \$500.00 should be capitalized and the tax deduction determined by a depreciation schedule

Bad debts: Line 8590

Let's hope that you don't have any, but if you do it is an allowable tax deduction on line 8590 of your tax return. In the event that a year later, you collect on the bad debit, don't forget to show it as recovery of bad debt on 8230 of your income tax return. All expenses for collection agency, small claims court etc to recovery bad debt is also a tax deduction.

Business taxes: Line 8760

Nice try, not your business income taxes, but yes, your business taxes and business license fees are all allowable tax deductions on Line 8760 of your income tax return. Think registering your business fees. Also report dues, memberships in a trade association, and subscriptions amounts if they pertain to running your business or trade on this line.

Delivery, freight and postage: Line 9275

This is a big expense in my office. Do you send out samples to clients in your direct sales business. mail out Christmas cards at the end of the year. Or ship large equipment. Claim these expenses on Line 9275 of your income tax return.

Fuel (other than vehicle) : Line 9224

Fuel other than vehicle confuses some of my clients. Do not claim your auto fuel here, it will be claimed under auto expenses. Costs for gas, diesel and propane for running equipment are these types of expenses. Claim on line 9224 or your income tax return.

Insurance: Line 8690

Small business insurance is an allowable tax deduction, not to be confused with house insurance, which is claimed on your business use of home on your T2125.

Interest: Line 8710

Reconcile your bank and credit card accounts and claim your monthly bank fees and credit card interest for business expenditures. Credit card interest for business expenditures is an allowable deduction on your tax return.

Management and Admin fees: Line 8871

This is where to claim your business bank account fees. Reconcile your bank. It is highly recommended to keep your business and personal expenses separate. You don't necessarily have to open a high fee business bank account, but definitely a separate bank account from your personal bank account.

Meals & Entertainment

Meals and entertainment: Line 8523

This is one of the expenses that are often questioned by CRA. 50% of meals and entertainment expenses are an allowable deduction on your income tax return.

This would include expenses for meals while meeting with clients, at networking events or training.

Also including coffee, water or meals that you provide to your clients on or off site. Caution should be used when claiming your daily Tim Horton's or Starbucks run. Meals while traveling would be claimed under travel expenses.

The 50% limit for meals and entertainment, Does not apply in these situations. Your business is in the hospitality industry and the expenses were to provide food, beverages, or entertainment to paying customers. Your business is related to fundraising for a charity.

You're hosting a company party for all employees (6 per year limit). You attended a conference, convention or seminar (2 per year).

Motor Vehicle Expenses

Line 9281 This is a big tax deduction. You can only claim the business portion of your vehicle expenses.

So, it is important to keep a mileage log. I know that it is a challenge to remember, but a habit only takes three weeks to create. So get in the habit of using your cell phone to take a pic on the first day of the month and the last day of the month of your odometer reading.

Save it to your computer and keep a back up of your business travel for the month.
ie google maps..

Or better yet contact us about the QBO Self Employed app.

It can track mileage through your automobile GPS..Cool eh..

Don't forget that auto expenses include leasing and or interest on your auto loan. Auto insurance, maintenance and repairs, fuel, oil, windshield wiper fluid, parking, registration and yearly sticker renewal

**See the next page for information on the
NEW QUICKBOOKS SELF-EMPLOYED APP**

TODAY, INTUIT CANADA LAUNCHES QUICKBOOKS SELF-EMPLOYED IN CANADA, A NEW, SIMPLE MOBILE APP THAT MAKES IT EASY FOR THE NATION'S FREELANCE WORKERS TO STAY IN CONTROL OF THEIR BUSINESS FINANCES AND HELP THEM PREPARE FOR TAX TIME WHILE ON THE GO WITH EFFORTLESS EXPENSE, MILEAGE AND INVOICE TRACKING ALL IN ONE PLACE.

QUICKBOOKS SELF-EMPLOYED IS SPECIFICALLY DESIGNED TO MAKE IT EASY FOR THESE FREELANCERS TO MANAGE BUSINESS AND PERSONAL FINANCES, PREPARE FOR TAX TIME THROUGHOUT THE YEAR, AND HELP MEET COMPLIANCE REQUIREMENTS.

QUICKBOOKS EMPOWERS SELF-EMPLOYED WORKERS TO STAY ON TOP OF THEIR FINANCES AND EASILY KEEP A CLOSE PULSE ON THE OVERALL HEALTH OF THEIR BUSINESS:

SAY GOODBYE TO YOUR LOGBOOK: TRACK MILEAGE AUTOMATICALLY WITH YOUR PHONE GPS AND CATEGORIZE TRIPS WITH A SWIPE, SO THERE IS NO NEED TO TOUCH A LOGBOOK AGAIN. IT ALSO HELPS USERS IDENTIFY POTENTIAL VEHICLE DEDUCTIONS AND GET BETTER PREPARED FOR THEIR RETURNS COME TAX TIME.

TRACK EXPENSES ON THE GO: AS BUSINESS AND PERSONAL EXPENSES ARE EASILY CATEGORIZED BY SWIPING LEFT OR RIGHT ON YOUR PHONE, IT'S EASY AND FAST TO CLAIM EVERY DEDUCTION.

TAX SAVINGS ARE A SNAP: HELP INCREASE TAX SAVINGS WHEN YOUR RECEIPTS ARE LINKED TO EXPENSES RIGHT FROM YOUR PHONE. COME TAX TIME, YOU CAN BE READY TO FILE WITHOUT A SHOEBOX IN SIGHT. USERS FIND AN AVERAGE OF \$4,340 IN TAX SAVINGS PER YEAR[V].

GET PAID FASTER WITH EFFORTLESS INVOICING: CREATE AND SEND INVOICES EFFORTLESSLY THROUGH THE APP ON THE GO, AND KNOW WHEN TO FOLLOW UP WITH CUSTOMERS BY SEEING WHEN THEY'VE BEEN VIEWED.

PROFITS YOU CAN PICTURE: SNAP AND STORE RECEIPTS, MANAGE EXPENSES, MILEAGE AND INVOICES ALL IN ONE PLACE, ALLOWING YOU TO ACCESS STRATEGIC CASH-FLOW INSIGHTS IN REAL-TIME AND INSTANTLY SEE HOW MUCH YOU'RE EARNING AND WHERE YOUR MONEY IS GOING SO YOU CAN PLAN FOR WHAT'S NEXT.

DOWNLOAD THE NEW QUICKBOOKS SELF-EMPLOYED MOBILE APP TODAY[VI] FROM THE APP STORE OR GOOGLE PLAY.

Office expenses: Line 8810

Office expenses including things like printer paper, pens, envelopes, ink cartridges. But, not office furniture, computers, printers, tablets and the like. Those are all considered Capital Assets and would be added to your Capital Asset schedule.

Supply items that are used in running your business are an allowable tax deduction. Think cleaning supplies for cleaning business, craft supplies for the home crafter and handouts for the direct sales rep.

Professional fees: Line 8860

This is where to claim legal fees, accounting/bookkeeping fees, consulting fees, tax preparation fees. You can also deduct objection or appeal fees for accounting and legal work pertaining to government assessments.

Repair and Maintenance: Line 8960

This deduction is to claim minor repairs and maintenance. For example you are converting a space into a home office, small business space. You are a daycare provider and need to paint your space often.

Property Taxes: Line 9180

Again as with rent on line 8910, this deduction is for small business owners that have a brick and mortar space, separate from their home.

Rent: Line 8910

Do not claim your business use of home rent here, it will be included in business use of home section. An allowable deduction for rent is for small business owners that have a brick and mortar space, separate from their home.

Salaries and Wages: Line 9060

Small business owners can deduct salaries, wage, employee benefits and payroll taxes on line 9060, with a few exceptions.

Direct wage costs are reported on page 2 line 8340 of the T2125 and subcontract amounts paid to outside help are reported on page 2 line 8360.

Supplies: Line: Line 8811

is where to claim Indirect expenses that your business incurs for supplies that assist you in providing your goods or services in your business.

But don't necessarily match any other tax deduction line on the T2125

Travel: Line 9200

These costs incurred for business purposes are deductible and include public transportation fees flights and hotel accommodations.

Meals and entertainment have limitations and are claimed on line 8523

Remember, unlike the meals & entertainment deduction. Travel meals do not require a 50% adjustment when they are included in your ticket for travel on bus, airplane, or train.

Telecommunication: Line 9220

Most homes don't have a landline phone any longer, but if you do, a portion of the expense or long distance calls for business is an allowable tax deduction. You can also claim a portion of your Internet expense, if you require an internet connection for your business.

Cell Phone charges are also included as a small business tax deduction, but error on the side of caution not to claim personal expenses in this category.

Other: Line 9270

CRA is kind of picky about what type of self employment tax deductions claimed under this category. Allowable claims include disability related modifications.

Computer & other equipment leasing expenses and interest on borrowed money to purchase the equipment. It is good practice to keep all source documents and lease agreements.

Property lease payments.

Convention expenses (2 PER YEAR) private health services plan premiums. Finally legitimate business expenses that are not listed previously on Form T2125.

Purchases of product/raw material: It is important to remember that small business supplies is not the same as products and raw materials. Supplies are an expense that is used in running your business. Products and raw materials are expenses that are created or for sale. Think COGS (Cost of goods sold)

BUSINESS USE OF HOME

NOW LET'S TALK ABOUT BUSINESS USE OF HOME EXPENSES.....

THIS SECTION OF SMALL BUSINESS TAX DEDUCTIONS ALLOWS SMALL BUSINESS OWNERS TO RECEIVE SOME FAVORABLE TAX DEDUCTIONS.

MANY OF MY CLIENTS, MISS OUT ON THIS DEDUCTION, AS THEY ARE NOT AWARE IF THEY ARE LEGALLY ALLOWED TO CLAIM BUSINESS USE OF HOME.

TO CLAIM THE BUSINESS USE OF HOME EXPENSE ON YOUR TAX RETURN YOU MUST HAVE A PORTION OF YOUR HOME ALLOCATED FOR BUSINESS USE ONLY.

A HOME OFFICE FOR MEETING WITH CLIENTS IN PERSON OR VIRTUALLY. A DAYCARE SPACE PROVIDED FOR DAYCARE KIDS AND ACTIVITIES. A CRAFT ROOM AND STORAGE AREA FOR SUPPLIES. A GARAGE THAT STORES YOUR EQUIPMENT AND SUPPLIES. A HAIR STYLIST WITH A SEPARATE SALON SPACE. A PHOTOGRAPHER WITH A SPACE FOR PROPS AND PHOTO SHOTS.

BUSINESS USE OF HOME

THERE ARE MANY DIFFERENT SCENARIOS AND DIFFERENT BUSINESS USES ALLOWABLE IN BUSINESS USE OF HOME DEDUCTIONS.

IT IS CONSIDERED BEST PRACTICE TO KEEP A CALENDAR OF MEETINGS, AND APPOINTMENTS CARRIED ON IN YOUR BUSINESS HOME SPACE, AS BACK UP IN THE EVENT OF AN AUDIT.

BUSINESS USE OF HOME EXPENSES ACT IN A DIFFERENT MANNER THAN BUSINESS TAX DEDUCTIONS. IN THAT YOU CAN NOT USE BUSINESS USE OF HOME EXPENSES TO CREATE OR INCREASE A LOSS .

THE GOOD NEWS IS THAT IT CAN BE CARRIED FORWARD INDEFINITELY. WITH THE BUSINESS USE OF HOME DEDUCTION YOU ARE LEGALLY ABLE TO CLAIM CCA OR DEPRECIATION ON YOUR HOME IF YOU OWN IT AND DO NOT RENT YOUR HOME, AS WELL AS MORTGAGE INTEREST.

I STRONGLY ADVISE ALL OF MY CLIENTS, NOT TO EVER CLAIM CCA ON THEIR HOME, AS THAT WOULD RESULT IN HAVING TO PAY CAPITAL GAINS UPON THE SELL OF YOUR HOME.

BUSINESS USE OF HOME

THE TWO SCENARIOS FOR CLAIMING BUSINESS USE OF HOME:

BUSINESS USE - CRITERIA ONE

YOU USE YOUR HOME BUSINESS SPACE FOR BUSINESS AND PERSONAL NOT EXCLUSIVELY FOR BUSINESS, AS IN A HOME DAYCARE.

**USE THE PRO RATED METHOD
SQUARE FOOTAGE OF OFFICE SPACE /
TOTAL SQUARE FOOTAGE OF HOME X
HOURS**

**IN OPERATION EACH DAY / 24 HOURS X
DAYS IN OPERATION EACH WEEK / 7
DAYS BUSINESS USE -**

**CRITERIA TWO YOUR BUSINESS SPACE IS EXCLUSIVELY FOR YOUR BUSINESS
SQUARE FOOTAGE OF OFFICE SPACE /
TOTAL SQUARE FOOTAGE OF HOME**

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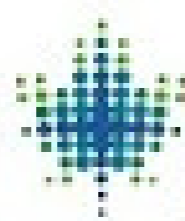
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