



# Whistler Tax Solutions

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Info sheet

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Whistler Tax Solutions Self Employment Hints.

The following hints, reminders and suggestions are good record-keeping habits that will help reduce the amount of time needed to process your data, as well as increasing the probability of you successfully passing a CRA audit, if and when that occurs. The main thing to remember about an audit is that there is no way to predict when your name might 'bubble up to the top'. The CRA can request an audit up to 7 years later, so it is always best to be prepared.

Please note that whenever we use a phrase like "we require" it is because an auditor would require it.

You are required to retain all business documents and personal income tax records for a period of 7 years.

The invoices you issue to your clients must include the following: full business name; address and phone number; terms of payment; invoice date; sequential invoice number; description of product or service; price; itemized and specified taxes; total owing; your GST/HST business number.

**FISCAL YEAR** – Sole proprietors are required to file their fiscal year as January 1 to December 31, and the T1 personal tax return is the method used to file income tax. This document must be filed even if there is no tax payable.

**INCOME** - From the date that you begin to earn income as a sole proprietor, YOU are the business entity, and your business income needs to be identified as separate from all other sources. To ensure that all transactions are recorded accurately, we recommend that a specific bank account be maintained for business purposes. This account should be in your name and payments from clients should ALWAYS be made payable to your name. All business income needs to be deposited to that specific bank account, especially cash. The net result of Income, less Expenses, will be used to determine the level of Income Tax payable. All business transactions need to be handled through this dedicated account including the repayment of expenses to you. The cut-off date for the bank statement should be the last day of each month. Your bank does not necessarily need to know that this is a 'business' account.' Unless you require the services provided by a business bank account, a dedicated personal account is sufficient, and fees are likely to be lower.

**DOCUMENTS** - We will only process data originating from actual documents: Bank Statements; originals or scan of cheques; invoices to clients; invoices from suppliers; cash/credit purchase receipts. If purchases are usually made by credit card and you do not currently have one dedicated for business use only, please, consider getting one. Whenever purchases are made by credit card, we require the cash register receipts rather than the credit card slip. Unless the credit card receipt clearly identifies the item purchased, we require a note on the back that does so. A receipt from Staples that lists

"Paper and Ink Cartridges" is self-explanatory. A receipt from Sears listing "1 of A1FG56K" is not. If there are ambiguous line items on receipts please annotate indicating what the item is. The only amounts we will post from a credit card statement are interest or account fees. Please, do NOT use clear tape OR highlighter on cash register receipts, as the chemical interaction will cause the image to disappear. Sunlight will also damage receipts. We recommend keeping an envelope in your car for gas receipts.

MILAGE - CRA can be expected to disallow all vehicle expenses in the absence of a distance log. We recommend obtaining and keeping a small memo book in your vehicle for this purpose. There is no need to record personal distance driven, only business distance. Note the milage on the odometer on Jan 1<sup>st</sup>, or at the point you start to earn income. From that point on record EVERY business ROUND trip distance noting the date and business name/address visited. Take a total at the end of each month, then a grand total for the year. At the end of each year we need to know the odometer reading at the beginning of the year, the end of the year and your total business distance. If your percentage of business distance is less than 10% there can be no allowance. When between 10% and 90% the actual percentage is allowed. If over 90% then 100% is allowed. It tends to be easier to justify at least 90% for one vehicle when there are at least 2 vehicles in the household.

VEHICLE EXPENSES - If you choose to account for vehicle expenses, we will expect you to provide invoices or cash register receipts for all vehicle expenses throughout the year - insurance, maintenance, fuel, license and a copy of the vehicle lease, or purchase documents. We will expense the amounts at 100% and adjust at year-end, if needed. If your vehicle insurance is paid annually, please provide a copy of the last invoice so we can set it up as a prepaid expense. If paid monthly as a preauthorized withdrawal from your bank, please, confirm that the amount is only for your vehicle. Purchases, at gas stations, of any items other than fuel, oil, windshield fluid or car washes will be not be expensed.

HOUSEHOLD SPACE - CRA allows for expensing of costs that relate to the exclusive business use of the livable portion of a home occupied by a self-emp/sole prop when space is not rented outside the home for the same purpose. Please, provide the following 2 measurements:

- 1) the total square footage of the entire livable space and
- 2) the square footage of the space allotted exclusively to business use.

Livable space excludes unfinished basements and garage areas. Exclusive is defined as being used for nothing other than business purposes. The percentage that is used for business will be used to calculate the expensable portions of heat, hydro, water, municipal tax, mortgage interest and insurance. Bills and proof of payment for these expenses will need to be provided throughout the year. Attempts to deduct any portion of mortgage principal will result in problems relative to capital gain when properties are sold; therefore we suggest avoiding deducting principal.

TELEPHONE/INTERNET - If you use your cell phone, land line and/or email accounts for business we can justify at least a percentage of the basic charges. Provide copies of invoices for these expenses throughout the year.

**ADVERTISING** - Costs associated with your business website are expensable as well as other costs incurred such as printing and distribution of ad sheets or brochures and the costs of belonging to networking groups such as BNI, Chambers of Commerce and/or Boards of Trade.

**PROFESSIONAL ASSOCIATION** fees are expensable, as are seminars and training course costs.

**ENTERTAINMENT** - CRA allows 50% of the cost of entertainment meals to be a deductible expense. We will only expense meal costs which have the following recorded on the receipt: date; person(s) Present; the business name(s); the net meal cost; the tip AND the GST/HST amounts. If the tip and GST/HST are not provided we cannot calculate what these values are so cannot accurately post the expense or the GST/HST recovery amount, if applicable. CRA can be expected to disallow any expense that does not clearly indicate the business names and the persons present. If they find that this data is consistently missing, they can disallow ALL expenses in this category.

**BANK STATEMENTS** - As soon as you have access to each month's bank statement, provide us with the following documents for the period ending on the last day of the applicable month: all paid invoices for services or materials purchased; all cash/credit receipts for purchases; copies of invoices issued to clients; the month's bank statement and the cancelled cheques; scans, or cheque stubs. If your bank does not return your cancelled cheques, or the scan of the cheques, please provide your cheque stubs with the following data recorded - date, paid to, net amount, GST/HST, total amount, description of purchase. Since banks have begun to only retain cheque scans for a limited time, we now recommend that all this data be religiously recorded on your stubs in case CRA should ever ask for backup after the scan has been destroyed. Remember, they CAN request this up to 7 years later.

**GST/HST/PST** - Businesses which earn less than \$30,000 income in any 4 consecutive quarters are not required to collect and remit GST/HST, which is assessed at 5%. Small businesses that are below the \$30,000 income level are allowed to register for, collect and remit GST/HST on a voluntary basis and we recommend that business owners consider this because they are then able to deduct the 5% GST paid on all business purchases from the 5% GST charged on sales, thereby reducing their costs by remitting only the difference. PST is applicable only on the sale of tangible products, therefore, not chargeable on the sale of a service.

**EMPLOYEES** - CRA expects ALL amounts paid to employees to be treated as payroll, with statutory deductions taken from their income to be remitted before the 15th of the month following. These deductions must be taken on ALL amounts paid. As an employer you are required to have your employee[s] fill in both the provincial and federal TD1 documents which are available online. There is no allowance for "casual labor". The only alternative is if the service provider is self-employed and will provide an invoice- this must include name; address; phone; description of service; total amount charged and their GST/HST number, if they are registered. Be aware that if the self-employed service provider is found to be working ONLY for you, the CRA can deem them to be an employee and you could be liable for all the statutory deductions which you failed to take from their income. You could also be liable for the employer's contributions to CPP and EI.

**PERSONAL DRAW**- At some point it is expected that you will begin to draw funds for personal use, rather than just to repay what you have spent to get your business up and running. CRA will expect to

begin to receive CPP and income tax remittances on those amounts at some point shortly after you begin to draw. It is best to begin to establish a habit of allowing for and remitting these amounts at the earliest point that you can comfortably do so. If we are doing your monthly bookkeeping, we can advise you as this point approaches. Self employed tax payers are not required to contribute to EI, however are required to remit both the employee and employer portions of CPP, technically double the amount which would be deducted from an employee's salary.

TAXABLE INCOME or 'PROFIT' - CRA can enforce it's 'Reasonable Expectation of Profit' rule if losses continue to occur many years after the creation of a business entity, especially if that business is shut down and has neglected to earn any profit throughout its business life. There is an awareness that profit does not instantly occur; however, the definition of a business does include that profit [taxable income] will occur.

In general, you can reduce the time incurred to have your data processed by providing your paperwork in a complete, and organized state. We do not expect you to become as obsessive about it as we are but the less time we spend on sorting and matching your paperwork, the lower your costs will be.

Please, do not hesitate to seek clarification on any of the above topics, or to ask questions

Also, remember we are not psychic. If there is something we need to know, it is your responsibility to tell us.

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