



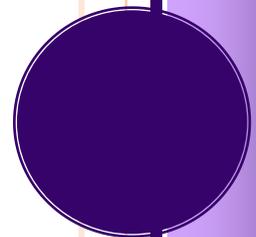
## WHAT CAN I CLAIM?

*A resource guide for Sole Proprietors*

Each year Canada Revenue Agency provides guidelines in the Business section of their website. Be sure to check the “What’s New” or speak to a professional to ensure you meet CRA compliance.

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## What Can I Claim?

In general, you can deduct any reasonable expense you paid or will have to pay in the current year to earn business income.

The amount you can deduct in any given year for any expense depends if it is considered a current year expense (something you paid for in the current year that is under \$500.00) or capital expense (these are considered an asset – those larger purchases that cost more than \$500.00).

There are several expenses that can be claimed against the business income you earn depending on the type of business you own. Listed below you will find typical expenses and a description that will help you determine what you can claim.

**Advertising** – to be included in this category the expense can be business cards, brochures, classified advertisements and referral or finder fees paid to companies/people who refer customers to you, website fees and networking fees (this does not include meals).

**Bad Debts** - should you find yourself with a client that fails to pay their invoice(s), this would be considered a bad debt. If it appears that it is highly unlikely that they will be paying in the future, this is where you write off the sale. (When you are GST/HST registered you want to ensure you account for the taxes you will not be collecting.)

**Delivery, freight and express** – these expenses would include any charges you incur to deliver your products and/or services (this includes postage, courier services etc.)

“Beware of little expenses. A small leak will sink a great ship.”

- Benjamin Franklin

**Dues, Licenses, Subscriptions** - this category of expenses include license fees or dues you pay for memberships to professional associations so you can do business. Subscriptions for business related resource materials/magazines are also included here. You **cannot** deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities (this includes golf).

**Fuel costs** - any gas, diesel, fuel used in running equipment that is used in your business (this does not include fuels for your motor vehicle, or the fuel to heat your home).

**Insurance** - business specific insurance required to do business (i.e. liability insurance, property insurance - this does not include insurance on equipment/vehicles or personal life insurance.)

**Office expenses** - any office supplies used to run your business. This includes paper supplies, pens, envelopes, etc. This does not include furniture or large equipment.

**Supplies** - any supplies required to do business that does not fit in any other category. This would be anything that you use to provide the service (i.e. cleaning supplies for "Molly Maid" type services).

**Legal, accounting and other professional fees** - these fees would be incurred for external professional advice or services, including consulting fees and business coaching. You cannot deduct legal and other fees you incur to buy a capital property.

**Property taxes** - Property taxes paid for property where you operate your business (this does not include property taxes paid on your home - home property taxes are included in the home office section)

**Rent** - this is rent paid for a location to operate your business separate from your home. This would include venue rentals and any storage fees incurred to hold business products or documents.

**Salaries, wages and benefits** - You can claim gross wages paid to employees. As an employer, you can deduct your part of Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, and Workers' Compensation amounts. You can also deduct any premiums you pay on behalf of an employee for a sickness, accident, disability, or income insurance plan.

You can deduct the salary you pay to your child, if you meet all these conditions:

- you pay the salary;
- the work your child does is necessary for earning business or professional income;
- and
- the salary is reasonable when you consider your child's age, and the amount you pay is what you would pay someone else.

**Telephone** - If you have a separate telephone line for business, this is claimed 100%, if not, you can only claim long distance calls (identify them on your bill), and any telephone features (such as ident-a-call or call-waiting - specifically purchased for business use). This is where you would claim your cellphone as well.

**Travel expenses** - public transportation, plane, trains, etc. used for business trips.

**Other Expenses** - leasing costs on equipment required to run your business, premiums to private health insurance plans. Any expenses that do not fit in any other category can be recorded here. When you have more than one expense allocate to "other" it is important to prepare a schedule (a list of the expenses) and indicate "see schedule". It is best to break these expenses down into subcategories for information purposes only.

**Automobile expenses** - If you use a motor vehicle for personal and business use, you can deduct only the part of the expenses that you incur for business use (to earn income). You can claim a percentage the business portion of these expenses. CCRA has become very strict with this expense so it is necessary you follow these guidelines.

**Keep a mileage/travel logbook.** It imperative to have a logbook for each year. Make sure you have logged in the beginning mileage on your odometer as of January 1st and December 31st. You need these numbers to help you calculate the total number of kilometers driven in the year. You need this number. In this logbook, each day you must log in the mileage you drove for the day. Each entry must show the beginning mileage, the mileage reading when you have reached the customer's location and the customer's name. Here is an example:

Jan. 21/02	Beginning mileage	125,148 (when I left home)
	Ending mileage	125,186 (when I reached the customer's location)
	Customer's name -	Customer A
Jan 21/02	Ending mileage	125,198 (when I reached the next customer's location)
	2nd Customer's name -	Customer B
Jan 21/02	Ending mileage	125,227 (when I arrived home)

Tracking your mileage throughout the year will give you the mileage driven for business purposes and the total mileage driven. These numbers will give you the percentage of automobile expenses you can claim.

Expenses you can claim -

Registration and License renewal

Insurance

**Fuel Costs\*** - be sure to keep your gasoline receipts

Fluids (such as transmission oil, oil, windshield washer fluid, etc.)

**Repairs\*** (all costs involved in repairing your automobile)

Interest on car loan

Leasing costs - See the attached document for leasing calculations

**Home Office Expenses** - You can deduct expenses for the business use of work space in your home if you meet one of these conditions:

- the work space 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 for meeting your clients, customers, or patients

You can deduct a part of your maintenance costs, such as heating, home insurance, electricity, and cleaning materials. You can also deduct a part of your property taxes, mortgage interest, and capital cost allowance (on equipment purchased to run your business i.e. a computer). To calculate the part you can deduct, use a reasonable basis, such as the area of the work space divided by the total area, or the number of rooms in the work space divided by the total number of rooms in the home.

If you use part of your home for both your business and personal living, calculate how many hours in the day you use the rooms for your business, then divide that amount by 24 hours. Multiply the result by the business part of your total home expenses. This will give you the household cost you can deduct. If you run the business for only part of the week or year, reduce your claim accordingly.

If you rent your home, you can deduct the part of the rent and any expenses you incur that relate to the work space.

The amount you can deduct for home office expenses cannot be more than your net income from the business before you deduct these expenses. In other words, you cannot use these expenses to increase or create a business loss.

You can deduct whichever of the following amounts is less:

- any amount you carry forward from your prior fiscal period, plus the business-use-of-home expenses you incur in your current fiscal period; or
- the Net income (loss) after adjustments amount on your business activities

In your next fiscal period, you can use any expense you could not deduct in 2002 if you meet one of the two previous conditions. You also use the same rules.

The expenses you claim for home office expenses must not have been claimed with any other business expense.

(For more detailed information visit [www.ccr-a-ardc.gc.ca](http://www.ccr-a-ardc.gc.ca) - Publications - Business Income Guide)

***NOTE: The expenses highlighted in GREEN indicate that these expenses could possibly include HST.***

***When you are HST Registered you must track the HST you paid on these expenses separate from the expense amount.***

***All revenue earned in the HST period must be claimed regardless if the invoices are paid or unpaid.***

### ***REPORTING YOUR HST FOR THE PERIOD***

***Line 101 – Sales - This number will be your total income less the HST charged to your customers***

***Line 105 – HST Collected – This is the total HST charged on the invoices issued to your customers within the HST period.***

***Line 108 – ITCs - The total HST (called “ITC’s” – Input Tax Credits) are the HST paid and unpaid on all expenses incurred within the HST period.***

***The Total HST Owing or Refundable will be the difference (105 – 108)***

***For help with tracking your revenue and expenses be sure to contact me to discuss the options available.***



When you have  
financial clarity in  
your business  
you can make  
confident choices  
for your business  
& your life

**LMR**  
PROFESSIONAL BUSINESS ORGANIZER