



Income Tax for Self-Employed

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Overview

This information circular will outline the special circumstances available to individuals falling into specific classifications, and is to be used as a guide when preparing personal income tax returns. When individuals fall into any of the following classifications, they may be entitled to additional tax credits, deductions and/or other benefits as detailed later in this document.

- Senior Citizens
- Persons with Disabilities
- Persons with Chronic Health Conditions
- Students
- Northern Residents
- Farmers
- Fishermen
- Native Canadians
- Self-Employed

The information contained herein is intended for reference purposes only, when a question arises, you should always consult the appropriate CRA Guides or other resources as may be necessary.

This guide is divided into sections for each relevant topic, ***The Table of Contents references are active links***, in other words, if you click on a line in the Table of Contents, it will take you to that page.

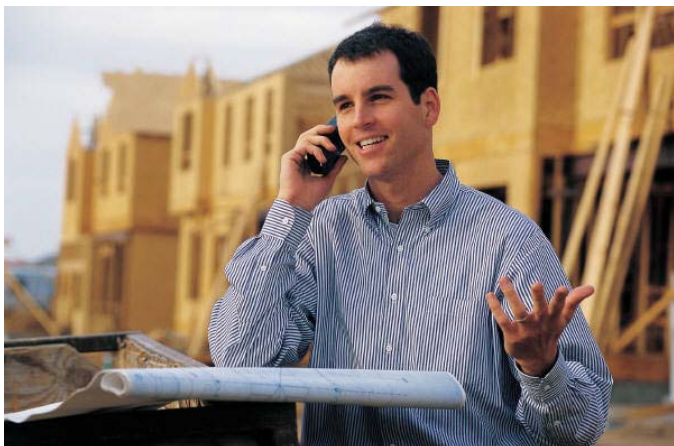
Sections of this guide may refer to Interpretation bulletins, CRA tax guides, Forms and other materials. When possible, a referred guide or form may be accessed by clicking on the referenced hyperlink. These links in most cases will refer you to a web page; therefore, your Internet connection should be active.

Example link: [\(more information\)](#)

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Self-Employed Persons



Individuals that are self-employed are entitled to claim expenses related to operating their business, tax credits, office expenses and more. A self-employed person should know the deductions available to them to ensure they pay as little tax as is allowed under the Income Tax Act. This guide will classify the information into the following categories:

- Employee or Self-Employed?
- Business/Professional Income
- Allowable Business Expenses
- Automobile Expenses
- Home Office Expenses
- Paying Taxes

Employee or Self-Employed?

Before determining if an individual can file their tax return as a self-employed person, they must first be sure that they are in fact self-employed. This section will assist you in making that determination.

If a person is not an employee, it follows that they are self-employed. Sometimes the distinction is an obvious one, however, in some instances it may not be obvious and the individual circumstances must be considered.

The most common scenario is that of an employee who wants to be treated as self-employed. This classification would offer several advantages:

- Self-employed individuals are allowed to deduct all reasonable expenses incurred in earning income while employees are more strictly limited
- Self-employed individuals avoid paying E.I. premiums (of course, they are also unable to collect benefits)
- The employer does not have to make contributions to C.P.P. or E.I., Provincial Health Taxes or Workers Compensation Premiums, thereby potentially saving the employer thousands of dollars.

It is not enough for an individual to classify himself or herself as self-employed. It is not even enough if both employer and employee agree on the classification, similarly any written agreements will not override the facts of the situation.

At the end of the day, CRA will determine who is an employee and who is self-employed based upon some fairly complex criteria.

Note: Each situation is different and should be analyzed independently of any other decision or ruling by CRA. If you are ever in doubt as to the status for the purposes of income tax, Request a ruling from CRA (discussed later in this guide)



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Factors used to Determine Status

The following tests can be used to determine if an individual is an employee or self-employed:

1) Control

- Is there a master (employer) / servant (employee) relationship?
- Can the master select (hire) and dismiss (terminate) the servant?
- Does the master control the method in which the work is carried out and set the terms of payment?

2) Degree of Integration

- Is the individual an integral part of the employer's organization?
- Would an ordinary person view the relationship as that of employer and employee?

3) Economic Reality

- Is the individual carrying on business for personal gain or for the benefit of someone else (the employer)?
- Does the worker have an opportunity for profit (in an accounting sense) from the services provided?
- Does the worker bear any risk of loss with respect to the activity?
- Does the worker provide his or her own tools or equipment?
- Is there a lasting or permanent relationship between the parties?
- Is the worker permitted to provide similar services to other parties and does the worker actively search out other business opportunities?

Generally, if the worker receives direction from the business, supplies no capital (tools or equipment), bears no financial risk or liability, has a lasting relationship with the business and does not have the opportunity to provide services to others, they would be considered to be an employee.

4) Specific Result

- Is the work performed to achieve a specific result or for an indefinite period of time?
- Is the contract such that the individual worker must provide the service or just ensure that the task is completed and not necessarily do the work themselves?

Commission salespeople or traveling salespeople present another type of situation. Canada Revenue Agency considers three main factors in determining their status:

1. Salesperson is not restricted to the supplier's product and can sell other products whether or not they are competitive
2. Salesperson is not required to personally sell the product
3. Salesperson is given no instruction about what territory to cover, what client to approach or when and how to perform the work

All three factors together indicate self-employed status, if one of these factors is missing, then the tests discussed earlier must be taken into consideration.

Personal Services-Corporation

The term personal services corporation refers to the situation where an individual, who would normally be considered an employee, forms a corporation and provides the services through the corporation. The purpose of this rule is to restrict the deductions of the corporation to those allowed by employees. If you think you may have this situation, you must ensure the corporation is calculating net income correctly.



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Business / Professional Income

What exactly is Business or Professional Income? Sometimes the answer is quite clear, however in certain circumstances some questions must be asked. CRA defines Business / Professional Income as “An adventure in the nature of trade”. In simple terms, a situation where cash or other consideration is exchanged in return for goods or services provided.

For example:

John is an electrician; he owns a van in which he keeps tools, supplies and materials. His days are spent traveling to and from various homes in the city performing repairs and changes to the electrical wiring and fixtures in private homes. John charges the homeowner \$75 per hour for his services and he also charges them the cost of the materials he uses plus an additional 30% markup for profit.

In this example, it is safe to assume John is operating a Business.

Example 2:

Jessica is an Accountant; she has a desk, computer, phone, fax and other general office equipment in a room in her home that used to be a bedroom. She offers bookkeeping, tax preparation services and other financial consulting to business owners and others throughout the city. Jessica charges her clients \$75 per hour for her time.

In this example, it is safe to assume Jessica is earning Professional Income

Example 3:

Harold and his wife Sally, produce woodworking items in their garage in their spare time. They make display racks, birdhouses, clocks and other decorative fixtures. When they have enough items completed, they have a yard sale to recover the cost of the materials. In some instances, the cost of the materials plus the time involved in producing the items outweighs the amount they sell the item for.

Is this Business Income or a Hobby?

An activity that produces income, but is classified as a hobby will not be taxable. Similarly, the expenses will not be deductible and any resulting loss would be denied. A hobby would be considered any activity the individual carries on in addition to their regular employment or business activities or an activity carried on for the individual's own enjoyment. Examples of such activities include painting, photography, dog-breeding, gambling, sewing, etc. Alternatively, all of these activities could be classified as a business activity. Obviously, if there is income, the taxpayer would want the activity classified as a hobby and therefore not be taxable. If the activity results in a loss, it would be more beneficial to have the activity classified as a business and be able to deduct the loss against their income.

The main factors to consider are:

- Is there an intention of earning a profit?
- Is there a reasonable expectation of profit, what is the skill level, experience, etc.
- What amount of time is spent on the activity?
- What efforts are made to sell the products?

In the above example, CRA would likely rule that the production of the items is a hobby, therefore the income earned from the sale of the items would not be taxable, and consequently, the expenses incurred would not be deductible.



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Calculating Income

The accrual method of accounting is used to calculate business and professional income. Accrual method means that the business must include in income amounts that have been charged to clients, whether or not the client has paid for the goods or services at the end of the year. The cash basis is acceptable for self-employed commission salespeople as long as income is accurately shown for the year. In other words, if using the cash basis does not yield a significantly different result than the accrual basis, it is acceptable for self-employed commission salespeople.

ALL Self-employed persons (Business and Professional Income) must use a Calendar year-end (December 31st)

Inclusion Into Income

All the earnings of the business received and receivable must be included in income. The FMV of any goods or services exchanged for other goods or services in a barter type arrangement must be included in income as well.

Include in other income any income received from any sources other than through the daily operations. Examples of other income are:

- Recovery of bad debts
- Prizes or bonuses awarded on the basis of business activity
- Damages awarded (lawsuits)
- Compensation for business losses (insurance proceeds)
- The excess amount of any grant or assistance after applying the grant to the related expense or capital purchase.

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Allowable Business Expenses

Under the Income Tax Act, there is no true definition of what constitutes an allowable deduction against business or professional income. Essentially, any expense incurred directly related to the operation of your business or in direct relation to earning professional income is an allowable deduction. It would be impossible to list every deduction allowed in computing business income, because in theory, any expense incurred for the purpose of earning income is deductible. There are certain restrictions and exceptions to this guideline and this Section discusses some of the more common ones.

In assessing whether expenses are deductible, first apply the two basic requirements of a deductible expense:

- Expense must be incurred for the purpose of earning income and
- Expense must be reasonable in the circumstances

The following scenario illustrates how these two guidelines could be applied.

John operates a clothing store in downtown Moncton, New Brunswick. In March 2003, John and his wife Mary and their 2 children took a trip to Florida. Are these expenses deductible?

At first glance, you may be inclined to say no, definitely not. Based on the facts above, this looks like a vacation and not a legitimate business trip and seems to fail the first test. John forgot to mention that he and Mary attended a 3-day fashion show and buying trip in Florida, which he can prove with his registration confirmation. This trip now meets the criteria of being for the purpose of earning income for John, since he operates a clothing store. Unless Mary also works in the clothing store or is active in the running of the business, her cost of the trip would be denied. The children's trip (ages 7 and 9) could not be argued to be for the benefit of earning income and would be denied.

While the trip passes the first test (the cost of John's expenses anyway), what about the second test? Is it reasonable to incur expenses for a 10-day trip to Florida for 4 people so that one key person can attend a 3-day fashion show/buying trip? In a word, no. Allowing for travel time, five days of expenses would probably be the limit. So what is deductible?

- John's airfare to Florida
- John's accommodation for 4 nights in Florida
- John's meals for the five days surrounding the show
- The cab fare to and from the airport, if applicable
- The cost of any transportation during the 3-day conference and travel days including car rental, cab fares, parking passes, etc.
- The registration fee for the conference



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Automobile Expenses

The expenses related to operating a motor vehicle for self-employment purposes are deductible, subject to limits and exclusions. The personal portion of motor vehicle expenses must be determined as this is not deductible. To support usage of a vehicle as a condition of self-employment, a log should be kept showing total km driven. If you cannot support the % of employment usage of the vehicle, Canada Revenue Agency will feel free to make their own estimates!

The following expenses may be claimed under motor vehicle expenses:

- License and registration fees
- Fuel / oil costs
- Insurance
- Interest - interest borrowed to buy a passenger vehicle is limited to the lesser of actual interest paid or \$8.33 x number of days interest was payable in the year
- Maintenance and repairs
- Capital Cost Allowance (depreciation)
- Lease Payments, to a maximum of \$800 per month before applicable taxes.

When calculating automobile expenses as a deduction against income, the expenses must be prorated based upon the business vs. personal use, with the exception of parking. Parking expenses when directly related to the operation of the business are fully deductible; the same is true with toll costs.

Sample Mileage Log

Date	Beginning Mileage	Ending Mileage	Total Distance	Destination	Fuel / Oil Purchases	Notes:
08-12-04	31,250	31,385	135	ABC Company	\$35.00	Meeting to promote new books
08-14-05	31,612	32,435	823	Toronto	\$82.00	Trade Show at Convention Center
12/31/04			958		\$117.00	Total Business mileage
01/01/04	26,452	32,435	5,983			Total Mileage for year
			5,025			Total Personal Use

Remember, if you do not have a mileage log, CRA can and will estimate what they believe is reasonable under the circumstances.



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Example:

Denise runs a used bookstore and travels regularly to flea markets to acquire used books. She keeps a log of her mileage and all of her automobile related expenses. The following table illustrates the allowable deduction:

Total Mileage for the year:	32,408
Business use per log	14,837
Business use %	45.78%
Expenses from Receipts	
Fuel & Oil	1,463.93
Repairs & Maintenance	783.74
Insurance	1,838.83
Licensing	104.00
Lease Payments (467.22 per month)	5,606.64
Total Expenses	9,797.14
Business Portion:	4,485.32
Parking	153.23
Toll Charges	89.32
	4,727.87

In this scenario, Denise would be entitled to claim \$4,727.87 as an expense related to the income from her business.

Meals & Entertainment

The deduction for business meals and entertainment is limited to 50% of either the cost or an amount that is reasonable under the circumstances whichever is less. These rules do not apply if providing meals and entertainment is your regular business.

- If the expenses were to provide a Christmas party or similar event for all employees, (limited to 6 such events per year), the cost incurred would be 100% deductible.
- If the amount of the expenses is included in the employee's income, or the client was billed for these amounts, the cost would be 100% deductible.
- Meals and entertainment will be 100% deductible if incurred by employers for employees at remote work sites. A remote site is defined as being at least 30km from the nearest urban area that has a population of 40,000 or more.

Meals and entertainment expenses must be supported with a receipt and also a valid business reason. The simplest way to document this is to write on the back of the receipt (ex. meeting with potential client, Harry Smith). However, a detailed log can also be used which is a good idea when expenses are significant. Actual receipts should be kept as opposed to credit card slips.

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Personal / Living Expenses

Personal or living expenses are not allowed except where they consist of traveling expenses incurred while away from home in the course of carrying on business. Remember this rule when Harry tells you he is deducting the cost of a haircut and new suit because he wanted to impress a client at a business meeting. Clothing is considered a personal expense unless it is a uniform or safety clothing required for the job. The cost of traveling from your home to your place of business is also a personal expense. Donations are also considered personal expenses, for which a tax credit is allowed.

If the expense has both a personal and business element, then the expense must be allocated on a reasonable basis.

Club Dues

No deduction is allowed for any expense incurred with respect to membership fees or dues if the main purpose of the club is to provide dining, recreational or sporting facilities to its members. No deduction is allowed for the use or maintenance of a yacht, lodge, golf course or sporting facility. Normal business entertainment expenses incurred in connection with such facilities are deductible (subject to the 50% meal restriction). However, where the main activity is recreation or entertainment, the entire expense is denied. Canada Revenue Agency has reversed its position denying meal expenses incurred at a golf club if golf or other recreation occurs in conjunction with the meal. Meals at a golf course will follow the general meal restrictions.

Convention expenses

The cost of attending conventions is limited to two per year and the 50% limitation on meals still applies. If no amount is broken out by the conference organizer for a meal amount, then \$50 per day is to be used.

Interest

Interest incurred on money borrowed to use in running the business is deductible with some restrictions. Fees incurred to obtain a loan (financing fees) such as application, processing, guarantee, brokerage or legal fees are deductible.

Life Insurance Premiums

Life Insurance Premiums are deductible if the policy is assigned as collateral for a business loan and the lender requires it.

Private Health Insurance Premiums

Self-employed individuals can now deduct as a business expense, amounts paid for private health insurance plans provided they meet certain conditions. Self-employment income must be the main source of income, income from other sources cannot exceed \$10,000, the taxpayer must be actively engaged in the business and coverage must be extended to all permanent full-time arm's length employees. Where there are permanent full-time arm's length employees, the deduction is limited to the percentage paid for equivalent coverage to the employee. The maximum deductible is \$1,500 for the individual and spouse and \$750 per child. Any undeducted amounts can be claimed as a medical expense tax credit.

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Leasing Costs

The costs of leasing computers, cellular telephones, fax machines and other equipment for use in the business are deductible.

Home Office

Most small businesses benefit from the business owners home, as such, CRA allows for self-employed persons to claim reasonable amounts for the use of a home office.

To be deductible, expenses for a home office must meet one of the following conditions:

- It is the principal place of business or
- The office is used only to earn business income and it is used on a regular basis to meet customers or other persons as required for earning income

If one of the above requirements is met, then you may deduct the business portion of:

- Maintenance costs
- Utilities
- Insurance
- Property taxes
- Mortgage interest

The business portion must be allocated on a reasonable basis such as square footage or number of rooms. Home office expenses cannot be used to create or increase a business loss. Any excess of expenses that cannot be claimed in the year may be carried forward to claim in future years.

Note: To be allowable, the home office must be distinct and separate from other living areas. For example, a person that uses their kitchen table twice a week to create invoices and pay bills would not be entitled to claim a deduction for a home office. If however, they used ½ of the basement of the home for an office, they would then be entitled to claim a proportionate amount of related expenses.



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Example:

Don runs a landscaping business from his home. He converted one of the bedrooms in the house to an office. In the room, he has a computer, fax, phone lines, filing cabinets and other related items. The following table illustrates the allowable deduction for operating the home office:

Total Area of Home (square feet)	2,120
Area used for Home Office	240
Business use %	11.32%
Expenses from Receipts	
Utilities	2,463.93
Repairs & Maintenance	783.74
Insurance	1,078.22
Property Taxes	3,104.00
Mortgage Interest	12,893.65
Total Expenses	20,323.54
Business Portion:	2,300.78

Don would therefore be entitled to claim \$2,300.78 as an expense related to operation of his business.

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Related Party Transactions

The issue of reasonableness becomes very important when transactions are between related parties. Canada Revenue Agency likes to examine these transactions, especially payments between spouses.

Canada Revenue Agency takes the position that if the transaction would not have occurred or not occurred in the same manner if the transaction was with a stranger, then the transaction is open to challenge.

Harry hires his 16 year old daughter at \$600 per week for the summer. CRA would consider whether Harry would have hired a stranger if his daughter was not working there, and consider whether Harry would pay the 16 year old neighbour's son \$600 a week for the job. If these expenses are deducted, CRA could disallow all or part of the deduction arguing that this is not a reasonable salary in the circumstances or that a legitimate position did not exist in the company, one was created for a relative. It is up to the taxpayer to prove otherwise.

Harry pays \$2,000 a month for a two-room office in downtown Sydney, Nova Scotia. The landlord is Harry's mother. Harry can reasonably argue that he needs an office and would rent from someone else if not his mother. True, but if all the comparable offices around him rent for \$500 per month, CRA could challenge the amount as unreasonable and disallow all or part of the deduction.

Remember, Canada Revenue Agency cannot disallow legitimate, reasonable business expenses just because they are between related parties. They like to try however, and you must be able to support the deduction if challenged.

In ALL instances, the onus is on the business owner to be able to substantiate and qualify a deduction. If you cannot produce receipts or justify the deductibility of an expense, CRA can disallow the claim.



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Summary Income Statement

An individual that is self-employed either through a business or a profession, is only required to pay income tax on the Net Earnings of the business or profession. Keeping accurate and detailed records will ensure an individual only pays the taxes that are necessary. Incomplete or missing information will result in a person paying too much taxes, or, a complete disallowance of the claim by CRA.

For more information relating to business income, see [Form T2124, Statement of Business Activities](#)

For more information relating to professional income, see [Form T2032, Statement of Professional Activities](#).

Example Income Statement.

Justine operates a Hair Care Salon from her home. She converted the garage to a private salon and uses it exclusively for the hair care needs of her clients. The following illustrates how her income would be calculated for income tax purposes:

Gross Revenue for the year	75,498
Supplies and Materials	12,453
Gross Profit	63,045
General & Admin Expenses	
Accounting Fees	800.00
Advertising	783.74
Insurance	1,838.83
Licensing	104.00
Office Supplies	1,734.93
Telephones	973.45
Equipment Leases	1,783.49
Subtotal	8,018.44
Business Use of Auto	4,284.22
Home Office	3,473.24
Total Expenses	15,775.90
Net Income	47,269.03

In this case, Justine's taxes would be calculated based upon the Net income of the business. From this amount, she would still be able to claim personal tax credits, donations, medical expenses etc.



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Paying Taxes

An individual, earning income from investments, self-employment, rental properties, business or professional services, will generally have to make installment payments to CRA for the anticipated tax payable on the income.

Threshold for installment payments

For installment payments to be required, CRA has said 'an individual that owes in excess of \$2,000 in taxes after completing their tax return in either of the 2 preceding years, and they can anticipate that they will have a similar situation in the forthcoming year, must make installment payments.

Even if an individual did not meet the threshold requirements in either of the 2 preceding years, if they, or their tax preparer can anticipate, due to changes in their financial situation, that they will owe taxes at the end of the current year, it may be advisable to make installment payments.

If an individual has an installment liability resulting from an assessment of their tax return from either of the preceding 2 years, CRA will normally send them an installment reminder and remittance form (illustrated below) in February and August

Calculation of Installment Payments

There are 3 allowable methods for calculation of the required installment payments, by choosing the best one, an individual can best ensure that they do not overpay their taxes for the current year

No Calculation Option

If an individual's tax obligation does not change very much from year-to-year, they may choose this option. CRA will calculate the installment payments due as follows:

The payments due in March and June will be equal to $\frac{1}{4}$ of the tax and CPP contributions payable on self-employment income of the individual's return from 2 years prior.

The payments due in September and December will be calculated as $\frac{1}{2}$ of the tax and CPP contributions payable from self-employment income of the individual's tax return of the previous year, less the installments made in March and June of the current year.

Example of No Calculation Option

Frank had net taxes (including CPP) payable of \$4,598 in 2002 and \$5,219 in 2003 and to used the no calculation option for calculating his tax installments. The resultant payments would look as below:

March and June = $\$4,598 \div 4 = \$1,149.50$ each payment

September and December = $(\$5,219 \div 2) - (\$1,149.50) = \$1,460.00$ each payment

At the end of the year Frank will have made payments of $(\$1,149.50 \times 2) + (\$1,460.00 \times 2) = \$5,219.00$

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Prior Year Option

This option is best for an individual whose tax obligation for the current year will be similar to the obligation of the prior year but significantly more than the tax obligation of 2 years ago.

The payments due in March, June, September and December will be equal to $\frac{1}{4}$ of the total tax and CPP contributions payable from self-employment income from individuals return from the prior year.

HOWEVER, if an individual uses this method and they do not remit enough tax by installments or any of the installment payments are late, CRA may assess installment interest and/or penalties for the additional amounts owing.

Example Prior Year Calculation

Frank had net taxes (including CPP) payable of \$4,598 in 2003 and \$5,219 in 2004 and decided to use the prior year option for calculating his tax installments. The resultant payments would look as below:

March, June, September and December: $\$5,219 \div 4 = \$1,304.75$

Current Year Option

This is the best option for an individual whose tax obligation will be significantly different (either higher or lower) than it was in either of the previous 2 tax years.

The payments due in March, June, September and December are calculated as $\frac{1}{4}$ of the estimated tax and CPP contributions payable on self-employment earnings for the expected net income of the current tax year.

CRA may assess installment interest and/or penalties for the additional amounts owing, if the individual uses this method and they do not remit enough tax by installments or any of the installment payments are late.

Example Current Year Calculation

Frank had net taxes (including CPP) payable of \$4,598 in 2003 and \$5,219 in 2004 and estimates he will have tax payable of \$6,982 for 2005, he then decided to use the prior year option for calculating his tax installments. The resultant payments would look as below:

March, June, September and December: $\$6,982 \div 4 = \$1,745.50$

When CRA sets the installment obligation (No calculation option) this is the only time that the individual would not be potentially subject to interest and/or penalties for short remittances. However, the no calculation may only be used when an individual expects to have little or no change in their total tax obligation. If the individual knows that their tax obligation is going to significantly change, they must choose the current year calculation even if CRA sends them installment forms for the no calculation amounts.



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Sample Calculation Form (for current year or prior year options)

Calculation Chart		
Note: The line references are from the General return or <i>Notice of Assessment</i> or <i>Notice of Reassessment</i> .		
Net federal tax (line 420)	\$	1
Old Age Security (OAS) repayment (from line 422)	+	2
Provincial or territorial tax (line 428)	+	3
First Nations tax (line 432)	+	4
Total payable (add lines 1 to 4)	=	5
Total income tax deducted (line 437) (Quebec residents use line 439)		6
Refundable abatements (line 440 plus line 441)	+	7
Refundable medical expense supplement (line 452)	+	8
Refund of investment tax credit (line 454)	+	9
Part XII.2 trust tax credit (line 456)	+	10
Provincial or territorial tax credits (line 479)	+	11
Total credits (add lines 6 to 11)	+	12
Net tax owing (line 5 minus line 12)	=	13
CPP contributions payable (line 421)	+	14
Total instalment amount due (lines 13 plus line 14)	= \$	15

Making Installment Payments

[\(more information\)](#)

Payments can be made in any one of the following methods:

- Online banking services - the individuals SIN is the account number
- Pre-Authorized debit to the individuals bank account
- In person at a financial institution, using Form INNS3, Installment Payments
- In person at a local Tax Services Office, using Form INNS3, Installment Payments
- By mail to: Ottawa Tax Services Office, 875 Heron Road, Ottawa ON K1A 1B1

If Form INNS3 is not available, an individual may pay in person at the Tax Services office or via mail to Ottawa, providing they attach a note including their SIN and the description "Tax installment payment for tax year XXXX"



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Other Considerations

When starting a business, there are a number of other items you will have to consider. Following are only a few.

Corporation, Proprietor or Partnership?

Determining the best structure for your business is a complex process. There are advantages and disadvantages to incorporations, rely on the advice of a professional or download the Ledgers Guide to Incorporations.

Bookkeeping

CRA is very particular about books and records from business activities. There are numerous reasons and benefits to keeping good books. It is important for you to determine before you start your business, who will take care of the books.

Business Plan

A solid, well prepared business plan is imperative to running a successful business, If you do not have a business plan, you will have nothing to compare your results with. Many financial institutions will also request a business plan if you are applying for financing.

Marketing Plan

You could have developed the best business in the world, however if nobody knows who you are or where you are, how will your business ever be successful? A well prepared marketing plan will help you to decide the best means of promoting your business.

Employees

If you intend to hire employees to work with you in your business, there are a number of other serious items for you to consider. Who will provide payroll services? What about additional insurance requirements? Tax implications for Employer CPP/EI/Workers Compensation and Health Taxes. Employment Standards Act – What are the rules for paying employees in your area?

Location

Where will you operate your business? Do you have enough space for growth? If you are going to work from your home, do you really want your customers to know where you live? If you are in a high-traffic business, what is the implication of having a number of clients in your home each day? Do you have adequate parking? Is there zoning allowing you to operate a business from your home? Will the traffic potentially upset your neighbors? Choosing a location is an important task, choose carefully.



Incorporation Guide

Your Local Ledgers Representative is:
Christine Stevenson
905-648-0077



Tax Software vs. Tax Professionals

A common misnomer in the marketplace is that anyone can prepare an income tax return because they went to the store and bought a software package. Although many of the software packages available today are very good, they cannot possibly replace the knowledge and education of a professional tax preparer. Consider some of the following:

Can a software application ask you:

- About your children, their schooling or tuition?
- About your rent, education or property taxes you are paying?
- About your health status and what allowable medical expenses you may have?

Can a software application counsel you on:

- The best way to utilize RRSP deductions
- Capital Gains implications of selling a cottage or other real estate?
- Upcoming changes in legislation that could effect your personal tax situation
- Starting a home based business or how to make the best use of business deductions
- The deductibility of employment related expenses
- Transferring of credits or deductions to a spouse or from a dependant
- Credits and deductions you may have missed in prior years

There is no doubt that a Professional Tax Preparer will charge you more than the software costs, but consider this:

- A.) An individual purchases a software application to do their taxes for \$30.00
The individual is thrilled to get a refund of \$300
Net Refund \$270
- B) The same individual takes their tax return to a Ledgers Professional and pays \$75.00
The individual is ecstatic to get a refund of \$500.
Net Refund \$425

Where is the better result?

This may not be true in every case, however do you want to risk being the person who missed out on a larger refund?



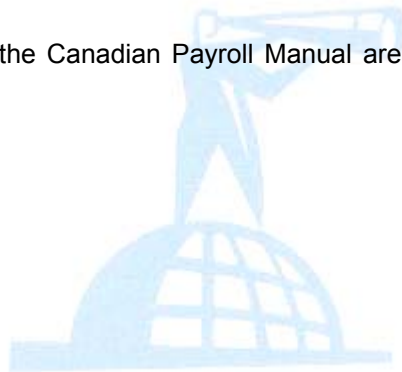
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Other Guides and Information available from Ledgers:

- Income Tax for Students
- Income Tax for Senior Citizens
- Income Tax for Persons with Disabilities
- Income Tax for Persons with Chronic Health Problems
- Income Tax for the Self-Employed

- Guide to Incorporations
- Employment Insurance – Who is Exempt?
- Buying and Selling a Business
- Employee or Self-Employed? How do you know?
- Guide to Taxable Benefits
- Provincial Payroll Reference Guide**
- Canadian Payroll Manual**

** The Payroll Reference Guide and the Canadian Payroll Manual are available from Ledgers Educational Services Inc.



**This guide was prepared by Ledgers Canada,
to find the Ledgers Representative in your area
visit <http://www.ledgers.com/>
or call, toll free 1-888-470-0772**



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