

Income from Self-Employment

“The income of a member of a family unit from a business shall be reduced by all deductions allowed by the Canada Revenue Agency from income from a business, **except** for the following:

1. Capital cost allowances for the depreciation of assets.
2. Rent paid by the member for the unit occupied by the member where the member operates the business from the unit.
3. Childcare expenses. ”

O. Reg. 298/01, s.50, (5)

Therefore, if any of the above deductions are reported in the Statement of Business Income (T2125) filed with the Canada Revenue Agency, such amounts must be added back in to income.

Business Use of a Motor Vehicle:

If you use a motor vehicle for business and personal use, you may only deduct the portion of the expenses that you paid to earn income. To support the amount you can deduct, keep a record of the total of all kilometres you drive, and the number of kilometres you drive to earn income. For example, Mary provides bookkeeping services and uses her car to travel to her client’s place of business. In 2013 she noted the following:

Kilometres driven to earn business income		5,000
Total kilometres driven		7,500
Expenses:		
License and registration fees	\$	100
Gas and oil		600
Insurance		800
Maintenance and repairs		<u>900</u>
Total expenses for the car	\$	<u>2,100</u>

The expenses that can be deducted for her car are:

$$\frac{5,000 \text{ (business kilometres)}}{7,500 \text{ (total kilometres)}} \times \$2,100 = \$1,400$$

Keep a record of the total kilometres you drove and the kilometres you drove to earn business income. The record for each trip you take to earn business income should list the date, destination and purpose, and the number of kilometres you drove based on the start and end reading of the odometer. Be sure to write down the odometer reading at the beginning and end of each year.

Types of expenses

The types of expenses you can claim for the use of a motor vehicle include:

- fuel and oil;
- maintenance and repairs;
- insurance;
- licence and registration fees;
- interest paid on a loan used to acquire the motor vehicle;
- leasing costs;
- parking fees paid for business activities;

Interest

You can deduct interest on money borrowed to buy a motor vehicle, automobile or passenger vehicle that you use to earn income. Include the interest as an expense when you calculate your allowable motor vehicle expenses.

When you use a passenger vehicle to earn income, there is a limit on the amount of interest you can deduct. To calculate the amount of interest you can deduct, refer to “Chart B – Available interest expense for passenger vehicles” on page 5 of Form T2125 (Canada Revenue Agency).

Leasing

You can deduct amounts to lease a motor vehicle used to earn business or professional income. You can include lease costs as an expense when you calculate your allowable motor vehicle expenses, subject to the limits for passenger vehicles.

Expenses and Allowances

Advertising

You can deduct expenses for advertising, including ads in Canadian newspapers and on Canadian television and radio stations.

Meals and Entertainment

The maximum amount you can claim for food, beverages and entertainment expenses is 50% of the amount actually incurred or an amount that is reasonable in the circumstances.

Bad debts

You can deduct an amount for an account receivable if you determine the receivable is a bad debt in the year, and you had already included the receivable in income.

Insurance

You can deduct all ordinary commercial insurance premiums you incur on any buildings, machinery, and equipment you use in your business. Insurance costs related to business use of work space in your home must be claimed as “business-use-of-home expenses”.

Interest

Generally, you can deduct interest incurred on money borrowed to run your business or professional practice.

Business tax, fees, licences, dues, memberships and subscriptions

You can deduct all annual licence fees and business taxes you incur to run your business. You can also deduct annual dues or fees to maintain your membership in a trade or commercial association. You cannot deduct membership dues (including tuition fees) paid to any club where the main purpose is dining, recreation or sporting activities.

Office

You can deduct the cost of office expenses such as pens, pencils, paper clips, stationery, and stamps. Office expenses do not include items such as filing cabinets, chairs, computers, and desks. These are capital items.

Legal, accounting, and other professional dues

You can deduct accounting, legal, and consulting fees you incur to get advice and help in keeping your records and fees incurred for preparing and filing your income tax and GST/HST returns.

Rent

You may not deduct any part of the rent-geared-to-income you pay for your unit. If you rent space for your business elsewhere, you can deduct the rent you pay for that property.

Maintenance and repairs

You can only deduct the cost of labour and materials for minor repairs or maintenance done to property you use to earn income **except** if that property is your rent-geared-to-income unit.

Convention

You can deduct the cost of attending a maximum of two conventions held during the year. The conventions must be:

- related to your business or profession, and
- held by a business or professional organization within the geographical limits of where the sponsor usually does business.

This second restriction will not apply if the convention is sponsored by an organization of another country and is related to your business or profession.

Where the convention fee entitles you to food, beverages, or entertainment and the convention organizer has not indicated a reasonable portion for these items, you **must** subtract \$50.00 for each day that food, beverages, or entertainment were provided from the total convention fee.

Business Use of Home Expenses

You can deduct expenses for the business use of a workspace in your home if either:

- the work place is your principal place of business, or
- you use the work place only to earn your business income and it is used on a regular and continuous basis for meeting your clients, customers or patients.

You can deduct expenses such as electricity, heating, cleaning materials, home insurance and mortgage interest. Use a reasonable basis, such as the area of the workspace divided by the total area, to divide your expenses between business and personal use.

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

Any expenses that you cannot deduct in the current year can be used in the next year, subject to the same rules.

Overall deductibility

The general rule is that any reasonable expense incurred to earn business income is deductible. If an expense is determined to be unreasonable it is simply not allowed as a deduction.

Note: A business loss cannot reduce household income from other sources. If the business experienced a loss (expenses were greater than income), then income from the business is recorded as zero for the purpose of calculating rent-geared-to-income assistance.