



CESTNICK

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TAX MATTERS

## When it comes to the taxman, self-employed individuals need to pay attention to details

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Okay, I'm now convinced. You can make money doing just about anything. Take Jason Zook for example, who started a business called I Wear Your Shirt. For about five years, Mr. Zook supplied his services to more 1,600 small businesses, Fortune 500 companies, and others. He was paid to simply wear T-shirts provided to him by these businesses and promote them online. He made more than US\$1-million during those years.

Over the past year I've spoken with countless Canadians who have started small businesses during the pandemic. If you're one of these folks, keep a few things in mind as you prepare your taxes for 2020.

1. **Losses can save you taxes.** If you earned any income in 2020 providing goods or services to others, you may be entitled to some deductions – even if you didn't earn much. One man I spoke with earned \$1,500 delivering stuff with his pickup truck. "I probably spent more on

gas, repairs and insurance than I made" he said. He plans to continue with these services and expects to earn more in 2021. Many businesses lose money in their first year or two, but this doesn't mean you can't claim deductions. This guy may very well report a loss in 2020 from his business, but this will only save him taxes because those losses will be applied against any other income he earned in 2020.

2. **Losses can't go on forever.** If you report losses from your business year after year, the taxman might conclude that you don't have an actual business, but perhaps a hobby. Are you really trying to earn a profit? If the taxman concludes that your activity is not sufficiently commercial in nature, and is more akin to a hobby, you'll have a problem deducting your losses. After three years or so of claiming

losses, you may draw attention to your tax return.

3. **A business extends your deadline.** If you or your spouse report any type of self-employment on your personal tax return, then your tax filing deadline is automatically extended to June 15, 2021, although you'll face interest on any taxes owing that are not paid by April 30, 2021.

4. **Deduct home-office expenses.** You can claim a deduction for home-office expenses if you meet one of these tests: (1) your home office is your principal place of business (you spend at least half of your working hours in that office), or (2) your home office is used exclusively for business purposes and is used on a regular and continuous basis for meeting clients, customers, or patients. When it comes to deductions, you can claim a portion of hydro, heat, water, repairs and maintenance – the same as any employee that qualifies to deduct home office expenses – and you can add a portion of mortgage interest, property taxes and insurance to this list as well. The portion of these costs that you can deduct is based on the percentage of your home that is used for business purposes, and on the percentage of time you use that space for business. And while you can claim capital cost allowance (CCA, or depreciation for tax purposes) on your home, it's not recommended because you could jeopardize the principal residence exemption when selling your home later. By the way, you can't create or

increase a loss from your self-employment when deducting home-office expenses.

5. **Claim meals and entertainment:** You can claim half of any meals and entertainment costs. Sorry, but the taxman won't allow a deduction for golf green fees or golf memberships. When lockdowns are over, take a client with you when you eat out and make the meal partly deductible.
6. **Deduct your vehicle costs:** If you use your car for business, you can deduct a portion of all related costs including gas, insurance, repairs, licence fees, auto club dues, car loan interest, lease costs and CCA on your vehicle. The deductible portion is based on the number of kilometres driven for business as a percentage of the total kilometres driven in the year.
7. **Don't forget capital assets:** The cost of any equipment you use in your business, including things in your home, can be deducted over time through the CCA system. I'm talking about things like desks, chairs, filing cabinets, computers, cellphones and computer software. It's a CCA deduction for these things that can really help to reduce your tax bill and might even create a loss from your business for the year, resulting in tax savings.
8. **Other expenses may be deductible.** You can also claim any costs that were incurred for the purpose of earning income from your business if they are reasonable in amount. This opens

the door to all kinds of deductions. Some restrictions may apply (convention costs are an example – although there weren't many conventions in 2020).

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