

EXPENSES

The majority of Consultants will be using the Quick Method of paying HST/GST, so expenses should be entered into the manual including HST/GST. If you are using the Long Method for remitting HST/GST, expenses should be listed excluding HST/GST with the amount of HST/GST noted in the right hand column. The **Expense** summaries to be completed are contained at the end of this booklet.

ACCOUNTING FEES EXPENSE

- Fees for accounting services
- Retainers paid to associates of CPA4IT
- Other accounting or bookkeeping fees (QBO, Xero, and other cloud bookkeeping software/tools)

*Please include the names of the parties to whom other payments were made.

ADVERTISING EXPENSE

- Media advertising (webpage, social media posting, broadcast media and directory listing)
- Business Cards
- Gifts you have purchased for your existing or potential clients
- Sponsorships or business donations where a tax receipt is not provided

AUTOMOBILE EXPENSE

- Fuel
- Repairs and parts
- License and registration fees
- Insurance
- General maintenance (oil changes)
- Leasing costs
- Interest on auto loans

Canada Revenue Agency requires that an accurate mileage log be kept when a car is driven for business and personal purposes. You should keep a weekly or monthly log for each vehicle indicating the total kilometers driven and the kilometers driven to earn income. Using these two figures you can calculate the percentage that your auto is used for business purposes, therefore accurately calculating the percentage that is allowable as an expense.

In 2008-2019 the maximum monthly allowable lease expense is \$800 plus applicable taxes. If you have leased a new vehicle, the down payment will be set up as a prepaid expense and expensed over the lease period, so please provide our associates with this information.

In 2008-2019 maximum allowable interest expense for a vehicle loan is \$300 per month for vehicles acquired after 2005 and \$250 in years prior to 2001. The maximum capital cost ceiling for an automobile is \$30,000 plus taxes in 2008-2019.

You may also claim amortization on your personal auto. In order to calculate this, our associates need the value of the car at the beginning of the fiscal year. If you have purchased a new car during the year, a copy of the bill of sale will help in calculating the allowable amortization for you. As an alternative to claiming a percentage of your expenses, your corporation can pay you a car allowance as follows:

- \$0.58 for the first 5000 kilometers of business mileage in 2019 (\$0.54 in 2016-2017; \$0.55 in 2018)
- \$0.52 per km for the balance of business mileage in 2019 (\$0.48 in 2016-2017; \$0.49 in 2018)

Both methods need to be calculated, and the one resulting in a higher expense is the one to claim. There is a spreadsheet to do this calculation contained in the **Expenses** section of the **Capturing Revenue and Expense Data Manual**.

If the company owns the vehicle, expenses are recorded as noted above but the personal use percentage of the total expenses, including amortization, will be charged back to you personally.

BANK CHARGES

- All bank charges from your bank statements
- Costs of printing cheques
- Brokerage fees from investment statement

BOOKS & PERIODICALS EXPENSE

- Books & eBooks including for business courses
- Magazines
- Newspapers and mobile newspapers subscription
- Videos that assist you in any way with your business

BUSINESS PROMOTION EXPENSE

Please record 100% of all meals and entertainment expenses for actual or potential clients. Canada Revenue Agency allows only 50% of meals and entertainment expenses to be deducted as they feel you are receiving some personal benefit. Therefore, all amounts included will be reduced by 50% on your corporate tax return. Do not reduce them by 50% when reporting the expenses to us as this will lead to confusion.

This may include expenses such as:

- Business meals and entertainment,
- Cost of food and drink if entertaining clients at home
- Gratuities and cover charges
- Tickets to entertainment or sporting events
- Private boxes and room rental to provide entertainment.

- Meals expense incurred while traveling (overnight accommodation required) should be expensed in **Travel Expense** where they will be 50% deductible. Please record meal during travel under a separate sub-category.

COMPUTER LEASE EXPENSE

- Record all expenses for leases of computer equipment.

COMPUTER SUPPLIES EXPENSE

Record all computer-related expenses under \$500 each (excluding taxes):

- Hardware and software items under \$500
- Monitors
- Printer ribbons
- Toner
- Printer paper
- Computer repairs
- Storage devices i.e. USB drives

*Items over \$500 each are classified as assets and are covered under **Fixed Assets** in this guide.

CONSULTING FEES EXPENSE

Payments made to subcontractors or to yourself if you take your remuneration as consulting fees. If you take consulting fees, you should use the Long Method of HST/GST for your corporation and the Quick Method personally.

AMORTIZATION EXPENSE

Amortization is a method of writing off the cost of an asset over its useful life. Such items would include computer hardware; software, furniture and office equipment, which cost over \$500 each excluding, taxes. The amount deducted each year is based on the unamortized cost from the prior year.

The more common rates of amortization are:

ASSET	FIRST YEAR	SUBSEQUENT YEARS
Automobiles	15%	30%
Computer hardware (Acquired after March 18, 2007)	27.5%	55%
Computer software	50%	100%
Furniture	10%	20%
Office equipment	10%	20%

Our associates' software will automatically calculate the amortization for you once the value of your assets has been determined.

EDUCATION & SEMINARS EXPENSE

- Courses taken
- Seminars and conventions
- Professional development courses
- Professional coaching

**A maximum of two business related conventions per year may be claimed.*

EMPLOYEE BENEFITS EXPENSE

Record the employer's share of CPP that you have paid during the year, as well as EI and Employer Health Tax (if applicable).

GENERAL EXPENSE

Record any small incidental expenses that do not fit in to any other category. If you are not sure where to put it, put it here. Our associates will review the legitimacy of these items with you during your year-end review meeting.

Expenses are not always "all or nothing". Although it may not be appropriate to claim 100% of a particular expense, it may be reasonable to claim a portion for business purposes. If you put these items into the general category and give us a breakdown, then you can discuss their deductibility with us at your year-end.

INSURANCE EXPENSE

- Commercial insurance on buildings and equipment
- Health and dental premiums paid to a **group** plan

**Do not deduct disability premiums unless you are willing to pay income tax on any disability benefits received in the future. Life insurance premiums are not tax deductible.*

INTEREST & PENALTIES EXPENSE

- Interest paid on money borrowed to earn income
- Penalties and/or interest incurred on government remittances. Note that they are not deductible for tax purposes.

OFFICE SUPPLIES EXPENSE

- Printing
- Stationery
- Paper
- Postage & Delivery
- Pens, pencils and general office supplies

** Office equipment or furniture, which cost less than \$400 before tax, should also be included here.*

PROFESSIONAL FEES EXPENSE

- Legal or professional fees paid which may assist you to earn income
- Fee to incorporate your business
- Memberships in professional associations

RENT EXPENSE

- Rent paid for property leased for your business
- Heat
- Hydro
- Water and waste
- Mortgage interest
- Home insurance
- Property taxes or rent
- Landscaping, lawn care, snow removal
- Repairs and maintenance and decorating
- Condo fees
- Housekeeping & Cleaners

**Calculate the percentage allowable by taking the amount of space used for your home office versus the total living space of your home. Do not forget to include your garage if you use your car for business.*

REPAIRS & MAINTENANCE EXPENSE

- Repairs of a strictly business nature

** These are repairs, which are not included as part of home or auto expenses such as computer and equipment repairs or installation of electrical, or telephone jacks in the office portion of your home.*

TELEPHONE EXPENSE

- Cellular phones and accessories
- Voice over IP
- On-line or Internet services
- Long distance calls for business made from your home telephone
- Upgraded features in addition to basic services of your home telephone

**Please note that basic residential service is not deductible but a separate business line is.*

TRAVEL EXPENSE

Record all business travel expenses such as:

- Plane/Train
- Uber & Lyft
- Taxi, public transportation
- Meals including during travel
- Hotel accommodations
- Parking
- Car rental and fuel for rental car
- Zipcar

**Travel expenses to attend conventions or seminars should be included here as well.*

WAGES & SALARIES EXPENSE

- Record wages paid to any employees who are **not** directors of your company.

Please note that your spouse and children can be hired as employees and be paid the market wage for jobs performed. For further details please refer to our **FAQ Manual.*

NON- DEDUCTIBLE LIFESTYLE EXPENSE

Record amounts paid for general lifestyle expenses. Please note that these are expenses, which you feel are not deductible for business purposes. Provide totals for amounts paid for groceries, holidays, clothing, gifts, children's activities, fitness/recreation activities and other expenses. Including your total lifestyle expenditures helps us to customize a tax planning strategy that suits your personal circumstances.

DIRECTORS ADVANCES

Record all withdrawals you have made for personal use and any contributions made to the company during the year.

CAPITAL ASSETS

- **AUTOMOBILE**
- **COMPUTER EQUIPMENT**
- **COMPUTER SOFTWARE**
- **OFFICE EQUIPMENT**
- **OFFICE FURNITURE**

Record by category all purchases, which cost over \$400 each excluding, taxes. Report the HST/GST on each of these purchases, as this is recoverable against the HST/GST payable on your contract revenue. The cost plus PST (if purchased before July 1, 2010) will be recorded as of the capital cost of the asset.

HST/GST PAYABLE

Record details of all HST/GST payments made or refunds received and please include working copies of your HST/GST returns.

After June 30, 2010: If you are using the **Quick Method** for HST, you must remit 7.8% of the first \$30,000 of your gross revenue (\$26,548.67 plus 13% HST collected), and 8.8% of the remainder of your gross revenue, including HST. From this amount you may deduct any HST you have paid on capital assets purchased during the period (items over \$400 each excluding taxes). Please refer also to **HST Sundry Income**.

Prior to July 1, 2010: If you are using the **Quick Method** for GST, you must remit 2.6% of the first \$30,000 of your gross revenue (\$28,571.43 plus 5% GST collected), and 3.6% of the remainder of your gross revenue, including GST. From this amount you may deduct any GST you have paid on capital assets purchased during the period (items over \$200 each excluding taxes). Please refer also to **GST Sundry Income**.

If your HST/GST reporting period begins before July 1, 2010 and ends after July 1, 2010, please contact our associates for calculation of HST/GST you have to remit to CRA and the HST/GST sundry income to report on your financial statements.

If you are using the **Long Method** for HST/GST, you will remit all of the HST/GST collected less all the HST/GST you have paid on all purchases.

INCOME

CONTRACT REVENUE

Record all invoices issued for services during the current fiscal year, the date of the invoice and the date the invoice was deposited in your bank account. Please show the amount of the invoice (excluding HST/GST) and the HST/GST charged in 2 separate columns.

Payments deposited in your bank account after the year-end will appear on the balance sheet as Accounts Receivable.

Canadian revenue is to be included in a separate account. Revenue earned in the U.S. must be converted and reported in Canadian funds. Please record U.S. income indicating in separate columns the amount you invoiced in U.S. dollars and the

Canadian equivalent. Our associates can do the conversion to Canadian funds for you using the conversion rates set by Canada Revenue Agency each year.

HST SUNDRY INCOME (Quick Method Only)

HST Sundry Income results when using the "Quick" method of reporting HST. It is the difference between the 13% HST collected and the amount of HST that is payable to CRA. The "Quick" method may only be used if CRA approved the "Quick" Method Election **and** when earned revenue is below \$400,000

including GST/HST annually. If your GST/HST reporting period starts on July 1, 2010 or after: The following is an example of how to calculate HST sundry income:

Total revenue **including** HST \$113,000 = (\$100,000 + 13% HST)

7.8% HST payable on the first	<u>\$30,000</u>	of the above	<u>\$2,340</u>
8.8% HST payable on the balance	<u>\$83,000</u>	of the above	<u>\$7,304</u>
	<u>\$113,000</u>	Total HST payable	<u>\$9,644</u>

Since the amount of HST collected is \$13,000 and the amount payable is \$9,644, the difference of \$3,356 is the HST Sundry Income for the year, and this amount is taxable. Our software will calculate this for you to ensure you have paid or will pay the correct amount.

INTEREST INCOME

Record any interest earned by your corporation during the fiscal year including bank account interest and GIC interest. Please include your investment statements in order to minimize the amount of time spent on your file.

OTHER INCOME

Please record details of all other income earned by your corporation up to and including year-end. This should include any dividends and capital gains or losses from stock investments. You should also note if the dividend is from a Canadian security. Please send along your investment statements and complete the investment section of the **Capturing Revenue & Expense Data Manual** on page 15, as this area is often difficult and time-consuming to analyze. Clients with investment income should expect a slightly higher cost due to the extra time involved in processing. Please note that this information is required to complete your corporate income tax returns.