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## Self Employed Income and Expenses - Instructions

See the Index to determine what worksheets to use.

For additional guidance, go to Canada Revenue Agency's website ([www.cra.gc.ca](http://www.cra.gc.ca)) and search: T4002 Business and Professional Income

### **Income**

Summarize your self-employed income on "Income details" worksheet and enter total on the appropriate "Inc & Exp Summary" worksheet. Do not include income that is not from self-employed activities such as employment income (T4) or investment income.

### **HST**

If you have elected for the Quick Method of Accounting for HST, the difference between the HST collected and the net HST before capital purchases must be included in income. Enter that amount on "Inc & Exp Summary Worksheet" in box labelled "HST Quick Method income inclusion." Also make a note of any HST claimed on capital purchases in the box labelled "HST claimed on capital purchases"

If you are reporting HST using the regular method, in the total amount column enter the income and expense amount including the HST; enter the HST collected or paid in HST column; enter net amount (i.e. amount without HST) in Net Amount column.

### **Expenses**

Please see the following descriptions regarding the expenses you can deduct against self-employed income. The order of the expenses follows the Summary Worksheets.

#### **Accounting and legal fees**

Fees you incurred for external professional advice, services, and consulting fees.

This includes legal fees for negotiating contracts and tax preparation fees for personal and HST returns.

#### **Advertising and promotion**

This includes amounts you paid for business cards, promotional gifts, flowers, advertisements, website development and professional photos.

#### **Bad debts**

If an amount has been included in income and will not be received you can deduct the amount as a bad debt.

#### **Business insurance**

Insurance for equipment and general business liability. Your home and vehicle insurance are entered in a different section of the worksheet. If your home insurance has a separate premium for business liability, enter that amount here, and enter the rest of the home insurance in the Business use of home section.

#### **Business meals and entertainment**

Business meals and entertainment such as restaurants, sports tickets and concerts that were incurred for the purpose of earning income. This can include networking events and business meetings. Make a note of the names of the people you met with and the purpose of the meeting/event.

CRA restricts the deductibility of business meals and entertainment to 50%. Please provide me with the amount at 100% as the tax software automatically makes the 50% calculation.

#### **Fees, dues, memberships and subscriptions**

Licenses, association or membership fees, subscriptions such as newspapers or industry magazines.

## **Self Employed Income and Expenses - Instructions**

### **Interest and bank charges**

If you have a business loan, business bank account and or business credit card, you can deduct all of the interest and bank charges. If there is both a business and personal use, take a reasonable percentage.

### **Internet**

Deduct internet fees if internet used for business (i.e. emails, online communication, webinars and research). If there is both a business and personal use, take a reasonable percentage.

### **Merchandise purchases**

If you sell goods, you can deduct the costs of purchases you made. If you did not sell all the goods in the year make a note of the cost amount left in inventory.

### **Office expense**

Stationery, toner, and other office supplies. Printers, lamps, office chairs are capital items.

### **Postage & courier/delivery & freight**

Stamps, courier charges, delivery and freight, for example if equipment is sent off for repair.

### **Private health services plan premiums**

If you pay out of pocket for health care premiums that cover items such as prescriptions, dental, physio, you can deduct those premiums. Note that accidental death, critical illness and life insurance are not deductible.

### **Professional development/training**

Courses or coaching to learn or improve skills relating to your profession.

### **Rent - office and equipment**

Amounts paid to rent office space or rent equipment. Note that business use of home is entered in a different section.

### **Repairs and maintenance**

Costs incurred to repair premises and equipment.

### **Salaries for employees**

Deduct gross wages and employer portion of CPP and EI.

### **Subcontracts**

Costs to hire other independent contractors.

### **Supplies**

Other expenses incurred to run the business.

### **Telephone**

If you have a separate business line, this is fully deductible. If your land line and or cell phone have both business and personal use then take a reasonable percentage of each.

### **Travel**

Parking, airplane tickets, accommodations and food purchased when travelling out of town. CRA limits the deduction of food to 50%. Please only include 50% of the food purchased.

## **Self Employed Income and Expenses - Instructions**

### **Capital Additions**

Expenditures such as equipment, computers, office furniture are not deducted all at once but instead are deducted over a period of time using CRA's capital cost allowance rates.

If you are newly self-employed, treat assets you have on hand at the start of your business as new additions for the year. For the cost of the addition, estimate the fair value on the first day you started your business.

### **Equipment & Furniture**

File cabinets, photocopier, office furniture.

### **Computers, Printers and Smart Phones**

Computer hardware such as desktops and laptops including operating software; printers and scanners; smart phones and tablets.

### **Software**

Software purchased for business purposes. Note operating software is included with computers.

### **Vehicle**

Cost of vehicle purchased in the year. If there was a trade-in, provide cost excluding reduction of trade-in.

### **Business-use-of-home expenses**

To deduct expenses for the business use of a workspace in your home you must meet one of the following conditions:

- it is your principal place of business (principal usually means 50% use or more); or
- you use the space only to earn your business income, and you use it on a regular and ongoing basis to meet your clients, customers, or patients.

You can deduct utilities, repairs and maintenance, property taxes, mortgage interest, rent, home insurance and condo fees. Note that if you do any repairs to your office such as painting these costs are fully deductible and should be allocated to "Expenses" part of the worksheet.

To calculate the percentage of business use of home expenses you can deduct, use a reasonable basis, such as the area of the work space divided by the total finished area. If the area has both a business and personal use such as a guest bedroom, you may have to further prorate by how many hours in the day you use the space for business and divide by 24 hours.

### **Business use of personal vehicle:**

If you use your vehicle for business purposes you can deduct vehicle expenses.

CRA requires that you track your operating expenses such as fuel, repairs and maintenance and vehicle insurance. If you lease the vehicle, the lease payments are deductible. If you purchased and financed the vehicle, you can deduct depreciation on the car and deduct the interest on the loan.

You must keep a record of the total kilometres you drive and the kilometres you drive to earn business income. For each business trip, list the date, destination, purpose, and number of kilometres you drive. Record the odometer reading of each vehicle at the start and end of the fiscal period.

### **Internet business activities**

If you earn business income from a website, CRA requires that you provide the name of the website and the percentage of income earned from the website. For more details, see CRA's T4002 guide.

## Self Employed Income and Expenses - Instructions

### CRA Audits/Business Losses

If your return is selected for review, the common audit adjustments are to meals and entertainment, business use of vehicle, business use of home, and reclassifying expenses from current to capital.

CRA states that business income includes income from any activity you carry out for profit or with reasonable expectation of profit. If you have recurring business losses CRA may question whether you are actually running a business or if the activity is more in the nature of a hobby. In the event of an audit, you would be required to provide a business plan showing how the business will be profitable.

**Self Employed Summary of Income & Expenses (QM HST or no HST)**

Name:

Taxation year:

Total Income (list details on next tab):

HST Not registered   
 Quick Method

**Expenses**

Accounting & legal	
Advertising and promotion	
Bad debts	
Business insurance	
Business meals and entertainment at 100%	
Fees, dues, memberships and subscriptions	
Interest and bank charges	
Internet	
Merchandise purchases	
Office expense	
Postage & courier/delivery & freight	
Private health services plan premiums	
Professional development/training	
Rent - office and equipment	
Repairs and maintenance	
Salaries for employees	
Subcontracts	
Supplies	
Telephone	
Travel (includes parking and 50% of travel food)	
Other:	
Other:	

HST Quick Method income inclusion:

HST claimed on capital purchases:

**Capital Additions**

Equipment & furniture	
Computers, Printers and Smart Phones	
Software	
Vehicle	

**Business use of home (provide #s at 100%)**

Heat	
Electricity	
Insurance	
Maintenance	
Mortgage interest/Rent	
Property Taxes	
Water or Condo fees	

**Business use of home**

Total square footage of home   
 Square footage of work space

**Vehicle Expenses (provide #s at 100%)**

Fuel	
Maintenance & repairs	
Insurance	
License and registration	
Leasing cost or Loan interest	

**Business use of vehicle:**

Total kilometres travelled in the year	
Total business kilometres for the year:	

**Self Employed Income Details (QM HST or no HST)**

Name:

Taxation year:

**Income Details - T4As and other self-employed income**

Description	Amount
Total	

**Self Employed Summary of Income & Expenses (Regular HST)**

Name: 

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Taxation year: 

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	Total amount	HST	Net amount
<b>Total Income:</b>			

<b>Business Expenses</b>	Total amount	HST	Net amount
Accounting & legal			
Advertising and promotion			
Bad debts			
Business insurance			
Business meals and entertainment at 100%			
Fees, dues, memberships and subscriptions			
Interest and bank charges			
Internet			
Merchandise purchases			
Office expense			
Postage & courier/delivery & freight			
Private health services plan premiums			
Professional development/training			
Rent - office and equipment			
Repairs and maintenance			
Salaries for employees			
Subcontracts			
Supplies			
Telephone			
Travel (includes parking and 50% of travel food)			
Other:			
Other:			
Other:			

<b>Capital Additions</b>	Total amount	HST	Net amount
Equipment & furniture			
Computers, Printers and Smart Phones			
Software			
Vehicle			

<b>Business use of home (provide #s at 100%)</b>	Total amount	HST (1)	Net amount
Heat			
Electricity			
Insurance			
Maintenance			
Mortgage interest/Rent			
Property Taxes			
Water or Condo fees			

**Business use of home**

Total square footage of home 

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Square footage of work space 

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<b>Vehicle Expenses (provide #s at 100%)</b>	Total amount	HST (1)	Net amount
Fuel			
Maintenance & repairs			
Insurance			
License and registration			
Leasing cost or Loan interest			

**Business use of automobile:**

Total kilometres travelled in the year 

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Total business kilometres for the year: 

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(1) only claim HST on business use

**Self Employed Income Details (Regular HST)**

Name:   
Taxation year:

**Income Details - T4As and other self-employed income**

Description	Amount	HST	Net Amount
Total			