



# SELF EMPLOYMENT NEWS

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## Winter

**2000/2001**

Can you believe that we are only a skip and jump away from 2001? It seems like yesterday that we were just starting the year 2000. All new beginnings open the doors for fresh ideas and suggestions. If there is a topic that you feel would be beneficial, informative and/or interesting, inform us of your idea/s and we may consider hosting a seminar on it. Although we have hit that "Festive Time" once again, please remember that your reporting schedules are due on the 10<sup>th</sup> of each month. We look forward to hearing from you. Keep in touch. *Merry Christmas and Happy New Year!!!!!!*

### Income Tax and the Self- Employed

Income tax is a self-assessing process. The purpose is to determine what your eligible business expenses are. First of all, you must look at all the reasonable costs that you would acquire in order to produce an income. Your two (2) main areas for deductions are:

- a) operating expenses, and
- b) capital items

Capital items are items that include properties that meet the specific tax criteria (basic rule is any item more than \$250 in the capital assets category). Operating expenses on the other hand, are items including; general expenditures, home and office costs, and transportation. Remember to keep all the original documents from all income, banking transactions and expenditures in the case of an audit.

To simplify the items permitted within the categories mentioned above, here are a few examples:

#### Operating Expenses

- 1) General Expenses:
  - Office Supplies
  - Advertising Expenses
  - License and Membership Fees
  - Delivery, Express and Freight Costs
  - E-mail and Telephone Charges (For the Business Only)
  - Business Taxes
  - Accounting and Legal Fees (including those for calculating Income Tax)
  - Entertainment and Meals: 50% deductible federally and for **MOST** provinces

2) Transportation Expenses:

- Taxis, Public Transit Fares, and vehicles used for earning an income
- Maintenance, Repairs, and Fuel, Registration and Licenses, Insurance, Capital Cost Allowance, Interest on vehicle loans, and similar related expenses

It is important that you keep receipts from the public transit fares and passes as well as from cab fares. Deductions for motor vehicle expenses depend on the type of vehicle and are assigned on a percentage basis or per kilometer traveled on business use.

3) Home Office Expenses

- Rent
- Mortgage Interest
- Property, School and Water Taxes
- Insurance
- Cleaning Materials
- Utilities ( Heat, Water, Hydro, and Gas)

If you show a “loss of income” in any year, your home office expenses cannot be used that year to reduce the income tax you pay on other income for which you have received a T4. The home office expenses are carried forward to a year in which you have a business income.

**Capital Items**

Some major ones include:

- Vehicles (used strictly to earn an income)
- Furniture
- Buildings
- Equipment
- Renovations, Additions, or Improvements to the above listed items

**YOUR INCOME TAX RETURNS**

Starting with your year 2000 income tax returns, everyone will need to file two (2) returns, one for the province and one for the Federal government. A number of other provinces have adopted this method. In Ontario it should create lower provincial income taxes.

Ontario is moving to a “tax-on-income” system. By moving to this system, the provincial government can make policy decisions of which tax plans to implement for its citizens. It will be setting its own values for the basic personal credit, the age and disability credits. Read all documentation from the province carefully because there are many changes in the income tax requirements which may affect you.

The new system will be fully indexed to inflation starting in the 2001 taxation year.

