

Morrison Dom & Associates Ltd.

Allowable Business Expenses

Capital Assets - Costs incurred to purchase equipment and assets used in your business can be written off according to rates that have been assigned by Canada Revenue Agency for each type of asset.

Advertising and Promotion - Expenses for advertising and promoting your business and gaining clients can include newspapers, magazines, radio, TV, social media and other incentives, gifts, or giveaways that you deem necessary to attract and keep clients and customers. These expenses are 100% deductible if the platform is Canadian; but you CANNOT deduct expenses paid to foreign advertisers.

Meals and Entertainment

50% of food, beverages, and entertainment including tickets to events, entrance fees to sporting events, gratuities, cover charges, and hospitality suite room rentals can be expensed when:

- The expense is incurred for procuring business or entertaining clients.
- The expense is reasonable.

100% can be expensed when:

- You bill your client or customer for the meal and entertainment and show it on their invoice.
- You incur the meal and entertainment expenses for an office party or similar event, and you invite all of your employees. The limit is six such events per year.
- The meal and entertainment expense is for fundraising for the benefit of a registered charity.

Bad Debts - You can deduct the amount of revenue that is not collectible if:

- The amount is already included in income.
- The amount is not collectible in the year.

Business Insurance

Commercial Insurance - You can deduct all insurance used in your business, error and omissions insurance, liability insurance, and insurance that covers the work space and equipment that you use in your business.

Life Insurance - Generally, life insurance is NOT deductible unless the policy owner is the business or it is being used as collateral against a loan that is for business purposes.

Disability and Critical Life Insurance - This is NOT deductible. If you do deduct it and claim on the policy, you will be taxed on the benefits received. When it is not deducted, the benefits received are tax free.

Motor Vehicle Insurance - This is deductible at the percentage for which the vehicle is used for business.

Interest and Bank Charges - You can deduct interest on money borrowed for business purposes or to acquire property for business purposes. You can deduct interest you paid on any line of credit or real estate mortgage if it was borrowed for investing or running or buying a business, but you cannot deduct the principal part of loan or mortgage payments. Do not deduct interest on money you borrowed for personal purposes or to pay overdue income taxes. You can deduct the fee you pay to reduce the interest rate on your loan. You can also deduct any penalty or bonus a financial institution charges you to pay off your loan before it is due. Treat the fee,

penalty, or bonus as prepaid interest and deduct it over the remaining original term of your loan. The interest related to business use of workspace in your home is at line 9945.

Business Taxes, Licences, and Memberships - You can deduct all annual licence fees and some business taxes you incur to run your business. Some examples of licence fees are: beverage licenses; business charges; trade licences; motor vehicle licenses; and motor vehicle registration permits. You can also deduct annual dues or fees to keep your membership in a trade or commercial association, as well as subscriptions to publications. You cannot deduct club membership dues (including initiation fees) if the main purpose of the club is dining, recreation, or sporting activities.

Office Expenses - You can deduct the cost of office expenses. These include small items such as pens, pencils, paper clips, stationery, and stamps. Office expenses do not include capital expenditures to acquire capital property such as calculators, filing cabinets, chairs, or desks. These are capital items.

Materials and Supplies - You can deduct the cost of items the business uses to provide goods or services, for example, drugs and medication used by a veterinarian or cleaning supplies used by a plumber. If you run a daycare, these include household supplies that children use and food you buy to feed the children.

Professional Fees (includes Legal and Accounting Fees) - You can deduct the fees incurred for external professional advice, services, and consulting fees. You can deduct accounting and legal fees for advice and help with keeping your records. You can also deduct expenses for preparing and filing your income tax and GST/HST returns. You cannot deduct legal expenses and other fees you incur to buy a capital property, such as a boat or fishing material. Instead, add these fees to the cost of the property. You cannot deduct legal fees incurred for marital separation and/or divorce.

Management and Administration Fees - You can deduct management and administration fees including bank charges incurred to run your business.

Rent - You can deduct rent incurred for property used in your business. For example, you can deduct rent for the land and building where your business is situated.

Repairs and Maintenance - You can deduct the cost of labour and materials for any minor repairs or maintenance done to property you use to earn income. You cannot deduct the value of your own labour. You cannot deduct costs you incur for repairs that are capital in nature.

Salaries, Wages, and Benefits (including Employer's Contributions) - You can deduct employees' gross salaries and other benefits you incurred. Do not deduct salaries or drawings paid or payable to yourself or to a partner unless you are an incorporated business. The Canada Pension Plan (CPP) is for all workers, including the self-employed. Employers, employees, and most self-employed individuals have to contribute to the CPP. The CPP can provide basic benefits when you retire or if you become disabled. You can deduct contributions to employment insurance premiums for your employees. As an owner of the business you, your spouse, and children that you might employ in your business are generally not eligible to contribute and apply for Unemployment Insurance benefits. You can also deduct workers' compensation amounts payable on employees' remuneration. You can deduct the salary you pay to your child if you pay the salary, do not simply allocate from your own draws, the work

your child does is necessary for earning business income, the salary is reasonable when you consider your child's age, and the amount you pay is what you would pay someone else. Keep documents to support the salary you pay your child. If you pay your child by cheque, keep the cancelled cheque. If you pay cash, have the child sign a receipt. You can also deduct the salary you pay to your spouse or common-law partner. When you pay your spouse or common-law partner a salary, use the same rules that apply to paying your child. Report the salaries you pay to your children and spouse or common-law partner on T-4 slips, the same as you would for other employees.

Property Taxes - You can deduct property taxes you incurred for property used in your business. For example, you can deduct property taxes for the land and building where your business is situated.

Subcontractors - You can deduct the cost of subcontractors and trades that you hire to perform a portion of the job you are doing for a client. Be sure that an invoice is received from the subcontractor, that they carry their own WCB, and that an employer/employee relationship does not exist.

Travel Expenses - You can deduct travel expenses you incur to earn business and professional income. Travel expenses include public transportation fares, hotel accommodation, and meals. In most cases, the 50% limit applies to the cost of meals, beverages, and entertainment when you travel.

Utilities - You can deduct expenses for telephone and other utilities, such as gas, oil, electricity, water, cable, and internet if you incurred the expenses to earn income.

Telephone - Do not deduct the basic monthly rate of your home telephone. However, you can deduct any long distance telephone calls you made on your home telephone for your business. If you have a separate telephone for business calls only, you can deduct its basic monthly rate. Note: cell phone is generally used for both business and personal. Try to determine a logical method of assigning the costs to your business. Perhaps it is only used 8 hours per day, then the deduction would be 30% of the cost, or perhaps you rarely use it in the evening and then perhaps the deduction is 90%. Only you can make this determination, so be sure that it seems reasonable and can be supported if under audit by CRA.

Business-Use-of-Home Expenses - If your home is your major place of business and you do not have an outside office space or space provided by a client or employer, you can deduct a portion of the costs associated with your home. The space has to be used solely for business and must be conducive to a working environment, so a guest bedroom complete with bed and dresser does not apply. The deductible expenses include rent, interest expense (principal is not deductible), hydro, gas, internet, property tax, insurance, and repairs. Measure the sq. footage of the space used for business compared to the total sq. footage of your home to obtain the percentage of expenses that you can deduct.

Other Expenses - You can deduct the cost incurred in the year of delivery, freight, and express that relates to your business.

Motor Vehicle Expenses (not including CCA) - You can deduct expenses you incur to run a motor vehicle you use to earn business. If you regularly use your vehicle for business and personal trips, you can claim part of the total operating expenses for your vehicle as a business

expense. These expenses include fuel, repairs, insurance, car washes, etc. You must keep an accurate log that shows your business use of the vehicle on a daily basis. The total kilometers driven for business will then be compared to the total kilometers driven in the year and that percentage will be applied to the expenses you incurred.