

Behind the Counter

Getting your business ready for tax season

It's almost the end of the year and time to close the books for taxes if you are a sole proprietor or if you are incorporated with a December year end. I am frequently asked about the kinds of expenses a business owner can deduct. When I am asked that question, I assume that what is being asked can be rephrased to ask 'What can I deduct over and above the regular operating expenses of my business?' Each business is unique in some way and although most business expenses are similar there may be some personal expenses that could be considered business related. That is a decision that needs to be made by the business owner. The best course of action is to write the purpose of the purchase on the back of the receipt, so that if you are ever asked, as in the case of an audit, you can just flip over the receipt and remember why the expense was classified as a business expense rather than a personal expense. It is extremely difficult for an accountant to answer that question unless they are intimately involved in your business. A way to become intimately involved in your business is by doing the accounting for the business. In this way, the accountant sees the kind of receipts that are coming through and can advise the business owner as to whether the expense would be considered a business or a personal expense.

Some items that you can deduct that may be considered over and above regular business expenses are any capital asset purchases. These expenses will be set up as assets and will be depreciated over the expected life of the asset, so they may not have a great affect on the bottom line in the current year, but will be spread over several years.

If you have an office in your home where you meet clients, you can deduct expenses related to that space. So you would be able to deduct a portion of your property taxes, mortgage interest, home insurance, utilities, repairs and even landscaping costs.

If you need your personal vehicle for business, you would be able to deduct all business related automobile expenses such as gas, repairs, parking, car washes, lease costs, loan interest costs. You need to keep track of how many miles you drove for business purposes versus personal purposes.

You can deduct wages paid to family members as long as they are reasonable for the amount of work performed. For example, you cannot deduct \$20,000 for 2 weeks worth of filing performed by your daughter. The Canada Revenue Agency would not consider that to be a reasonable wage.

If you participate in a Private Health Service Plan you will be able to deduct all your medical expenses reimbursed through the trust or insurance company.

You can receive personal interest income from any loans that you have made to your company and your company can deduct the interest paid to you. This usually needs to be reported on a T4A.

You can deduct the cost of going to two conventions per year including meals and travel expenses as long as the convention relates to your business activity.

You can deduct an amount for a reserve with the most common being a bad debt reserve or a reserve to replace a capital asset. Please check with your accountant for further information.

There are several services that a certified general accountant can provide for your small business in addition to tax planning and preparation. A CGA can provide part time Controllershship services, software installation and training, systems implementation, financial planning, estate planning and succession planning.

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