

CLAIMING BUSINESS INCOME & EXPENSES

Business Income



If your business generates income, then you will have to complete a tax return for your business. Income includes money earned from any activity you carry out for profit, or with the reasonable expectation to make profit.

This income is usually created by:

- ✓ Products sold
- ✓ Services offered
- ✓ Subsidies
- ✓ Grants
- ✓ Tips

You will require **receipts** and **invoices** to provide proof of business income. These are for your **own records** as well as for the **CRA**.



All proof of income must be **kept on file** for **7 years**.

Business Expenses

In general, you can deduct any reasonable expense you have paid, or will have to pay, to earn business income.

Expenses must be supported by proper documentation, for ex:

- ✓ Receipts
- ✓ Quotes
- ✓ Vehicle logs



The CRA website has a list of **common deductible expenses**. If unsure, consider asking an accountant or a bookkeeper. Often, a portion of costs can be listed as an expense in proportion to the estimated business use of said expense.



Examples of **common deductions**:

- Salaries
- Wages
- Benefits
- Rent
- Mortgage
- Supplies
- Insurance
- Bad debt
- Travel expenses
- Advertising
- Business taxes
- Business start-up costs
- Office expenses
- Property taxes
- Phone/Utility bills
- Interest and bank charges
- Management and administration fees
- Meals and entertainment expenses
- Motor vehicle expenses
- License and membership dues
- Business use-of-home expenses





How are **Taxes** Determined?

- Taxes owed are determined by how much your business **profits** in a tax year (profits = total income - total expenses).

 Organizing the above information throughout the year to complete your tax reporting forms is called **Bookkeeping**.

T2125



The **tax reporting form** for **Sole-Proprietorships** and **Partnerships** is called a T2125 – “Statement of Business and Professional Activities”

T2



The **tax reporting form** for an **Incorporated** business is called a T2 – “Corporation Income Tax Return”.



Once your T2125 or T2 forms are received from the CRA, they will provide you a **notice of assessment** which will determine **how much** your business **owes** in taxes.



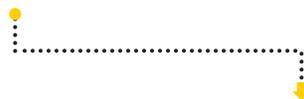
Ideally, you will have been **putting aside a portion of your profits** each month to pay the amount owing for your business each year.

recommendation:



It is common for small businesses to track their own bookkeeping using digital software such as QuickBooks. You can use it to **track revenue** and **expenses, payroll, mileage**, etc.

For more software recommendations, view our “Software for Small Businesses” resource.



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You may want to **seek professional advice** with a bookkeeper or accountant.