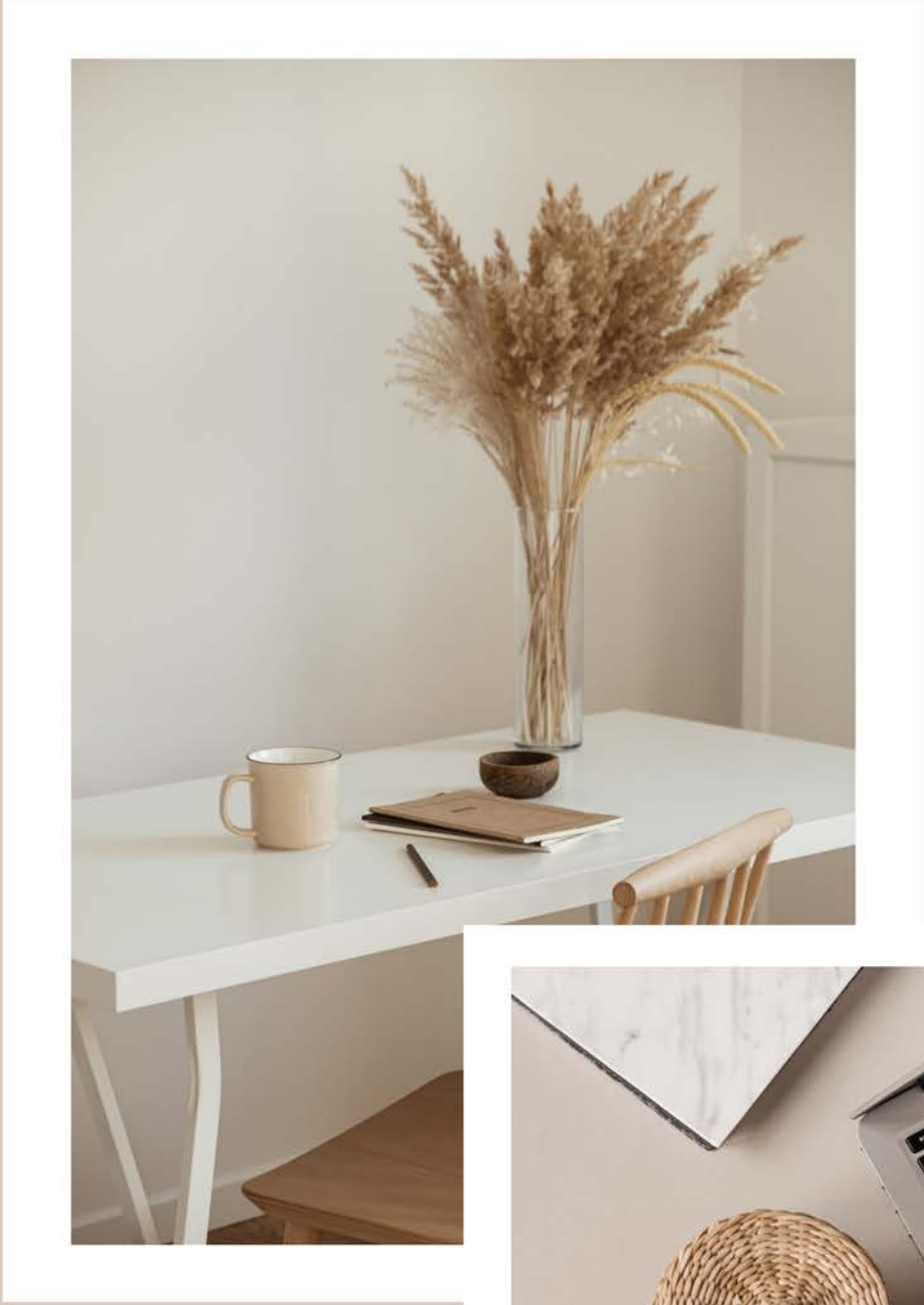


SOLE PROPRIETORSHIP



YOUR GUIDE

If you have decided to open a sole proprietorship, or you are looking for a bit more guidance on operating a sole proprietorship, you have come to the right place.

This handbook will show you how to organize your accounting and the items you should be considering to set yourself up for success at tax time.

The most important thing to remember with a sole proprietorship is that Canada Revenue Agency does not concern itself with how much you take from the business or reinvest in it.

The only thing Canada Revenue Agency is concerned with is the sole proprietor's total profit for the year.

You are taxed on this profit regardless of where it is spent.

In this guide, we will cover some key concepts regarding a sole proprietorship, but unfortunately, this is not inclusive of all the information you need, although it is a great start!

When you have questions, we are here, please do not hesitate to reach out.



WELCOME



MEET MICHELLE

After spending many years in larger accounting firms in various positions, I soon realized my passion lies with small business owners.

When I made the decision to branch off and create my own accounting firm, I started with nothing but an ambitious goal and a strong desire to change how small business owners felt about their relationship with their accountants.

As a business owner myself, I understand some of the challenges you face and I hope to make this process as easy as possible for you!

UNDERSTANDING MILEAGE

Make sure your mileage claim sticks!

Below are the key items to keep in mind and the required documentation to support your mileage claim.

- 1. The commute to/from your office space is considered personal in nature and therefore, you are unable to claim a kilometer reimbursement.*
- 2. If your primary business location is a home office and you commute to various client locations, this is considered business travel and you can claim a kilometer reimbursement.*
- 3. You need to retain any receipts related to vehicle expenses, including all fuel purchases or repairs to the vehicle (even personal ones).*

If you claim this deduction, the CRA requires you to keep a full logbook that journals any travel activities. This includes the odometer reading on the first day and the last day of the tax year.

For each trip you need to provide the following items:

- Date*
- Kilometers driven*
- Destination*
- The business purpose of the trip*

If you change vehicles during the period, make sure to note the date of the change and the odometer reading for each vehicle.

If you use two vehicles or both you and a spouse drive for business purposes, each vehicle requires a logbook.

A logbook is not an option, this is a requirement to claim the deduction - estimation is not sufficient to be used as CRA support.

Once you have the receipts and total mileage driven for the year, please complete the mileage section in the Sole Proprietorship Excel Document in our resources section.





BOOKKEEPING TIPS

There are many alternatives when it comes to bookkeeping for a sole proprietorship. You can use common software such as QuickBooks Online, Wave, or Sage. You can even record your revenues and expenses using Excel! Since you are THE business, you are not required to set up separate accounts to track the details.

You simply need to be able to track the income and expenses throughout the year with the GST (if required) broken out from these details. Please refer to the Sole Proprietorship Excel in the resources section for a guideline of what we require to file the tax return for your business. We do not require the receipts to support this template, however, if you are audited then you are responsible for being able to support these amounts, so it is probably best to tuck them away safely.

BUSINESS EXPENSES

A business expense is a cost you incur for the sole purpose of earning business income.

You must support business expense claims with a sales invoice, an agreement of purchase and sale, a receipt, or some other voucher that supports that expense.

A credit card statement is not sufficient evidence for a business expense.

Some expenses and notes related to these expenses that can be claimed by a business:

Accounting & Legal Fees

You can deduct the fees you incurred for external professional advice or services, including consulting fees. You can deduct accounting and legal fees for advice and help in keeping your books and records. You can also deduct fees for preparing and filing your income tax and GST/HST returns.

Advertising Expenses

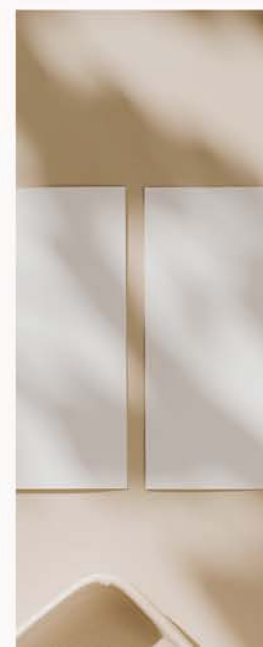
You can deduct expenses for advertising, which include ads in Canadian newspapers, on Canadian television, radio, and online advertisements.

Business tax, fees, licenses, and dues

You can deduct any annual license fees and business taxes you incur to run your business. You can also deduct annual dues or fees to keep your membership in a trade or commercial association. However, you cannot deduct club membership dues (including initiation fees), if the main purpose of the club is to provide dining, recreational, or sporting activities.

Insurance Expenses

You can deduct all regular commercial insurance premiums that you pay for buildings, machinery, and equipment that you use for your business.



BUSINESS EXPENSES CON'D

Interest and Bank Charges

You can deduct the interest you pay on money you borrow to run your business. However, there are some limits related to vacant land and motor vehicle loans. If you need further explanation on this please contact us.

Maintenance and Repairs

You can deduct the cost of labor and materials for any minor repairs or maintenance done to any capital assets held that you use to earn income. However, you cannot deduct the value of your labor if you perform the repairs and maintenance yourself.

Meals and Entertainment

The maximum portion you can claim for food, beverages, and entertainment expenses is either 50% of the amount you incur or an amount that is reasonable in the circumstances, whichever is less.

Please note, when providing the year-end accounting, please provide 100% of the amount spent on meals and entertainment and it will be adjusted automatically on the tax return.

If you have an eligible meal and entertainment expense, you are eligible to claim any Uber, taxi, or transportation to and from that event.

Green fees and golf memberships are not deductible for tax purposes, therefore, be sure to exclude these in the summary of expenses.



BUSINESS EXPENSES CON'D

Office Expenses

You can deduct for small items such as pens, pencils, paper clips, stationery, and stamps. However, you cannot deduct expenses for capital items such as a computer or office equipment. Any capital items must be separated at year-end for the accountant, as these are picked up in a different section of the tax return.

Wage Expense

You can deduct the cost of salaries you pay to employees. In addition, you can deduct the employer portion of CPP and EI remitted. You report each salary by the end of February on a T4 slip (Statement of Remuneration Paid) or T4A slip (Statement of Pension, Retirement, Annuity, and Other Income). This is a separate return that is not a part of the personal tax return.

Home Office Expense

You can deduct expenses for the business use of a workspace in your home if you meet one of these conditions:

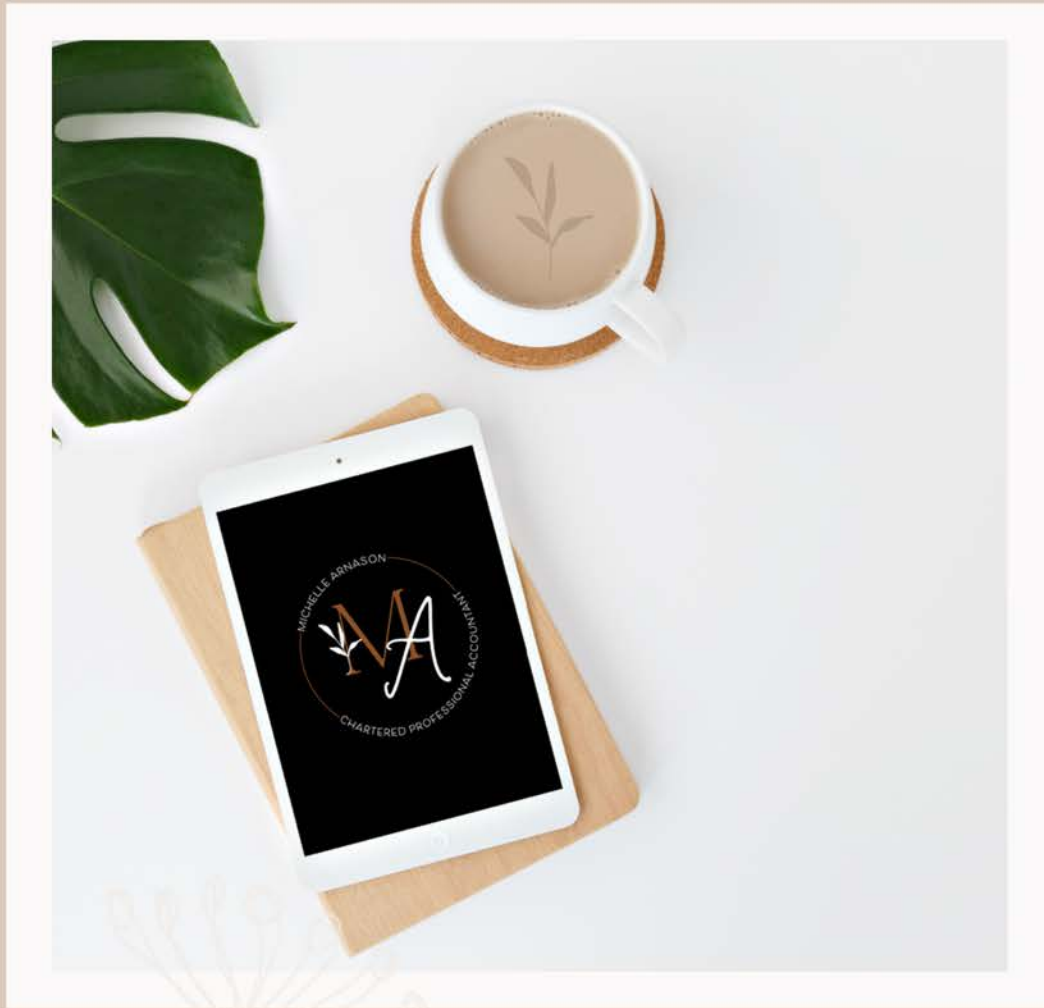
- It is your main place of business.
- You use the space only to earn your business income, and you use it on a regular and ongoing basis to meet your clients, customers, or patients.

You can deduct part of your maintenance costs such as heating, home insurance, electricity, and cleaning materials.

You can also deduct part of your property taxes, mortgage interest, and internet.

Once you have the receipts for the year, please complete the home office section in the Sole Proprietorship Excel Document in our resources section.





CELL PHONE + CLOTHING

You should claim a maximum of 50% of the telephone bill unless you have two phones, one for business and one for personal. Your business may require a more extensive plan such as international calling if you travel often.

Potentially you can claim 100% of this additional plan if you can justify the additional plan and does not have any personal use.

Clothes or any personal enhancements such as hair and nails are not eligible for a deduction unless it is specific safety clothing, or a uniform required to perform the job. Please note, CRA is very strict in this area so if you are not sure if it is deductible, I suggest being conservative and excluding these expenses.



CONSIDERING INCORPORATION?

So, you have been running a successful business as a sole proprietor and you are now considering incorporating. As a sole proprietor, you are the business and as a result, you are taxed on 100% of the profits on your personal tax return.

As a corporation, you can be separate from the business and therefore, determine how much income you wish to take from the corporation.

You must declare all income that is taken from the entity for yourself personally, to record on a personal tax return. This is done by way of a T4/T5 filing requirement in February each year.

A corporation is a separate legal entity. This is a more complex business structure that requires a separate financial statement and corporate tax return to be prepared annually. There can be tax benefits however, the accounting requirements and cost to run a corporation will be higher than a sole proprietorship.

Items to consider when determining if you should incorporate:

Do you need to borrow money? If so, you may wish to separate your personal and corporate financial liabilities.

Does your business have any legal risks? If so, you may wish to separate your personal liability from any legal risks associated with the business. We suggest that you discuss this further with a lawyer.

Is your business income exceeding the amount of cash you require to fund your personal income? If so, a corporation may provide some tax advantages.

Do you plan to expand? If so, you may wish to consider incorporating it before the expansion to potentially limit any challenges with the transition.





OUTSTANDING

"Michelle has provided me with Sage advice for a number of years. She is extremely responsive and always happy to answer questions as they come up through the year. I would highly recommend Michelle Arnason for her expertise and professionalism."

J. White

REVIEWS

5-STAR

"Michelle has always been very professional and able to give us strategic advice to manage our finances. She is quick to respond and very knowledgeable. Highly recommended!"

J. Griggs



KNOWLEDGEABLE

"Michelle is very knowledgeable and helpful with all my inquiries. Her work is very expeditious and professional."

A. Buzinauskis



SPECIAL OFFERS

PACKAGES START AT \$750 PER YEAR

This pricing includes the personal tax return filing. We are able to provide customized packages to include bookkeeping throughout the year or assist with summarizing the revenue and expenses at the end of the year. The pricing for bookkeeping of our sole proprietorship businesses depends mainly on the record-keeping and volume of transactions. We can certainly provide a customized quote for this in our initial discovery call.