VANCOUVER DESIGN FORUM

Tax Basics for Freelancers - Q&A with David Sweeney, CFP

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General Info:
-Taxes due April 30, deadline for the previous calendar year (Jan-Dec)
-You must be able to provide records for the previous 7 years, including all receipts
    - Scans of receipts are accepted
-Tax code changes each Feb. for the new year

Savings:
-Need higher income to be appealing to banks - some years you'll want less business expenses to have a higher income and be bettie able to qualify for credit
- Pay yourself first (savings - TFSA, RRSP, Cash in hand)
- TFSA limit - 69,500 if 19 before 2009

Savings percentages:
20 yrs-10%
30 yrs-20%
30 yrs-40%
- time + money + rate of return = gain
- investment gain is what allows you to retire, not the principal money saved
- Time is the most important component - you can't make it up
- TFSA/RRSP - "containers" from a tax perspective
    - long term and don't need it - offers growth
    - 72 divided by interest rate - number of years for money to double
    - Can move TFSA to RRSP, but pay tax on the reverse
    - taking money out of TFSA adjusts the amount you can put in each year
    - TFSA if you're making below 46,000 is the best place for your savings (better tax credit), if it will be there for more than 12 months

Documentation:
-Your ability to prove what you have done is paramount
-You need proof on transactions that show what the expense was for (phone number, GST number, etc)
    - Legitimize the expense and allow a paper trail
        - Keep logs, use apps (download your reports regularly), keep notes
            - Take photos of work space, equipment, etc.
            - Purpose of expense, what conversation was about or what item is for, phone number
            - Get and keep invoices from agents, subcontractors
            - Mileage log - can be done on carshares or transit as well - travel for work away from primary location (can be your house if you don't have a separate workspace)
            -Per diem is taxable income - an incentive to do the work but not part of the work, because the employer is deducting it - it will show up on the contract

Disclaimer: These notes are an overview of the information garnered from a Q&A. These notes cannot serve as financial advice.

- Do not co-mingle business and personal money
    - Keep separate business accounts (or a separate account under your personal account)
    - Keep separate credit card accounts

Types of Employment:
-Self-employed, contract, small business
-Small business is 75% of employment in Canada

-Employee

-T4

-Sole proprietor

- Income-expenses
- Declare net on tax return
- No T4
- Track income with account only for business income

-Partnership

-Share net revenue

-GST #, partnership agreement (how disagreements will be resolved, right to buy out if someone wants to leave, first right of refusal to buy out the estate if one partner dies)

- Parters need to do "adequate amount of work" (20hrs/week) (to deter people from listing kids and spouses)

-Incorporated

- Different reporting/filing
- More than 150,000 for this to be a good option for tax savings
    - When you have retained earnings, which are only taxed at 17%, this is a good option

Marginal tax bands:
First 12,000 - no tax
12,000 to 46,000 - 20%
46,000-93,000 - 33%
93,000-125,000 - 40%
125,000-205,000 -49%
Affected tax rate - divided by proportion - you pay in each band, on the percentage in that band:
If you make 210,000: first 46,000 is taxed at 20%, the next amount up to 93,000 is taxed as 33%, the next amount up to 125,000 is taxed at 40% and the remaining amount is taxed at 49%.

- Put a percentage of each gig payment away for the taxes
- You can use the bands to help you calculate how much you may need to pay each year
    - If you make under 46,000/year, all of your income will fall within the 20% tax band
- Once you owe over 3000 in tax, you will be put on to quarterly instalments by the CRA, with a 5% penalty for not paying on time

GST:
- For Service business which add value - in the arts, this is your skill and expertise.
- Not exempt from charging GST
- 30,000 in gross revenue for self-employed work you must collect GST
- If you make 30,000 in a year, but part of that income is not from self-employed, but employed work, then you do not have to collect GST
- Companies will ask for GST, since they can recoup it (1000 gig, 50 in GST, they pay you 1050)
- Income tax credits - total GST collected on each gig minus the GST you have paid in your business activity = the amount you pay the CRA

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- Must close out the GST number if the business activity stops - write to tell them the business is closed, or you will be charged

Business Expenses:
- t2125 - statesman of business and professional activities (list of everything you can write off)

https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/t2125/t2125-18e.pdf
- Business activity (buying inventory, renting space: software, computers, subscriptions, employees, meals and entertainment, bookkeeper, tax prep etc.)
- Meals: - Only if purchasing the meal for a client, they will assume 1/2 the bill is for you so you can claim 50%.
- Rent - Home Office - % of household (square footage) used for business is the amount that can be written off

- Internet (% of business use)
- Cell phone (% you can reasonably back up to an auditor)
- Hydro, utilities (% of what was used for business)
- Vehicle (%, proven by a mileage log, purchase of vehicle)
- Fuel (21cents/km)
- Insurance, parking, maintenance
- Capital costs - anything over $200, must be written off with depreciating value over 3 years - including computers, gear, software etc.

- Grey Areas - need a valid reason that you can prove through your (large scale printing, show tickets as personal development)

-Hiring an assistant - they are a subcontractor - get SIN, keep a record of the cheque you paid to them and their invoice. If you pay them out of your income you can deduct it as a business expense. If they are only working for you, they become an employee and you will need to file T4.

Financial Planning:
- Internet (savings guides, cheap but no guidance)
- Banks (only talk about bank products, not tax planning)
- Financial Planner (tax, future planning, etc. Charge - 1% of net worth)
- US reporting requirements - if your parents are American, you have a reporting duty in the US regardless of citizenship?

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