



TAX PREPARATION

For Individuals & Small Businesses

3rd Edition

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As tax season approaches, many small business owners find themselves overwhelmed by the extensive filing requirements set by the CRA.

To assist you during this time, we have compiled all the essential information in this publication to ensure you are well-prepared for tax season.

For those interested in optimizing their tax returns, KAL offers personalized tax reviews and strategic planning tailored to your unique situation.

Since 1987, KAL has been dedicated to helping Canadian small business owners minimize the impact of income taxes on their businesses while maximizing their assets.

We provide a comprehensive tax preparation package that includes bookkeeping and financial planning services, all bundled into a single, transparent fee to meet your complete financial needs.

SELF-EMPLOYED

If you're self-employed and haven't made any income, you might think there's no reason to file a tax return. Conversely, if you want to claim the GST/HST credit or Canada child benefit, the net income declared on your tax return determines the amount you receive. Failing to file will result in having these credits suspended until the return is filed.

Filing a return also allows you to claim provincial tax benefits, tax refunds for instalment or source deductions, GST/HST tax credits, refundable medical expense supplements, Canada Pension Plan or Employment Insurance (EI) premium overpayments. Moreover, filing your tax return creates the contribution room in your RRSP.

Needless to say, filing your return ensures you receive the credits and benefits you're entitled to.

DEADLINES

There are several important deadlines related to tax season depending on your business structure to consider.

INDIVIDUAL TAX DEADLINE

The tax filing deadline for your TD1 (personal tax return) is April 30th. If you're self-employed, you and your spouse have until June 15th to file your personal tax returns. However, although you have extra time to file, if you have an amount owing it must be paid by the April 30th deadline to avoid interest and penalties.

If you owe money to the CRA and file your taxes late, you'll have to pay a penalty of **5%** of the balance owed plus **1%** for each month you are late, to a maximum of **12** months. If you are late multiple years, the penalty can increase to **10%** plus **2%** for each month your return is late, to a maximum of 20 months.

INCORPORATED BUSINESS TAX DEADLINE

Corporate tax returns are due 6 months after the corporation's fiscal year-end. If your business is incorporated and has a balance that it still needs to pay, you have until 2 months after the end of your fiscal tax year to pay it off (2 months after yearend). There are some exceptions to this rule. Canadian-controlled private corporations with annual business income less than \$500,000 may have up to 3 months rather than 2 if they meet the eligibility criteria.

NOA & REMUNERATION SLIPS AND RELATED INFORMATION

PREVIOUS YEAR'S TAX RETURN, NOTICE OF ASSESSMENT AND ANY OTHER CRA CORRESPONDENCE

These documents help us to determine where you and your company stand, and to see if your business made a profit or loss in the previous year. It further allows us to see what tax deductions were made vs the current year.

RRSP CONTRIBUTION RECEIPT

This is a receipt for any contributions to your RRSP made during the year along with any contributions made in the first two months subsequent year. While you aren't taxed on an RRSP, you will need this to claim the tax deduction to reduce your taxable income.

T3 SLIPS: STATEMENT OF TRUST INCOME ALLOCATIONS AND DESIGNATIONS

This will tell you how much income you received by investing in a trust, like a mutual fund.

T5 SLIPS: STATEMENT OF INVESTMENT INCOME

This will tell you how much interest income you earned from a corporation. This could be interest paid to you by a bank, or dividends you received from a corporation.

T4: STATEMENT OF REMUNERATION PAID

This will state how much you were paid by an employer, and how much income tax was deducted.

T4A: PENSION, RETIREMENT, ANNUITY AND OTHER INCOME

You would receive this slip if you received any income from pensions, retiring allowance, annuities or other income.

DEDUCTIONS, CREDITS AND EXPENSES RECEIPTS FOR ELIGIBLE MEDICAL EXPENSES

You may be eligible for the medical expense tax credit.

RECEIPTS FOR CHARITABLE DONATIONS

You may be eligible for a tax credit if you donated to a registered Canadian charity and received a donation receipt.

TUITION OR EDUCATIONAL EXPENSES

You may be able to claim tuition, education, textbook fees, moving expenses and interest paid on student loans, for yourself or dependents.

SUPPORT FOR A CHILD OR SPOUSE

You may be able to claim childcare expenses or spousal support.

MOVING EXPENSES

You may be able to claim moving expenses if you moved to earn self-employment income.

ADVERTISING

You can deduct expenses for online advertising, advertising on Canadian radio and television stations and Canadian newspapers and magazines, as well as promotional materials like business cards and pamphlets. Sponsorship of local sports teams, and other branded charitable donations, can be claimed as advertising if the materials include your branding and logo, which could potentially increase awareness of your business.

BAD DEBTS

If you are owed money from a client but are unable to collect it within a year, you may be able to claim it.

BUSINESS TAXES, LICENSES AND MEMBERSHIPS

You can deduct annual license fees (beverage, trade, motor vehicle licenses) and some business taxes (municipal taxes, land transfer taxes, gross receipt tax, health and education tax and hospital tax). You can also deduct annual dues or fees for trade or commercial associations, as well as magazine subscriptions, if they're expenses incurred to earn business income.

Note: Golf club memberships are not tax deductible. This membership is specifically restricted by the CRA as a tax deduction.

BUSINESS-USE-OF-HOME EXPENSES

You can deduct expenses for the business use of a workspace in your home. This includes part of your maintenance costs (cleaning materials, utilities, home insurance) along with part of your property taxes, mortgage interest and capital cost allowance.

INTEREST AND BANK CHARGES

You can deduct interest on money that was borrowed for business purposes or for buying property for your business. You can't deduct the principal of loan or mortgage payments, or any money borrowed for personal purposes. You can deduct the fee you pay to reduce the interest rate on your loan, along with any penalty a bank charges you to pay off your loan before it is due. Talk to your tax professional for more information.

INSURANCE PREMIUMS

You can deduct insurance premiums you pay for insurance on buildings, machinery, and equipment you use for your business.

LEGAL AND ACCOUNTING FEES

Fees for accounting, bookkeeping, tax preparation and finances can be deducted, along with legal fees.

DID YOU CALCULATE YOUR DEDUCTION FOR BUSINESS-USE-OF-HOME EXPENSES?

You're able to claim this expense as a tax deduction, if the workspace in your home is the principal place of business, or you use the space only to earn business income and meet regularly with your customers in the workspace.

To claim this expense and avoid CRA scrutiny, make sure you've calculated the percentage of your home that's used for your business and apply that percentage to the tax deduction. For example, if you're living in a 1,000-squarefoot house, and your office is 100 square feet, you're using 10 per cent of your home for business use. That means you can deduct 10 per cent of your expenses. Let's say your annual electricity bill is \$1000. If you multiply that by 10 per cent, you get \$100, which means you can deduct \$100 for electricity on your tax return as a business-use-of- home expense.

MEALS AND ENTERTAINMENT

You can deduct 50% of your total meal and entertainment expenses for business purposes.

MOTOR VEHICLE EXPENSES

If you're self-employed and use your car regularly for business-related activities, you can deduct a portion of your license and registration fees, fuel and oil costs, insurance, maintenance and repairs and leasing costs.

To claim motor vehicle expenses, you need an updated logbook, which records your business travel for the entire year. Without a record of your mileage, the CRA will disallow your vehicle expenses as a tax deduction. To calculate your deduction for motor vehicle expenses, look at your odometer reading at the end of the year: To calculate your vehicle deduction, use the same percentage: Example.

Let's say it was 40,000 km. Thanks to your logbook, you know 32,000 km was for business use. Divide 32,000/40,000 to find out what percentage of the time the car was used to earn business income.

The result is 80%, which means you can deduct 80% of your eligible vehicle expenses as business expenses.

Consider the following, vehicle expenses amounted to \$6,000 for the year. If you multiply \$6,000 by 80%, you get \$4,800, which is the acceptable amount to be deduct.

OFFICE EXPENSES

This includes small items like pens, pencils, paper clips and stationery. You can't claim calculators, filing cabinets, chairs and desks, which qualify as capital items.

RENT

You can deduct rent incurred for property used in your business.

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.

SALARIES, WAGES AND BENEFITS

You can deduct employees' gross salaries and other benefits incurred by you as the employer. As the employer, you must deduct your part of CPP contributions and employment insurance premiums. You can also deduct workers' compensation amounts payable on employees' remuneration. You can't deduct salaries paid to yourself or to a partner.

TRAVEL EXPENSES

You can deduct travel expenses, including transportation fares and hotel accommodation.

For assistance and your FREE ½ hour consulting contact:



Peter A. Kypreos, B. Com., MBA, ICIA, LL.B.

Certified Business Consultant / Accountant

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PREPARING FOR YOUR TAXES

Completing your income tax return can be challenging, even with the help of an accountant. Consider using the following checklist to help gather the right information and documentation to ensure you're on the right track.

Note: You should receive all your applicable tax documentation by the end of March.

GENERAL ITEMS

- A copy of last year's return, including spouse's return if not being processed together
- Contact details if changed
- Previous Year's Notice of Assessment
- Other years' reassessments
- Details of changes to your personal status such as dates of marriage, separation, divorce or widowed, births and deaths
- Names of spouse & dependents
- Note consenting to provide your income tax information to Elections Canada
- Installment payments
- Details of foreign property holdings (if any*) including cost of property held
- Contact details of financial planner & financial institution(s)
- Details of lawsuits settled.

INCOME

- Universal childcare benefit (RC62)
- Employment income (T4)
- Pension income (T4A, T4A(P), T4RIF, T4RSP)
- US social security
- Old age security (T4OAS)
- Investment income (T5)
- Income from trusts such as mutual fund investments (T3)
- Income from employment insurance (T4E)
- Income from partnerships (T5013)
- Workers compensation/social assistance payments (T5007)

- Details of the sale of securities such as stocks and bonds (eg. trading summary from your broker)
- Details of real estate sales
- Income from foreign investments
- Spousal support payments received

DEDUCTIONS - EMPLOYEES

- Declaration of conditions of employment form (T2200)
- Expenses not reimbursed by your employer including travel expenses (eg. parking, taxis, bus fare), supplies and salaries of assistants
- Office rent if required as a condition of employment
- Home office expenses (if it is your principal workplace or used exclusively, on a regular basis for activities such as business-related meetings) Include rent paid, repairs and maintenance costs, utilities and if you are a commissioned salesperson also property taxes and home insurance. Indicate the total area of your home and the area used for your workspace.
- If you are a commissioned salesperson, details supporting advertising expenses, promotion, meals, and entertainment
- Motor vehicle expenses †

† DEDUCTIONS – MOTOR VEHICLES

- Total kilometers driven, and kilometers driven just for work
- Details of total expenses incurred for gas, maintenance and repairs, insurance, license and registration, loan interest and lease payments
- New vehicle, purchase invoice/agreement

DEDUCTIONS - GENERAL

- RRSP contributions
- Medical, dental, prescription drugs, nursing home expenses
- Payments to a private health insurance plan

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- Charitable donations
- Tuition fees/education amount (T2202A) for yourself or transferred from a dependent such as a child or grandchild
- Interest paid on student loans
- Professional dues, union dues
- Public transit passes
- Children's participation in programs related to physical activity and arts
- Interest on loans assumed to purchase investments
- Safety deposit box fees
- Professional consultant fees
- Legal fees paid to establish child or spousal support or to enforce a pre-existing agreement
- Legal fees paid to recover wages from your employer
- Details of people you support and their medical status
- Childcare receipts (for camp, list dates attended)
- Moving expenses if you moved 40km or closer to work or school
- Property taxes or residential rent paid and to whom
- Political contributions receipts
- Disability tax credit claim form completed by authorized health practitioner (T2201)
- Spousal support payments paid
- Adoption expenses

UNINCORPORATED BUSINESSES

- Total sales revenue for the year
- Total expenses listed by category for the year
- Capital assets acquired (eg., computers and peripherals, furniture and equipment)
- Home office expenses
- Motor vehicle expenses †

RENTAL PROPERTIES

- Address and number of units
- Rental income by unit
- Rental expenses by unit and by category of expense
- Motor vehicle expenses †
- Partners' names, addresses and SINS
- Legal fees

Statement of Business Activities (Worksheet)

Taxation Year	
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Company		DATE	
		PHONE	

A. INCOME

INCOME SOURCES	INCOME BEFORE HST COLLECTED	HST COLLECTED
Total Gross Income		

B. COST OF GOODS SOLD (for product-based businesses)

	AMOUNT
Opening Inventory	
Purchase	
Sub-Total	
Less: Closing Inventory	
Cost of Goods Sold	

C. EXPENSES (include GST/HST in your expenses, if you do not collect GST/HST)

DESCRIPTION	AMOUNT	DESCRIPTION	AMOUNT
Advertising		Property Tax	
Meal/Entertainment (50%)		Travel	
Bad Debts		Telephone/Cellular	
Insurance		Utilities	
Interest		Fuel Cost (Except for Vehicles)	
Business Tax, License & Dues		Delivery/Freight/Courier	
Office Expenses		Salaries, Wages & Benefits	
Supplies		Other 1	
Legal/ Accounting		Other 2	
Occupancy Cost (Rent)		Other 3	
Maintenance & Repairs		Other 4	

D. BUSINESS USE OF MOTOR VEHICLE

	Vehicle 1	Vehicle 2
Kilometers driven to earn income		
Total kilometers driven		
EXPENSE DESCRIPTION		
Fuel		
Repairs & Maintenance		
Insurance		
License & Registration		
Interest Expense		
Lease Payments		
Car Washes		
Parking		
Other:		
Total Vehicle Expense		

E. BUSINESS USE OF THE HOME

DESCRIPTION	AMOUNT
Utilities	
Gas	
Electricity	
Water & Sewage	
Insurance	
Maintenance/Repairs	
Mortgage Interest	
Property Tax	
Other 1	
Other 2	
Sub-Total	
Calculation of Business Use of Home Expense	
Sq. Ft. For Business Use	
Sq. Ft of Total Home	