

HOW CAN I PAY LESS TAX ON BUSINESS REVENUE?



ALLOWABLE DEDUCTIBLE EXPENSES

A short guideline for Canadian businesses ...

How can you make sure that you don't pay more tax on business revenue than you need to? By taking advantage of every possible allowable deductible expense that you can. What is a deductible business expense and which business expenses can you legitimately deduct without getting into a pickle with the Canada Revenue Agency?

The Canada Revenue Agency (CRA) guidelines on *common deductible business expenses*, stress that costs need to be *reasonable, directly related to generating business income, and backed up* with original bills/receipts as supporting documentation.

Deductible Expenses are operating costs that a Canadian corporation may subtract from its revenue to calculate taxable income. These expenses must be reasonable and provable – think detailed backup.

Capital Costs are large expenses, typically over \$500, for the purchase of assets. Assets are items that help generate revenue for the company for a year or more into the future and are expected to reduce in value as they are used or age. Amortization is the process of allocating the cost of the use of the asset to the time period revenue is generated. Amortization is a deductible expense.

This guideline is all about the Deductible Expenses. Following is a list of Allowable operating costs that you can claim as deductions when filing your taxes.

Always consult with your accountant if you have questions about allowable costs for deduction.

And feel free to contact us at Guildstreet if you need help! info@guildstreet.ca

<i>Cost of Goods Sold or Cost of Sales</i>	Direct costs to acquire goods or services to produce products for sale are fully deductible. Examples are costs for acquiring goods from a wholesaler for resale, purchased packaging, direct shipping costs, or cost of acquiring raw materials.
<i>Vehicle Costs, Parking, and Commuting Expenses</i>	Mileage for business is deductible. Whether you choose to record individual vehicle expenses and prorate for business usage or choose to charge mileage at the yearly rates shown below, you must keep an accurate mileage log. (We recommend MileIQ.) <i>The mileage rate for 2024 is \$.70 for the first 5000 kilometers, and \$.64 for every kilometer driven after that.</i> Note that travel or mileage from your home to your workplace is a commute and is not an acceptable business expense.



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	That parking charge for visiting a client is deductible, but your monthly parking at your office is considered to be a taxable benefit. Your business can pay for it, but the business must add the regular parking cost to your pay.
<i>Meals and Entertainment, and Travel Meals</i>	<p>50% of your Meals and Entertainment costs are deductible. These limits also apply to the cost of your meals when you travel or go to a conference or similar event.</p> <p>Charging your cost for a coffee and meal while working in a coffee shop or travelling around town on business are permissible. Your regular morning coffee that you pick up on your way to work is not deductible.</p> <p>For meals and entertainment, it is especially important that you keep all your receipts, and it is equally important that you write the name of the person and purpose of the meeting on each of your receipts.</p>
<i>Travel and Accommodation</i>	Travel expenses incurred to earn business and professional income are deductible. These include public transportation fares, hotel accommodations. It's a good idea to identify the purpose of the travel on the receipt.
<i>Payroll and Contract Staff Cost</i>	Gross salaries, wages, and the employer's cost of Canada Pension Plan and Employment Insurance premiums are all deductible, as the cost of contract staff. Health and Insurance benefits offered to your staff are also deductible.
<i>Business Fees, Licenses, and Dues</i>	Examples of deductible expenses are business licenses from your city, or membership dues to your local Chamber of Commerce, and certification costs. (If a club's main purpose is dining, recreation or sporting, then membership fees are not deductible.)
<i>Insurance</i>	All ordinary commercial insurance premiums are deductible, including errors and omissions and liability insurance, insurance on buildings, machinery, and equipment used for your business. For insurance on vehicles, record it as a vehicle expenses.
<i>Office Expenses, Postage and Courier</i>	The small stuff. Office items such as stationery, postage and courier. Includes printer cartridges, headsets etc. (Note - Items costing over \$500 such as office furnishings and equipment are considered to be capital costs and are not included in this category.)
<i>Communication and Computer</i>	Expenses for communication, telephone, software subscriptions, and internet charges are all deductible.
<i>Accounting, Legal, Consulting and Management Fees</i>	In this category are all management, consultant and contracted administration fees, including accounting and legal fees.



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<p><i>Bank Charges and Interest Costs</i></p>	<p>Regular bank charges and interest incurred on credit cards or on money borrowed for business purposes, including interest on loans for assets acquired for business purposes.</p> <p>Be clear when buying assets – if the vehicle or asset is in your personal name it is not a business asset and interest expense is not deductible.</p>
<p><i>Rent, Property Tax, Utilities, Security Costs</i></p>	<p>Rent, property taxes, utility costs and security costs are examples of costs for business premises that can be deducted. If your place of business is your home, check out the <i>Business Use of Home Expenses</i> section.</p>
<p><i>Business Use of Home Expenses</i></p>	<p>You can deduct expenses for business use of a workspace in your home, IF it is your principal place of business and IF you use the space only for your business.</p> <p>If you have a place of business that is separate from your home, you cannot deduct home office expenses – either workplace expenses or home office expenses can be deducted, but not both.</p> <p>Home expense deductions are calculated proportionately. For example, if the size of your dedicated workspace is 200 square feet and the size of your home is 2000 square feet, you deduct 10% of your home expenses.</p> <p>Examples of costs that you can deduct are utilities, internet, security, rent or mortgage interest, property taxes.</p>
<p><i>Clothing and Safety Equipment</i></p>	<p>Generally, clothing is a personal expense and not deductible, unless the clothing is work-specific clothing that would not be used outside of business purposes. For example, medical scrubs or protective clothing.</p> <p>This means that steel-toed boots and safety gear are deductible, however your cold weather clothing is not deductible since clothing like this can be used outside business purposes.</p> <p>Clothing printed with the company logo or other advertising messages is a promotional expense.</p> <p>Clothing that is integral to the performance of the business, such as costumes for actors in a theatrical production may be deductible.</p> <p>If clothing is used for both business and personal use, only the portion of the clothing cost directly related to work-related activities may be deductible.</p> <p>Consult with your accountant for specific guidance for your business situation.</p>

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<i>Advertising and Promotion</i>	Advertising expenses and business development expenses, including photography, and contracted advertising agencies and services. Cost of paid advertising is also deductible under this category.
<i>Business Start Up Costs</i>	Expenses that precede the operation of the business are deductible if incurred during the same fiscal period that the business started operations.

Tips –

Keep your personal expenses and your business expenses separate, using separate credit cards and bank accounts to pay for expenses. It's easy to mix up personal and business expenses and that can lead to an unfortunate result in a CRA review.

Be strict with yourself when recording mileage, and about recording the purpose and person you are entertaining for meals costs. Do the same with your travel costs. These are all costs that the CRA typically like to review.