

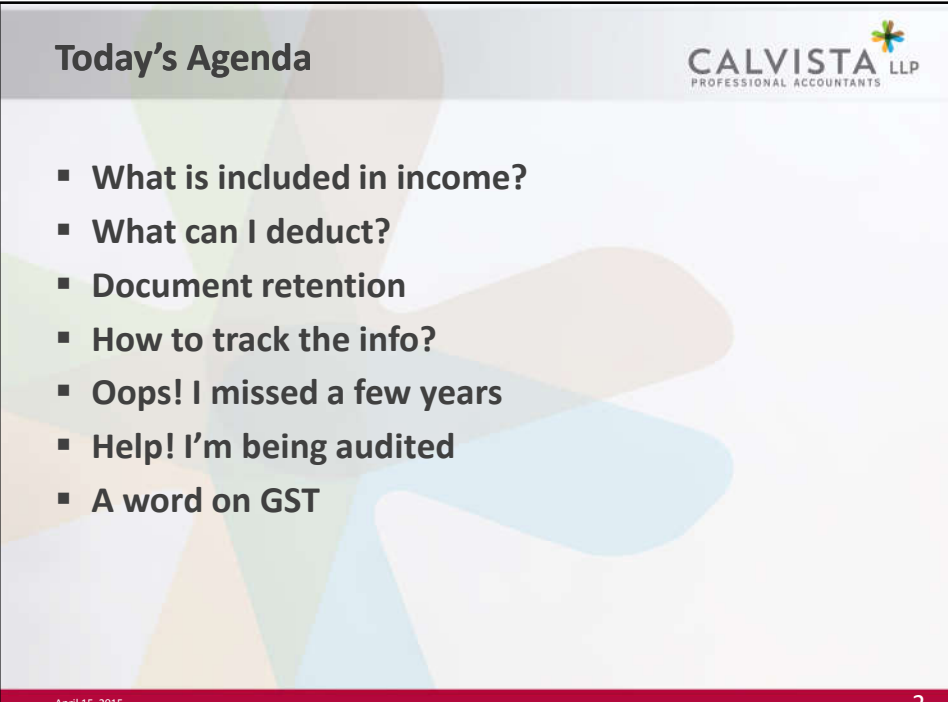


CALVISTA LLP
PROFESSIONAL ACCOUNTANTS

Artists' Tax Day
April 9, 2018

April 9, 2018

Today's Agenda



CALVISTA LLP
PROFESSIONAL ACCOUNTANTS

- What is included in income?
- What can I deduct?
- Document retention
- How to track the info?
- Oops! I missed a few years
- Help! I'm being audited
- A word on GST

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What is income?



- **Short answer:**
 - Did you sell something?
 - Did you get paid to produce something?
 - Did you get paid to provide a service?
 - Did you exchange something of value (work or materials) for something else of value?
- **Other income (not covered today)**
 - employment income
 - investment income
 - other (non artistic) business(es)

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Include in income



- All money received or receivable for services performed or goods (products) sold
- If you have transferred the item(s) and are owed by the purchaser, you must report the income, even if you haven't been paid
- Self-employment income reported on Form T2125
- Some clients may issue a T4A or similar slip – include as part of total on T2125
- Grants normally included in income

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Canada Revenue Agency / Agence du revenu du Canada

Protected B when completed

Statement of Business or Professional Activities

- Use this form to calculate your self-employment business and professional income.
- For each business or profession, fill in a **separate** Form T2125.
- Fill in this form and send it with your income tax and benefit return.
- For more information on how to fill in this form, see Guide T4002, *Self-employed Business, Professional, Commission, Farming, and Fishing Income*.

Part 1 – Identification

Your name		Your social insurance number (SIN)	
Business name		Business number	
Business address		City	Prov./Terr. Postal code
Fiscal period	From Date (YYYYMMDD) to Date (YYYYMMDD)	Was 2017 your last year of business? <input type="checkbox"/> Yes <input type="checkbox"/> No	
Main product or service		Industry code (see the appendix in Guide T4002)	Partnership business number Your percentage of the partnership %
Tax shelter identification number		Name and address of person or firm preparing this form	

Part 2 – Internet business activities

If your webpages or websites generate business or professional income, fill in this part of the form.

How many Internet webpages and websites does your business earn income from? Enter "0" if none. _____

Provide up to five main webpage or website addresses, also known as uniform resource locator (URL):

http:// _____

http:// _____

http:// _____

http:// _____

http:// _____

Percentage of your gross income generated from the webpages and websites. (If no income was generated from the Internet, enter "0".) _____ %

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Possible industry codes



- **711510: Independent artists, authors and interpreters (performers)**
- **512110: Film or video production services**
- **711100: Performing arts companies**
- **541920: Photography**
- **511212: Video game publishers**
- **512120: Motion picture and video distribution**
- **512190: Post production, film and video**

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What can I deduct?



- Expenses that were incurred for the purpose of earning revenue
- Must have a legitimate connection to the earning of income
- Examples:
 - Supplies and materials
 - Studio or equipment rent

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What can I deduct (cont)?



- Some less clear-cut expenses (maybe yes/maybe no):
 - Travel/mileage (keep a log!)
 - Meals/entertainment (50% if eligible)
- Must be able to support to CRA that the travel/meals were incurred directly to earn income
- Direct reimbursement vs. allowance:
 - If an allowance – include in income, deduct actual
 - if direct reimbursement – no need to report

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What can I deduct (cont)?



- **Some expenses that would rarely (or never) be deductible:**
 - **Clothing**
 - **Liquor, etc.**
 - **Personal expenses (living, meals, etc.)**

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Adjustments/timing differences



- **Business income is reported on “accrual” basis**
 - **report revenue when earned (work is done) not when cash is received**
 - **report expenses when incurred, not when paid**

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Suppose I have losses?



- **If expenses exceed revenue?**
- **In some cases, this could be deducted from other sources of income (e.g., offset against employment income)**
- **Offset against other sources not allowed if there is little expectation of future profits**
- **Alternatively, the losses may be carried forward (or back) and deducted from future/past years' income**
- **There must be a reasonable expectation of profit**

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Documentation



- **Revenue:**
 - **copies of invoices or receipts you issued**
 - **copies of bank statements showing the deposits (match to invoices or receipts)**
 - **good idea to keep a separate bank account for self-employed/artistic income if this is a significant source of income**
 - **transfer surplus to your personal/living account as available and needed**

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Documentation (cont)



- **Expenses:**
 - copies of invoices or receipts you received
 - copies of bank statements showing the disbursements (match to invoices or receipts)
 - avoid paying expenses in cash
 - mileage log if your work involves travelling to multiple venues

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Documentation (cont)



- **Record keeping:**
 - record (electronic or manual) all revenues and expenses for each year
 - individual items should be supported by receipt or invoice
 - totals should agree to your "T2125"

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Documentation (cont)



- **Time for retention:**
 - CRA requires records supporting your tax return to be kept for 6 years after the date of Notice of Assessment;
 - Normally this would equate to 7 years in total
 - Special rules for keeping electronic records

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Tracking the info



- **Manual or electronic**
- **Must be able to identify the items that make up the totals**
- **Good practice to agree the summary of expenses and revenue to your banking records – reduces likelihood of error**
- **If using accountant to prepare your taxes, provide totals/summaries of expenses by category to reduce fees**

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Not filing your tax returns



- **If no taxes were owing, consequences are not severe**
 - may lose out on some CPP entitlement, but no penalties are assessed
- **if taxes were owing and returns were not filed OR**
- **returns were filed but incomplete income was reported**
 - interest and penalties can be significant
- **Due date for T1 if you have business income is June 15**

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Not filing your tax returns (cont)



- **CRA has “voluntary disclosure” process**
- **obtain professional advice before coming forward;**
- **know what you owed – no surprises!**
- **if you contact CRA before they contact you, there is a provision for penalties to be waived after the process is complete**
- **can’t pick and choose years – all missing returns must be filed**

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CRA Audit

- **What will make it go more smoothly?**
- **have good records, well organized**
- **be able to support why expenses were deducted**
- **keep copy of any original document given to auditor**
- **if you are unsure, get professional advice as soon as you are notified, before audit begins**
- **watch time limits on filing of objections and/or appeals**

GST

- **Must register and collect GST starting in the following year if your self-employed revenue in a year exceeds \$30,000**
- **Grant income from governments is normally not subject to GST**
- **Collect GST, and remit at the end of the year, minus a credit for any GST you've paid out**
- **There are "short cut" calculation methods if revenue is less than \$250,000**