



ARTISTS' TAX DAY

April 2, 2020

BDO CANADA LLP IN COOPERATION WITH THE
ALBERTA MEDIA ARTS ALLIANCE SOCIETY (AMAAS)



TODAY'S AGENDA

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

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)

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 are normally included in income



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	Date (YYYYMMDD) From	Date (YYYYMMDD) to	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)	
Tax shelter identification number		Partnership business number	Your percentage of the partnership %
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".) _____ %

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

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

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

WHAT CAN I DEDUCT (CONT)?

Some less clear-cut expenses (maybe yes/maybe no):

- Business use of home
- Must be principal place of business
- How to determine deductible portion:
 - Income Tax Folio S4-F2-C2, Business Use of Home Expenses

WHAT CAN I DEDUCT (CONT)?

Some expenses that would rarely (or never) be deductible:

Clothing

Liquor, etc.

Personal expenses (living, meals, etc.)

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

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



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

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

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”

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



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 engaging an accountant to prepare your taxes, provide totals/summaries of expenses by category to reduce fees

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

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

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