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# Income Tax Preparation for Sole Proprietors & Partnerships

Present by Carey McMaster





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#### Agenda

Reporting Business Income

Reporting Costs of Goods Sold

Reporting Business Expenses

Calculating Business-Use-of-Home Expenses

Calculating Capital Cost Allowance (CCA)

Calculating Motor Vehicle Expenses

#### Sources of Income

Business	Professional	Farming	Fishing
Product/Service	Medical Doctor	Livestock/Poultry	Fish
Trades	Dentist	Tree Farming	Shellfish
Manufacturing	Lawyer	Fruit Growing	Crustaceans
Day Care	Accountant	Bee Keeping	Marine Animals
<b>Commission Sales</b>	Veterinarian	Market Gardening	
	Chiropractor	Nursery/Greenhouse	
		Hydroponics	
		Feedlot	
Form T2125	Form T2125	Form T2042	Form T2121

## Reporting Income on T1 General Income Tax and Benefit Return

Gross 13499

Gross 13699

Gross 14099

Gross 14299

13899

Gross

Self-employment income (see Guide T4002):

Business income

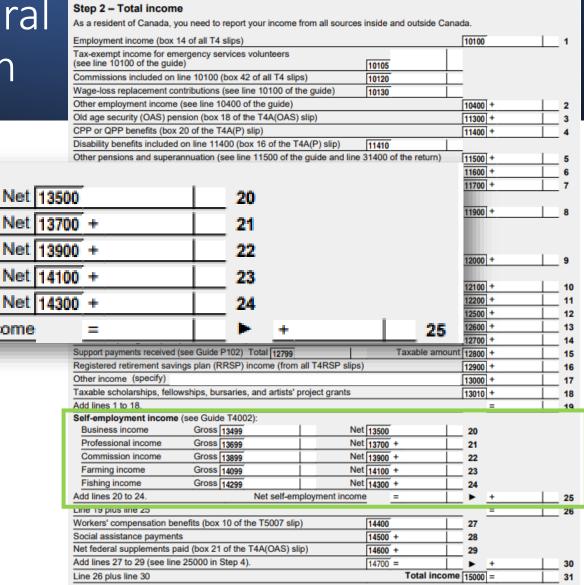
Farming income

Fishing income

Add lines 20 to 24.

Professional income

Commission income



Gross & Net
Income ONLY

Net self-employment income

#### Statement of Business Activities

#### T2125 Statement of Business or Professional Activities

For best results, download and open this form in Adobe Reader. See General information for details.

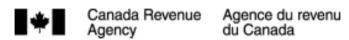
You can **view** this form in:

PDF t2125-21e.pdf

PDF fillable/saveable <u>t2125-fill-21e.pdf</u>

**Last update:** 2022-02-25

https://www.canada.ca/en/revenue-agency/services/forms-publications/forms/t2125.html



CRA Guide for Completing Income Reporting Forms

Self-employed Business, Professional, Commission, Farming, and Fishing Income

2020

https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/t4002.html

#### Reporting Self-employment Income

## 2021

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9	10	11	12	13	14	15	13	14	15	16	17	18	19	11	12	13	14		16	17	15	16	17	18	19	20	100
16	17	18	19	20	533	22	20	21	22	57	24	557		18	19	20	21	1000	23	115.53	22		. 55	25		27	
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12	13	14	15	16	17	18	10	11	12	13	14	15	16	14	15	16	17	18	19	20	12	13	14	15	16	17	18
19	20	21	22	23	24	25	17	18	19	20	21	22	23	21	22	23	24	25	26	27	19	20	21	22	23	24	25
26	27	28	29	30			24	25	26	27	28	29	30	28	29	30					26	27	28	29	30	31	
							31																				

#### Part 1 - Identification

Part 1 – Identification —			
Your name			Your social insurance number
Business name		Business nu	ımber
Business address	City		Prov./Terr. Postal code
Fiscal Date (YYYYMMDD) Date (YYYYMMDD) period From         to	Was this your last ye	ear of business?	Yes No
Main product or service		dustry code ee the appendix in G	Guide T4002)
Accounting method Cash Accrual Tax shelter identification num	mber Pa	artnership business n	number Your percentage of the partnership
Name and address of person or firm preparing this form			

#### Part 2 – Internet Business Activities

Part 2 – Internet business activities —
If your web pages or websites generate business or professional income, fill in this part of the form.
How many Internet web pages and websites does your business earn income from? Enter "0" if none
http://
Percentage of your gross income generated from the web pages and websites.  (If no income was generated from the Internet, enter "0".)



#### 2021 Revenue

Period	Sales	HST	Returns	Allowances	Discounts
Q1	\$10,000.00	\$1,300.00	value of the merchandise	amount you give to	deduction from the
Q2	\$ 8,000.00	\$1,040.00	customers	dissatisfied usual cost of customers something	
Q3	\$12,000.00	\$1,560.00	bring back after	customers	something
Q4	\$15,000.00	\$1,950.00	purchase		
YTD	\$45,000.00	\$5,850.00			

#### Part 3A – Business Income



For business, professional, and commission income use Form T2125



For farming income use Form T2042



For fishing income use Form T2121

Part 3A – Business income	
Gross sales, commissions, or fees (include GST/HST collected or collectible)	50,850,00 3A
GST/HST, provincial sales tax, returns, allowances, discounts, and GST/HST adjustments (included in amount 3A)	E 0E0 00 2D
Subtotal: Amount 3A minus amount 3E	4E 000 00 3C
RC4058(E) Rev. 20	
GST/HST collected or collectible) multiplied by the applicable quick method remittance rate3E	
Subtotal: Amount 3D minus amount 3E	≣3F
Adjusted gross sales: Amount 3C plus amount 3F (enter on line 8000 of Part 3C)	45,000,00 3G

#### Part 3C – Gross Business or Professional Income

professional income on line 13699
 commission income on line 13899

Part 3C Gross bus	iness or professional income —————			
l .	3G) or adjusted professional fees (amount 3O)		8000	45,000
Reserves deducted last year	(see page 56 for "Allowable Reserves")	8290		
Other income (specify)*:	(grants, recovered bad debt, prizes, etc.			
		8230		
	Subtotal: Line 8290 plus line	e 8230	<u> </u>	3F
Gross business or professio	nal income: Line 8000 plus amount 3P		8299	45,000
Report the gross business or p	rofessional income from line 8299 on the applicable line of your inco	me tax and benefit re	turn as indicated below	v:
business income on line	13499			

\* You may have received assistance from COVID-related measures from the federal, provincial or territorial governments. For more information, go to <a href="mailto:canada.ca/cra-coronavirus">canada.ca/cra-coronavirus</a>.

## Reporting Income on T1 General Income Tax and Benefit Return

Gross 13499

Gross 13699

Gross 14099

Gross 14299

13899

Gross

45,000.00

Net self-employment income

Self-employment income (see Guide T4002):

Business income

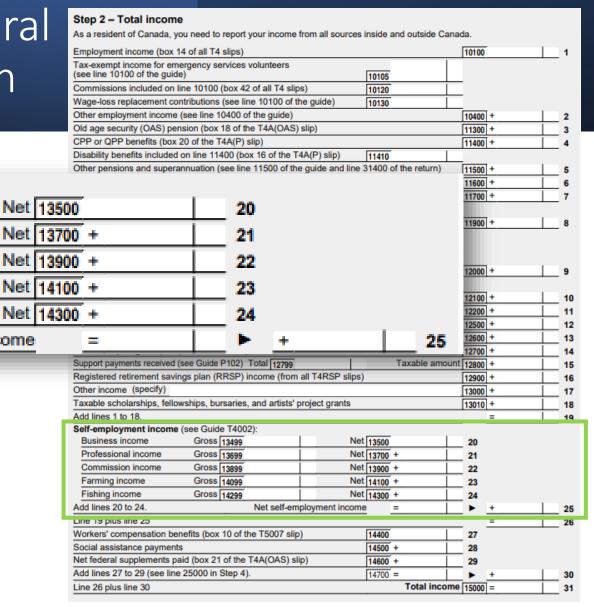
Farming income

Fishing income

Add lines 20 to 24.

Professional income

Commission income



Gross & Net Income ONLY

#### Parts 3D, 4 & 5

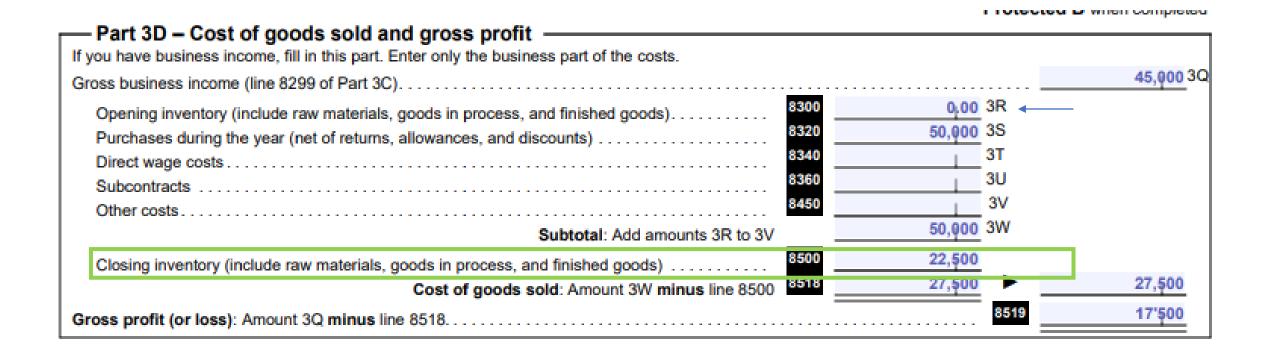
For Parts 3D, 4 and 5, if GST/HST has been remitted or an input tax credit has been claimed (HST/GST REPORTING), do not include GST/HST when you calculate the cost of goods sold, expenses or net income/loss.

GST – Good & Services Tax

HST – Harmonized Sales Tax

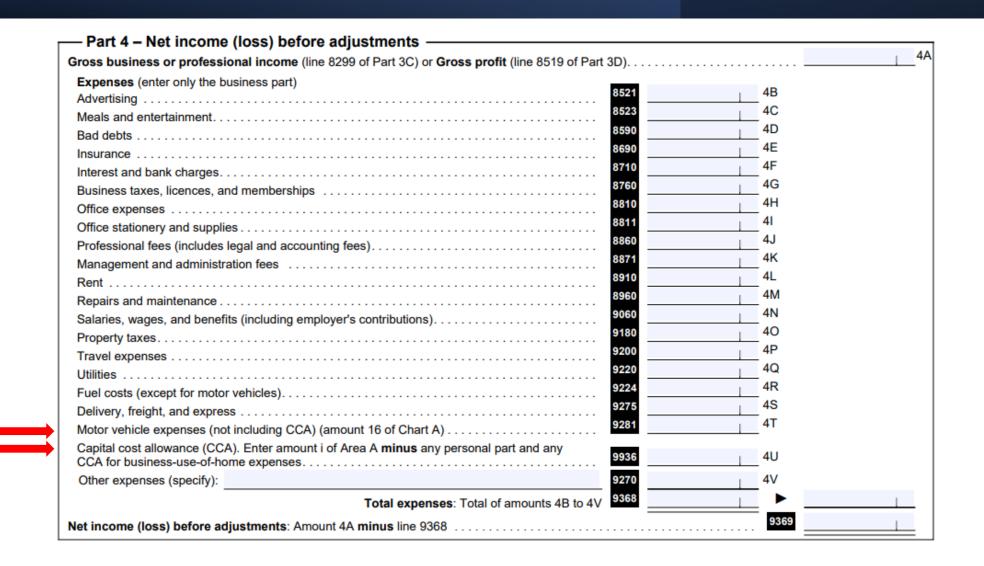


#### Part 3D – Costs of Goods Sold and Gross Profit

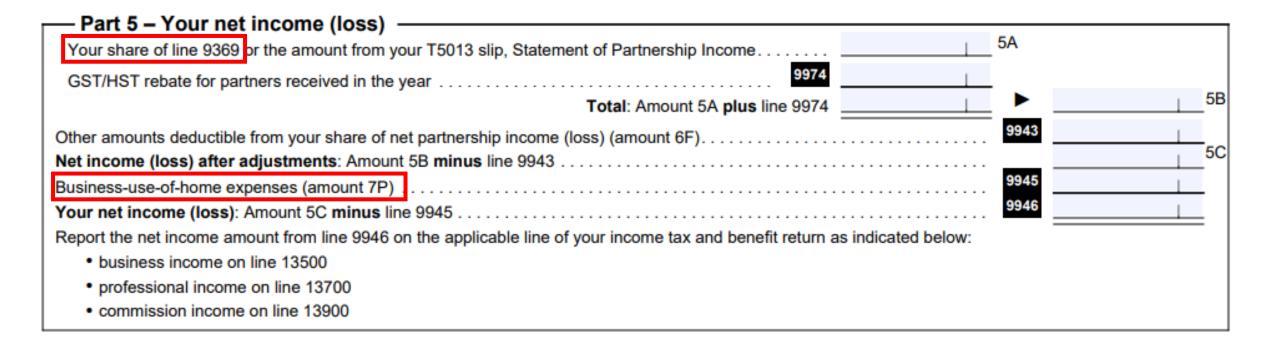




#### Part 4 – Net Income (Loss) Before Adjustments



#### Part 5 – Your Net Income (Loss)



#### Part 6 – Other Amounts ...

— Part 6 – Other amounts deductible from your share of net partnership income (loss) —————	
Claim expenses you incurred that were not included in the partnership statement of income and expenses, and for which the partnersh you. These claims must not be included in the claims already calculated for the partnership.	ip did not reimburse
List details of expenses:	Expense amounts
	6A
	6B
	6C
	6D
	6E
	Total other amounts deductible from your share of the net partnership income (loss): Add amounts 6A to 6E (enter this on line 9943 of Part 5)



#### Part 7 – Calculating Business-Use-of- Home Expenses

Part 7 – Calculating business-use-of-home expenses  Heat	1,995,94	7A	
Electricity	0.450.45	7B	
Insurance	2 622 04	7C	
Maintenance		7D	
Mortgage interest	2 500.20	7E	
Property taxes	2.052.74	7F	
Other expenses (specify):		7G	
Subtotal: Add amounts 7A to 7G	13,421 <sub>-</sub> 15	7H	
Personal-use part of the business-use-of-home expenses	11,743 <sub>,</sub> 51	71	
Subtotal: Amount 7H minus amount 7I	1,677 <sub>1</sub> 64	7J	
Capital cost allowance (business part only), which means amount i of Area A <b>minus</b> any portion of CCA that is for personal use or entered on line 9936 of Part 4		7K	
Amount carried forward from previous year		7L	
Subtotal: Add amounts 7J to 7L		7M	
Net income (loss) after adjustments (amount 5C) (if negative, enter "0")		7N	
Business-use-of-home expenses available to carry forward: Amount 7M minus amount 7N (if negative, enter "0")		70	
Allowable claim: Amount 7M or 7N above, whichever is less (enter your share of this amount on line 9945	of Part 5)		1,677 <sub> </sub> 64 <sub>7P</sub>



#### Capital Cost Allowance

You might acquire a depreciable property, such as a building, furniture, or equipment, to use in your self-employment activities.

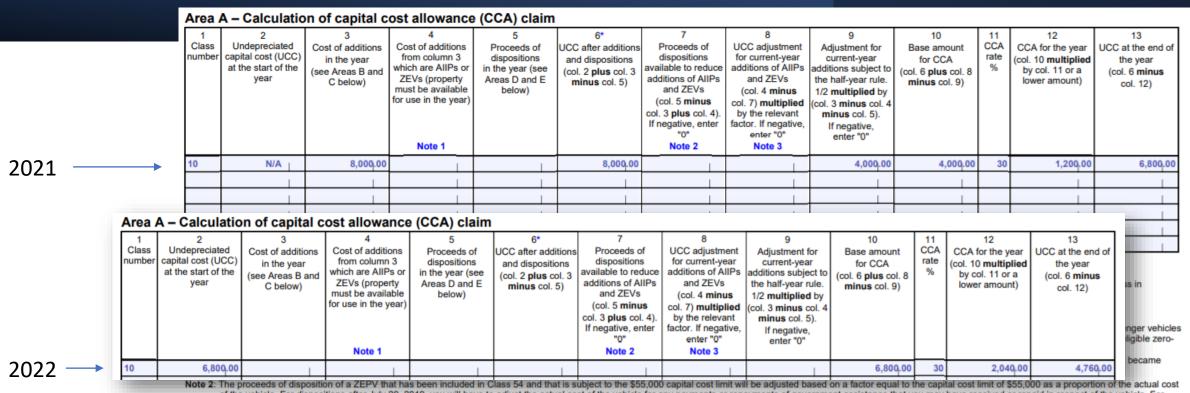
The CCA you can claim depends on the type of property your own or purchase.

See pages 66 and 67 of T4002(E) Rev. 20 if you have farming and/or fishing capital items such as land, boat, farm equipment.

#### Commonly used CCA classes

Class	Rate (%)	Brief description
1	4	Most buildings you bought after 1987.
8	20	Property that you use in your business that is not included in another class.
10	30	Motor vehicles and some passenger vehicles.
10.1	30	A passenger vehicle not included in Class 10.
12	100	Tools, medical and dental instruments and kitchen utensils, acquired for less than \$500. (If \$500 or more, include the cost in Class 8)
50	55	General-purpose electronic data-processing equipment (commonly called computer hardware) and systems software for that equipment.

#### Calculation of Capital Cost Allowance



of the vehicle. For dispositions after July 29, 2019, you will have to adjust the actual cost of the vehicle for any payments or repayments of government assistance that you may have received or repaid in respect of the vehicle. For more information on proceeds of disposition, read "Class 54 (30%)" in Guide T4002.

Note 3: The relevant factors for properties available for use before 2024 are 2 1/3 (Classes 43.1, 54 and 56), 1 1/2 (Classes 55), 1 (Classes 43.2 and 53), 0 (Classes 12, 13, 14 and 15) and 1/2 for the remaining AIIPs. For more information on AIIPs, see Guide T4002 or go to canada.ca/taxes-accelerated-investment-income.

#### Area B - Equipment additions in the year

1 Class number	2 Property description	3 Total cost	4 Personal part (if applicable)	5 Business part (column 3 <b>minus</b> column 4)
10	Work Trailer	8,000 <sub>1</sub> 00		8,000,00
	Total equipment ad	ditions in the year: To	otal of column 5 9925	8,000,00

#### Capital Cost Allowance – "NEW RULES"

- Accelerated Investment Incentive Providing an enhanced first-year allowance for certain eligible property that is subject to the CAA rules
  - applying the prescribed CCA rate for a class to up to one-and-a-half times the net addition to the class for the year
  - suspending the existing CCA half-year rule
- Full Expensing for Manufacturers and Processors immediate write off the full cost of machinery and equipment used for the manufacturing or processing of goods (class 53).
- Full Expensing for Clean Energy Investments immediate write off the full cost of specified clean energy equipment (classes 43.1 & 43.2).

For more information on AIIP, go to canada.ca – Accelerated Investment Incentive

#### CAA- Old Rules vs New Example

#### **Old Rules**

Example: Purchased a work trailer for \$8,000, you can deduct 15% in the first year (\$1,200). The following year, you are allowed to deduct 30% of the reducing balance (\$2,040).

#### **New Rules**

Example: You purchase a trailer for \$8,000. In the first year, you can deduct up to \$3,600 (45%) and then 30% of the reducing balance (\$1,320) in the second year.

#### **Computation:**

Year 1:  $$8,000 \times 1/2 \times 30\% = $1,200$ 

Year 2:  $($8,000-$1,200) \times 30\% = $2,040$ 

Total deductions = \$3,240

#### **Computation:**

*Year 1:*  $$8,000 \times 45\% = $3,600$ 

Year 2:  $($8,000-$3,600) \times 30\% = $1,320$ 

Total deductions = \$4,920

#### CAA- Old Rules vs New Example

Computer Purchase: \$2,000

Class: 50 CCA Rate: 55%



Computation – OLD Rules

Year 1  $$1,500 \times .5 \times 55\% = $412.50$ 

Year 2  $($1,500 - $412.50) \times 55\% = $598.13$ 

Total Deductions: \$1,010.63

Computation – NEW Rules

Year 1  $$1,500 \times 55\% \times 1.5 = $1,237.50$ 

Year 2  $($1,500 - $1,237.50) \times 55\% = $144.38$ 

Total Deductions: \$1,381.88

#### Part 4 – Net Income (Loss) Before Adjustments

oss business or professional income (line 8299 of Part 3C) or Gross profit (	ine 0319 of Part 3D)		
xpenses (enter only the business part)	8521	, 4B	
dvertising		4C	
leals and entertainment		4C 4D	
ad debts			
nsurance		4E	
nterest and bank charges		4F	
usiness taxes, licences, and memberships		4G	
office expenses		4H	
office stationery and supplies	8811	41	
rofessional fees (includes legal and accounting fees)	8860	4J	
lanagement and administration fees		4K	
ent	8910	4L	
epairs and maintenance	8960	4M	
alaries, wages, and benefits (including employer's contributions)	9060	4N	
roperty taxes	9180	40	
ravel expenses	9200	4P	
tilities	9220	4Q	
uel costs (except for motor vehicles)	9224	4R	
elivery, freight, and express	0.075	4S	
lotor vehicle expenses (not including CCA) (amount 16 of Chart A)	0004	4T	
apital cost allowance (CCA). Enter amount i of Area A <b>minus</b> any personal part	and any	4U	
Other expenses (specify):	9270	<sub>l</sub> 4V	
Total expenses: Total of an	nounts 4B to 4V	<u> </u>	1



#### Chart A – Motor Vehicle Expenses

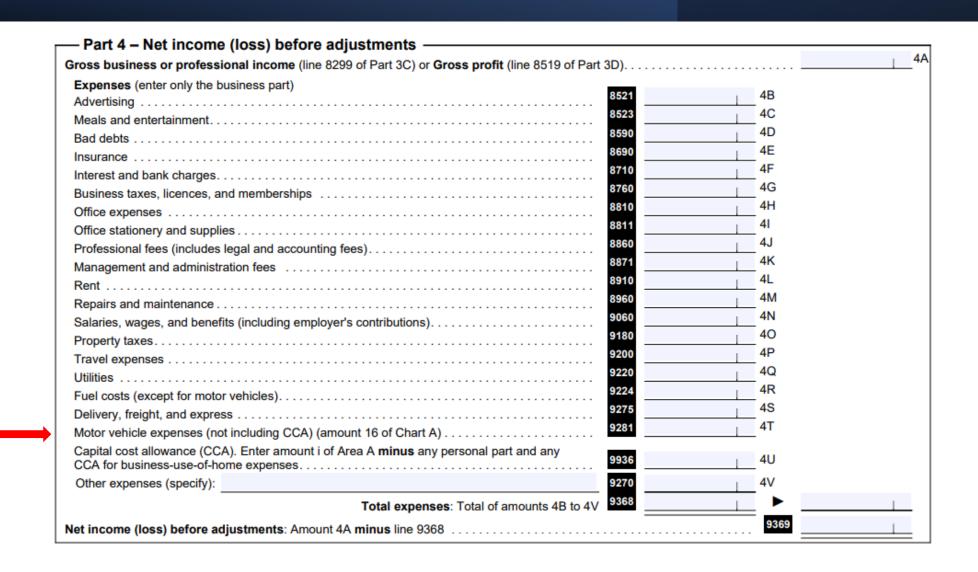
	or vehicle expense				20,000	1	
•	in the fiscal period that wa frove in the fiscal period				05.000		
-					0.000.00	3	
	t B below)				2 200 00		
•					4 000 00	5	
	ration				00.00	6	
-	repairs					7	
	t C below)					8	
	emission vehicles					9	
Other expenses (specify):					10		
						11	
		Total motor vehicle	expenses: Add	amounts 3 to 11	7,160 <sub>1</sub> 00	12	
Business use	/ amount 1:	20,000	omount 12:	7,160,00		_	5 700 00
part:	amount 2:	25,000	amount 12.	7,160,00		····	5,728,00
Business parking f	ees						
Supplementary bu	siness insurance						
llowable motor veh	icle expenses: Add amo	unts 13, 14, and 15 (ente	r this total on lin	e 9281 of Part 4).			5,728,00
ote: You can claim (	CCA on motor vehicles in	Area A.		-			

#### Chart B / Chart C

Chart B – Available interest expense for passenger vehicles and zero-emission passenger vehicles —————				
Total interest payable (accrual method) or paid (cash method) in the fiscal period				
\$10* x the number of days in the fiscal period for which interest was payable (accrual method) or paid (cash method)	3,650,00 18			
Available interest expense: Amount 17 or 18, whichever is less (include this in amount 4 of Chart A above)				
1 of passorigor formore bought after £000.				

Chart C - Eligible leasing cost for passenger vehicles**				
Total lease charges incurred in your current fiscal period for the vehicle20				
Total lease payments deducted before your current fiscal period for the vehicle				
Total number of days the vehicle was leased in your current and previous fiscal periods				
Manufacturer's list price.				
Use a GST rate of 5% or HST rate applicable to your province.				
Amount 23 or (\$35,294 + GST and PST, or HST on \$35,294), whichever is more				
[(\$800 + GST and PST, or \$800 + HST) × amount 22]  — amount 21: = 25				
30				
[(\$30,000 + GST and PST, or \$30,000 + HST) × amount 20]				
amount 24				
Eligible leasing cost: Amount 25 or 26, whichever is less (enter in amount 8 of Chart A above)				
** Includes a vehicle that would qualify as a zero-emission passenger vehicle if you owned it.				

#### Part 4 – Net Income (Loss) Before Adjustments



## CRA Certified Remittance Software

#### Free or pay-what-you-want tax software

TurboTax Free for Android	2020, 2019, 2018	Mobile app	Intuit Canada
CloudTax	2020, 2019, 2018	Online	CloudTax Inc.
CloudTax for Android	2020, 2019, 2018	Mobile app	CloudTax Inc.
CloudTax for iPhone, iPad	2020, 2019, 2018	Mobile app	CloudTax Inc.
GenuTax Standard for Windows	2020, 2019, 2018, 2017	Desktop	GenuSource Consulting Inc.
H&R Block Online	2020, 2019, 2018, 2017	Online	H&R Block Canada Inc.
Wealthsimple Tax	2020, 2019, 2018, 2017	Online	SimpleTax Software Inc.
Wealthsimple Tax for iPhone, iPad	2020, 2019, 2018, 2017	Mobile app	SimpleTax Software Inc.
Wealthsimple Tax for Android	2020	Mobile app	SimpleTax Software Inc.
TurboTax Free	2020, 2019, 2018, 2017	Online	<u>Intuit Canada</u>
<u>TaxTron</u> for Web	2020, 2019, 2018	Online	<u>Taxtron Inc.</u>
TurboTax Free for Windows	2018, 2017	Desktop	<u>Intuit Canada</u>
TurboTax Free for iPhone, iPad	2020, 2019, 2018	Mobile app	<u>Intuit Canada</u>
StudioTax for iPhone, iPad	2020, 2019	Mobile app	BHOK It Consulting
StudioTax for Android	2020, 2019	Mobile app	BHOK It Consulting

#### CRA Websites & Telephone Numbers

Canada's COVID-19 Economic Response Plan	canada.ca/en/department- finance/economic-response-plan		
My Account	canada.ca/my-cra-account		
E-services	canada.ca/cra-electronic-services		
Questions and Answers on the Canada Recovery Benefit	www.canada.ca/en/services/benefits/ei/cerb -application/transition/questions		
Frequently asked questions - Canada emergency wage subsidy (CEWS)	canada.ca/en/revenue- agency/services/subsidy/emergency-wage- subsidy/cews-frequently-asked-questions		
Individual enquiries (Account specific questions about the Canada emergency response or recovery benefits and to get forms)	1-800-959-8281		
Business enquiries (Information about COVID-19 benefits for Businesses, eligibility requirements, calculating the benefit, or how to apply)	1-800-959-5525		
CRA's business subsidy payment arrangement line	1-833-615-2087		
Service Canada - El	1-800-206-7218		

