

Tax Tips for Sole Proprietors

Freelancer, self-employed, contractor, independent, temporary or gig worker and entrepreneur are all terms used to describe sole proprietors. While sole proprietorship isn't new, it is most definitely on the rise. Sole proprietorship - popularly referred to as "gig work" or the "gig economy"- is fast becoming a thriving industry in Canada. A new generation of workers is trading the stability of a traditional job for the flexibility to customize their work around their lives. In fact, 20-30 percent of the Canadian workforce comprises part-time, freelance, consultant, contractual, temporary, virtual and other contingent workers.¹

Setting up a Sole Proprietorship

To legally make money in the gig economy, you must register as a business and pay taxes on that income. The simplest way to do this is to register as a sole proprietor. Once your sole proprietorship is established, you and your business are considered the same from a tax and legal standpoint. Running a business and understanding all the financial strategies can be overwhelming, which is why many sole proprietors choose financial professionals to guide them.

Your Starting Point

Whatever your business is, effective planning is critical to getting the best financial return on your efforts. As a sole proprietor, you are required to pay personal income tax on the net income your business generates. When you file a tax return, you declare your business income on your personal income tax form. The good news is that there are many legitimate expenses that you can claim against your business income that can significantly reduce the amount of tax that you may owe.

The Canada Revenue Agency (CRA) has a list of common expenses that can be claimed against business income.

Some of the most advantageous expenses for sole proprietors are:

- Use of home, including a portion of rent, mortgage interest, property taxes, insurance, utilities, and maintenance
- Telephone
- Office rent
- Vehicle
- Accounting and legal fees
- Management fees (including bank fees)
- Office expenses
- Advertising
- Capital cost allowance
- Travel, meals, gifts, and entertainment

The important thing to remember is that these expenses must be directly related to earning business income. They also need to be reasonable and supported by original invoices.

Get Professional Advice

One of the wisest investments you can make as a sole proprietor is to work with a trusted financial advisor. Not only can they help you create a personal financial strategy, but they can also provide some advice about basic strategies to help you reduce your personal tax bill each year. As your business grows, your financial advisor can also help you access resources and other professionals to help you with business incorporation, income-splitting and asset acquisition. What's even better than all having professional support in your corner? Any associated fees are tax-deductible expenses.

1. Mondaq.com: Canada: The Canadian Gig Economy: Embracing The Future Of Work

Questions about creating an effective tax strategy? Give us a call!

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