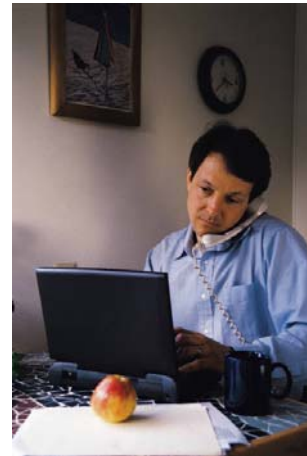


Tax Pointers for Your Canadian Home Based Business

1. Deduct your home office expenses – a percentage of your mortgage interest, insurance, maintenance and utilities may be deducted against income in certain circumstances (see page 2)
2. Hire your spouse or children to split your income – pay a reasonable salary for work performed
3. Track your expenses – set up a proper bookkeeping system and keep all your receipts – all those little deductions can add up to big tax savings
4. Keep a log book for use of your vehicle – track all those trips to deliver goods, pick up supplies, go to the bank or go to meetings – you can also depreciate a portion of the cost of your vehicle
5. Deduct your computer, internet, business long-distance and extra phone services – even if your family uses these part time, you can still claim business usage
6. Know your tax rates – managing your income and deductions is one of the best tools to manage your taxes – the more you make, the more you pay
7. Incorporate your business – if your business is large enough - in order to gain access to the low tax rate not available to individuals – an incentive provided by the government to encourage business growth
8. Register as a GST collector – you may save money by being able to claim back all the GST you pay out.
9. File all your returns on time – avoid costly penalties and interest
10. Know the rules that affect your business – don't leave things to chance – consult your VWEG tax professional.
11. Organize your finances to make your debt tax deductible – a direct link between borrowing and investing in your business means you get to deduct the interest
12. Investigate available government incentives – you may be eligible for a subsidy for labour, borrowing or spending on things like research and development.



Tax Pointers for Your Home Based Business

Home Office Expenses

In order to claim expenses for using part of your home as a place of business, you must meet one of two tests:

- (a) your home office is your principal place of business; *or*
- (b) your home office is used exclusively for the purpose of earning income from business *and* is used on a regular and continuous basis for meeting clients, customers, or patients of your business

Even if you meet one of the two above tests, your home office deduction may *not* be claimed if it *creates* or *increases* a loss from your business. However, any expenses not deductible under this rule may be carried forward and deducted against positive business income in a subsequent year.

What is maintenance?

Maintenance expenses that you can claim for your in-home business are restricted to those specifically related to the office. For example, if you pay someone to clean your office, this should be deductible, but claiming a portion of landscaping costs would not be.

Preserve your principal residence exemption

In order to protect the tax-free nature of any gain you realize on the sale of your house, you should *not* claim capital cost allowance (depreciation) as an expense, nor should you claim any structural alterations you make to your house in order to accommodate your business activities. Canada Revenue takes the position that if you do either of the above, your residence will have undergone a “change in use” on the business portion of the house, and that portion will not be eligible for tax-free principal residence status.

Additionally, you may lose your principal residence deduction on the *entire* property if CRA considers your claim for business-use of the home to be excessive. CRA has considered claims of 40% to 50% excessive in certain cases.

Know your bylaws

Most cities or municipalities impose restrictions on home-based businesses. For example, the city of Surrey BC imposes the following restrictions on single-family dwellings and duplexes:

- The amount of space that may be used in a residential building is limited to 25% of any one floor or accessory building or structure.
- Persons other than family members are prohibited from working in a residential based business
- No goods may be displayed or sold on the premises
- No evidence of the home occupation, including storage of materials or illuminated signs, may be visible from outside the confines of the dwelling



PST Implications

Residences are normally exempted from paying Provincial Sales Tax on electricity and natural gas. However, if you operate a business from your home, British Columbia provincial regulations require you to pay PST on the business portion of electricity and natural gas costs. If you are a registered vendor, you must self-assess this tax and add it to your remittances. Otherwise you have to send the amount in separately.