

Taxes and the Independent Artist

Personal Income Tax and GST/HST matters

Presented by:

Carol DeMone, CPA, CA

Wendy Wong, CPA, CA

February 28, 2018

Welcome

- Our participants
- GGFL, LLP

Personal Income Tax

– Carol DeMone, CPA, CA

GST/HST

– Wendy Wong, CPA, CA

DISCLAIMER

The information provided in this presentation is intended for general purposes only. Care has been taken to ensure the information herein is accurate; however, no representation is made as to the accuracy thereof. The information should not be relied upon to replace specific professional advice.

Taxes and the Independent Artist

Personal Income Tax

Presented by:

Carol DeMone, CPA, CA

February 28, 2018

Personal Income Tax

- Income sources
- Deductible expenses
- Administrative matters

Income Sources

Possible income sources for an independent artist:

- Self-employment (Invoiced and/or T4A slip)
 - Performance/composition
 - Teaching
- Scholarships/Bursaries/Fellowships/Grants/Prizes and Honorariums (T4A box 105)
- Royalties (T5 box 17)
- Foreign-source income
- Other

Record keeping is key!

Deductible Expenses

Self-employment expenses

T2125: Statement of Business or Professional Activities:

- Advertising
- Meals/Entertainment (50%)
- Membership dues
- Office expenses
- Supplies
- Accounting fees

Deductible Expenses

Self-employment expenses (continued)

- Professional development (courses or lessons)
- Rent (e.g. studio)
- Travel (business portion)
- Utilities: cell phone (business portion)
- Vehicle expenses*
- Equipment-related*
- Home-office *

*Separate slide

Deductible Expenses

- Vehicle expenses
 - Operating costs
 - Fuel, oil, routine maintenance
 - Insurance, CAA
 - License and registration
 - Car loan interest (capped)
 - Leasing cost (capped)
 - Capital cost allowance
 - Depreciation (Class 10 or 10.1, 30% DB)

Deductible Expenses

- Vehicle expenses (continued)
 - Travel log book essential!
 - Business kilometres driven vs
Total kilometres driven in the year
 - Business portion % of total expenses deductible
 - Document business purpose

Deductible Expenses

- Equipment-related
(e.g. Musical instrument)

Deductible:

- Rental
- Repairs and maintenance
- Insurance
- Storage

Capitalize:

- Tax depreciation
(capital cost allowance)
- Class 8, 20% p.a.
(declining balance)
- Not permitted on
equipment > 100 yrs old!

Deductible Expenses

- Home office

- Part 7 of T2125: business-use-of-home expenses
 - Utilities (heat/hydro/water)
 - Home insurance
 - Mortgage interest
 - Property taxes
- Business portion: square footage but consider time used
- Cannot create a business loss
- Carryover undeducted portion of eligible home office

Administrative Matters

- Keeping records
- Compliance
- Due dates
 - Personal income tax return due June 15
 - However, any income tax owing due April 30

Administrative Matters

Resources

- CRA website: canada.ca/en/taxes
- CRA's "My Account" for your on-line records
- T4002: Business and Professional Income Guide
- IT-504R2: Visual Artists and Writers (archived)
- IT-525R: Performing Artists (archived)

Taxes and the Independent Artist

An Introduction to GST/HST

Presented by:

Wendy Wong, CPA, CA

February 28, 2018

GST/HST Basics

- What is GST/HST?
- Do you need to register?
- What GST/HST rate to charge?
 - Invoicing requirements
- What is an input tax credit (ITC)?
- GST/HST return
 - Regular vs. Quick Method

What is GST/HST?

- Value-added tax (VAT)
- Consumption tax assessed on the value added to goods and services
 - Ultimately borne by the final consumer
 - Not a charge on businesses
- Applies to all commercial activities involving the production and distribution of goods and the **provision of services**
 - Tax is paid only on the value added at each stage
 - Double tax is avoided

Do you need to register?

Taxable and Zero-rate supplies

- NO: Small supplier, < \$30K in four consecutive quarters
- YES, Mandatory
 - Exceed \$30K in a single quarter or
 - Exceed \$30K within 4 consecutive calendar quarters
- Voluntarily registration

IF only providing Exempt supplies – CANNOT register for GST/HST

Do you need to register?

Exempt supplies:

- Tutoring and music lessons
 - To an individual
 - In a course that is approved for credit by a school authority
 - “Supply by supply” basis (Refer to GST/HST Policy Stmt P-233)
- Do not charge GST/HST on exempt services

Taxable supplies:

- Lessons that are purely recreational in nature
- Charge GST/HST, if registered

Do you need to register?

Royalties

- Intangible personal property (IPP)
 - Contractual rights, Intellectual property, Rights to acquire a membership, and Rights in relation to goods that are not in the possession of a person
- Generally **Taxable Supplies**
- Received from outside of Canada will not be subject to GST/HST
- Received from Access Copyright
 - Exempt under the *Tax Act for Artists' Representatives*
 - Payments do not include GST or HST

Do you need to register?

Grants and subsidies:

- **Direct link** between payment and supply provided, payment regarded as consideration for the supply, therefore **taxable**
- No direct link, **public purpose**, not taxable

Do not include non-taxable grants and subsidies in small supplier threshold

If registered for GST/HST, non-taxable grants and subsidies does not affect entitlement to claim ITCs (unlike exempt supplies)

Do you need to register?

How to register for a GST/HST business number (BN)

- Online
 - CRA website
- Call CRA at 1-800-959-5525
- Mail or fax form RC1
 - Sudbury Tax Centre, PO Box 20000, Station A, Sudbury ON P3A 5C1
 - Fax: 1-855-276-1529

With Online or Call option, review or complete form RC1

Pay attention to sections that ONLY relate to GST/HST

Do you need to register?

Things to consider:

- Are you *associated* with another persons?
 - Associated means **control**, E.g. Individual shareholder and its corporation
 - Need to include their taxable supplies in small supplier threshold
- Effective date of registration
 - Date required to start collecting GST/HST
- Reporting period, filing frequency
 - Annually, quarterly or monthly
- Fiscal year
 - Default Dec 31

What rate of GST/HST to charge?

Place of supply rules

- Goods
 - Legal delivery to the recipient
- **Services**
 - General rule: Province or territory in the address of the recipient
 - Overriding rule: *In relation to* goods, real property, **location-specific event** and others
- Real property
- Intangible personal property
 - Primarily used (> 50%)

What rate of GST/HST to charge?

Services in relation to a **Location-specific Event**

- A performance, festival, ceremony, convention, conference, symposium or other similar event
- Service will be performed primarily (more than 50%) at a location of the event in a province

E.g. QC company provides lighting at a gala in ONT for a client located in AB. Supply will be subject to 13% HST, ONT rate, where gala took place.

What rate of GST/HST to charge?

Province	On or after October 1, 2016	July 1, 2016 to September 30, 2016	April 1, 2013 to June 30, 2016
Alberta	5%	5%	5%
British Columbia	5%	5%	5%
Manitoba	5%	5%	5%
New Brunswick	15%	15%	13%
Newfoundland and Labrador	15%	15%	13%
Northwest Territories	5%	5%	5%
Nova Scotia	15%	15%	15%
Nunavut	5%	5%	5%
Ontario	13%	13%	13%
Quebec	5%	5%	5%
Prince Edward Island	15%	14%	14%
Saskatchewan	5%	5%	5%
Yukon	5%	5%	5%

Invoicing Requirements

- Supplier's business name
- Supplier's business number (RT account)
- Date of invoice
 - Date tax is paid or payable
- Total amount paid or payable
- Total amount of GST/HST charged
- Recipient name and **address**
- Brief description of services
 - Especially if applying GST or HST in relation to a location-specific event

What is an ITC?

- Recover GST/HST paid on inputs, purchases and expenses related to commercial activities
- Only available to **Registrants**
- Must be Reasonable and have a Business-purpose
- Sufficient documentation
- Claimed within time limit, usually 4 years

What is an ITC?

Things to consider:

- Recipient name
- Invoices / receipts
 - Not acceptable: emails, credit card statements, statement of accounts, quotes/estimates etc.
- Valid GST/HST registration number
- Business purpose should be documented
- Limitations when 100% cannot be claimed
 - Meals and entertainment (50%)

What is an ITC?

Limitations when 100% cannot be claimed

Providing both taxable and exempt supplies

- If exempt revenue is more than 10% of total revenue, on shared operating expenses, need to apportion HST paid
 - Claim ITC based on % used in commercial activities
 - Method should be consistent and reasonable

Both Business- and Personal-use

- Home office expenses
- Cell phone

What is an ITC?

Limitations when 100% cannot be claimed

Capital assets

- If used primarily (more than 50%) in commercial activities, eligible for 100% ITC
 - Less than 50%, no ITC available

Vehicles

- 90% or more, 100% ITC
- Between 10% and 90%, 13/113 x CCA claimed
- Less than 10%, No ITC

Form T2125

Statement of Business or Professional Activities

If you are an HST registrant, enter your business number in the ID section (1234 56789 RT0001)

HST filing method will impact how the amounts are entered:

- **Non-registrant:** No HST on revenues; Expenses and Capital additions include HST
- **Regular:** Enter Revenues, Expenses, and Capital additions without HST
- **Quick:** Revenues include HST less HST amount remitted to CRA; Expenses include HST; Capital additions without HST

GST/HST Returns

Regular Method

- Remit GST/HST collect on taxable sales (HST 13% in Ontario)
- Claim Input Tax Credits (ITCs) on GST/HST paid on expenses/capital assets

GST/HST Returns

Quick Method

- Taxable sales < \$400,000 (including zero-rated sales and associated companies sales)
- Have to file **Election** form GST74 (on or before the end of the 1st quarter)
- Reduced remittance rate of 8.8% (PE in Ontario), less 1% credit on first \$30,000
- ITCs only on capital assets purchased; NO ITCs on expenses
- HST not remitted to CRA (13% less 8.8%) is included in income

Ref. CRA Guide RC4058

Differences in Filings

Regular Method:

- Line 101, Total sales
 - Total sales EXCLUDING GST/HST charged
 - Include zero-rated and exempt sales
 - Should agree to tax return
 - E.g. T1 T2125 revenue

Quick Method:

- Total taxable sales INCLUDING GST/HST charged
- Do NOT include zero-rated or exempt sales
- Will not agree to tax return

Differences in Filings

Regular Method:

- Line 103
 - GST/HST collected
 - Line 101 x 13% ON HST
- Line 106, ITCs
 - HST recovery on ALL expenses and capital asset purchases

Quick Method:

- 8.8% (in ON) on taxable **services** plus HST
- For a simple company, Line 103 = Line 101 x 8.8%
- ITCs only on capital asset purchases

Differences in Filings

Regular Method:

- Line 107, Adjustments
 - Typically nothing recorded
- Line 110, Instalments
 - Same

Quick Method:

- 1% credit on first \$30,000

NOTE: always put credit on Line 107, do not report on Line 106

NOTE: If sales are under \$30,000, the credit is less than \$300. Unused \$300 credit in a fiscal year not available for next year

GST/HST Returns - Instalments

- Net tax for a fiscal year is \$3,000 or more, required to make quarterly instalments payments throughout the following fiscal year
 - Net tax = HST collected less ITCs claimed
- Generally quarterly instalments equal $\frac{1}{4}$ of prior year net tax
- Instalment payment due one month after the end of each quarter, E.g. Q1 (Jan to Mar) due Apr 30
- Recommend making payments on-line banking to avoid late interest charges
- CRA will NOT issue reminder notices, but will assess late instalment interest if not paid

GST/HST Returns

Due date

- Annual, Individual with Dec 31 year end
 - Filing deadline June 15
 - Payment deadline April 30
 - Same as T1 tax return
- Quarterly filer
 - Filing and payment due one month after end of the reporting period
 - E.g. Q1 (Jan to Mar) due Apr 30

How to correct a GST/HST return?

- If it results in no change or an increase to net tax, request can be made through “My Business Account” or in writing to the tax centre
- If it results in a net refund, E.g. missing ITCs can be claimed in the next reporting period, or other reasons likely in writing

How to correct a GST/HST return?

Writing to CRA

- Include Business name, BN (RT account), and affected reporting period
- Brief description of adjustment request
 - Use simple and direct language
- Include supporting documentation, if available
- Keep a copy for your records

Questions?

For more information, contact GGFL:

(613) 728-5831

info@ggfl.ca