

What Business Expenses Can I Use?

What Are Business Expenses?

A business expense is a cost you incur for the sole purpose of earning business income. You must back up business expense claims with a sales invoice, agreement of purchase and sale, a receipt, or some other voucher that supports the expenditure. So, if you pay cash for any business expenses, be sure to get receipts or other vouchers. Receipts should include the vendor's name and the date.

Remember to keep your cancelled cheques if you receive them from the bank. This is one part of your proof that the bill was paid or the asset purchased. Keeping the cancelled cheques organized will make it easier for you to retrieve information.

Running a Business From Your Home

You can deduct expenses for the business use of a workspace in your home, if the workspace is either:

- your principal place of business
- you use the space only to earn your business income, and you use it on a regular and ongoing basis to meet your clients or customers.

You can deduct a portion of your maintenance costs, such as heating, home insurance, electricity, and cleaning materials. You can also deduct a portion of your property taxes, mortgage interest, and capital cost allowance (depreciation). To calculate the portion you can deduct, use a reasonable basis, such as the area of the workspace divided by the total area of your home. For example, if your workspace were 15% of the total square footage of your home, you would expense 15% of all relevant costs.

Types of Operating Expenses

Here are some examples of expenses you may be able to deduct. For the most current information, check with the Canada Revenue Agency at www.cra-arc.gc.ca.

Personal or Living Expenses

In most cases, you cannot deduct personal and living expenses, except for traveling expenses you incur while away from home in the course of carrying on a business.

The general rule is that you cannot deduct costs that aren't related to earning business income.

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Prepaid Expenses

A prepaid expense (such as insurance) is an expense you pay ahead of time. If you use the accrual method of accounting, claim any expense you prepay in the year or years in which you receive the related benefit.

Accounting and Legal Fees

You can deduct the accounting and legal fees you paid to get help preparing and filing your income tax return. You can also deduct the legal fees you may have paid to file an objection or appeal of an assessment of tax, interest or penalty.

Advertising Expenses

You can deduct expenses for advertising. This includes printed materials, ads in Canadian newspapers, and on television or radio.

However, you cannot deduct expenses for advertising directed mainly to a market in Canada when you advertise:

- with a foreign broadcaster
- in an issue of a non - Canadian newspaper or periodical.

This second restriction does not apply to ads in a special issue of a newspaper published twice a year or less, and devoted to news or features mainly about Canada.

Business Tax, Fees, Licenses, and Dues

You can deduct any annual license fees and business taxes you incur to run your business.

You can also deduct annual dues or fees to keep your membership in a trade or commercial association. You cannot deduct club membership dues (including initiation fees) where the main purpose of the club is to provide dining, recreational, or sporting facilities for its members.

Insurance Expenses

You can deduct all regular commercial insurance premiums you incur on any buildings, machinery, and equipment that you use for your business.

Interest and Bank Charges

You can deduct the interest you incur on money you borrow to run your business. However, there are some limits.

There is a limit on the interest you can deduct on money you borrow to buy a passenger vehicle.

There is also a limit on the amount of interest you can deduct for vacant land. You can choose to write off the interest you pay on the money you borrow for the following purposes:

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- to buy depreciable property
- to buy a resource property
- for exploration and development.

In the case of exploration and development, when you choose to expense interest, you add the interest to either the cost of the property or the exploration and development costs. Do not deduct the capitalized interest as a current expense.

Maintenance and Repairs

You can deduct the cost of labour and materials for any minor repairs or maintenance done to property you use to earn income. You cannot deduct the value of your own labour.

You cannot deduct costs you incur for repairs that are capital in nature. However, you may be able to write off a portion of those repairs each year.

Meals and Entertainment

You can deduct up to 50% of the cost of meals and entertainment that you incur to earn income in your business.

The 50% limit also applies to the cost of your meals when you travel or go to a convention, conference, or similar event. However, special rules can affect your claim for meals in these cases.

Motor Vehicle Expenses

You can deduct expenses you incur to run a motor vehicle that you use to earn business income. However, several things can affect your deduction.

What kind of vehicle do you own?

The kind of vehicle you own can affect the expenses you deduct. For income tax purposes, there are three types of vehicles.

1. **Motor vehicle** - Any automotive vehicle designed or adapted for use on highways and streets.
2. **Automobile** - A motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers.
3. **Passenger vehicle** - An automobile you bought after June 17, 1987. A passenger vehicle is also an automobile that you leased under a lease you entered into, extended, or renewed after June 17, 1987.

With certain exceptions, most cars, station wagons, vans, and some pick-up trucks are considered passenger vehicles. If you own or lease a passenger vehicle, there may be a limit on the amounts you can deduct for capital cost allowance, interest, and leasing costs.

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How to record motor vehicle expenses

You can deduct motor vehicle expenses only when they are reasonable and you have receipts to support them.

To get the full benefit of your claim for each vehicle, keep a record of the total kilometers (with dates) you drove, and the kilometers you drove to earn business income. Be sure to write down the odometer reading of each vehicle at the start and end of the year. If you change motor vehicles during the year, write down the odometer reading at the time you buy, sell, or trade the vehicle.

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What kind of vehicle expenses can you deduct?

The types of expenses you can deduct include:

- fuel and oil
- insurance
- leasing costs
- maintenance and repairs
- license and registration fees
- capital cost allowance (depreciation)
- interest you pay on a loan used to buy the motor vehicle

Joint ownership

If you and another person own or lease a passenger vehicle together, the limits on capital cost allowance, interest, and leasing still apply.

Business use of a motor vehicle

If you use a motor vehicle for both business and personal use, you can deduct only the portion of the expenses that relates to earning income.

To support the amount you deduct, keep a record of both the total kilometers you drove, and the kilometers you drove to earn income. The following chart shows you how to keep this type of record.

Marc owns a stereo retail business and has a van that he uses for the business. In keeping his records, Marc wrote down the following information for the current year:

Kilometers driven to earn business income	27,000
Total kilometers driven	30,000
Gas and oil	\$2,400
Capital cost allowance	4,500
Insurance	800
License and registration fees	100
Maintenance and repairs	<u>200</u>
Total expenses for the van	\$8,000

Marc calculates the expenses he can deduct for his van in the current year as follows:

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$\frac{27,000 \text{ (business kilometers)}}{30,000 \text{ (total kilometers)}} \times \$8,000 = \$7,200$

Note: When you use more than one motor vehicle to earn income, calculate each vehicle's expenses separately.

Interest expenses on vehicle loans

You can deduct interest on money you borrow to buy a motor vehicle, automobile, or passenger vehicle that you use to earn income.

Include the interest as an expense when you calculate your allowable motor vehicle expenses. However, when you use a passenger vehicle to earn income, there's a limit on the amount of interest you can deduct.

Vehicle leasing expenses

You can deduct the leasing costs of a motor vehicle that you use to earn income.

Include the leasing costs when you calculate your allowable motor vehicle expenses. However, when you use a passenger vehicle to earn income, there is a limit on the amount of the leasing costs you can deduct.

Note: Most leases do not include items such as insurance, maintenance, and taxes. You have to pay these amounts separately. Therefore, list these expenses separately when you calculate your allowable motor vehicle expenses.

Office Expenses

You can deduct office expenses you incur to earn income. An office is defined as a business office or property that is outside the home you live in.

The following types of office expenses are deductible for your business office or property:

- heat
- electricity
- insurance
- mortgage interest
- property taxes/ rent
- telephone
- water

Salaries, Including Employer's Contributions

You can deduct salaries you pay to employees. You report these salaries by the end of February on a T4 or T4A Supplementary slip.

Can You Deduct Business Start - up Costs?

To be able to deduct a business expense, you have to have been carrying on a business in the fiscal period in which the expense was incurred. Because of this, you have to be very clear about the date your business started.

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This worksheet is a general overview of what expenses may be applicable to your business. For more detailed, current information, make sure to talk to an accountant or bookkeeper. You can also check the Canada Revenue Agency's website at www.cra-arc.gc.ca