

## 4.5 Self-Employed?

Focus: filing income tax, record keeping, hiring a professional

Warm Up	
<p><b>1. a)</b> Hydro costs \$135 per month. Estimate the annual total cost.</p> <p>_____</p> <p><b>b)</b> Estimate the sales tax on a \$1400 washer and dryer set.</p> <p>_____</p>	<p><b>2.</b> A news report says, "Over 90% of all new businesses go bankrupt within 5 years." Express this probability as a</p> <p><b>a)</b> fraction _____</p> <p><b>b)</b> decimal _____</p>
<p><b>3.</b> Estimate the weekly earnings for someone earning \$20 000 per year. _____</p>	<p><b>4.</b> How many times in 1 year would you pay a bill that is due every 3 months? _____</p>

### Benefits of Being Your Own Boss

- It is hard work to be self-employed, but you can claim expenses related to your business to reduce taxable income.
- Most people who are self-employed hire a professional to help them with planning, record keeping, and filing tax returns.

**1.** Jen is a self-employed hairstylist. Her shop is part of the ground floor of her house. She uses a bookkeeper to help her manage the business.

**a)** Jen's business takes up about 25% of the living space of her home. Therefore, she can claim  $\frac{1}{4}$  of some house expenses as business expenses. Check off the house expenses that you think she can claim.

- |   |                                       |  |
|---|---------------------------------------|--|
| <input type="checkbox"/> groceries      | <input type="checkbox"/> electricity  | <input type="checkbox"/> heating         |
| <input type="checkbox"/> telephone      | <input type="checkbox"/> alarm system | <input type="checkbox"/> Internet access |
| <input type="checkbox"/> water          | <input type="checkbox"/> cable TV     | <input type="checkbox"/> property taxes  |
| <input type="checkbox"/> home insurance | <input type="checkbox"/> clothes      | <input type="checkbox"/> meals out       |



Jen collected the following data about her house expenses.

- The gas bill comes every month. The gas bills for the first 3 months of the year were \$177, \$247, and \$163.
- The electricity bill comes every other month. February’s bill was \$320.
- The water bill comes quarterly. The bill due in March was \$355.
- There are 2 phone lines in Jen’s house. One line is for the shop. Her monthly phone bill is about \$90.
- The alarm system bill is directly withdrawn from Jen’s account every month. The bill for last month was \$42.
- Home insurance is \$55 per month.
- The property taxes are paid semi-annually. The annual bill is \$2490.

**Hint:** How much is the expense for 1 month?

**b)** Set up a spreadsheet to record these expenses for 1 year. You will need to estimate the expenses for the rest of the year.

- Total each row so Jen will know her monthly expenses.
- Total each column for a total of the annual expense for each item.
- Title the spreadsheet **20**\_\_\_\_. Use a row for each month.

Refer to **Tech Tip: Using a Spreadsheet** on page 64 for help with entering a formula.

You might use the following headings.

	A	B	C	D	E	F	G	H	I
<b>1</b>		<b>Gas</b>	<b>Electricity</b>	<b>Water</b>	<b>Phone</b>	<b>Alarm</b>	<b>Home Insurance</b>	<b>Property Tax</b>	<b>Total</b>
<b>2</b>	<b>Jan</b>								

**2.** Jen brainstormed a list of expenses that are 100% related to her business.

- furniture
- hairstyling
- appointment chair
- appointment book
- scissors
- combs
- hairspray, gel, and mousse
- hair colour
- broom
- advertising
- washer and dryer
- towels
- shampoo
- smocks
- cash register
- electric shears
- curling irons
- hair dryer
- business cards
- cleaning supplies
- curlers

Use Jen’s list to set up a second page on the spreadsheet from #1.

- The spreadsheet should allow Jen to record her business expenses for 1 year.
- Title the page Business Expenses.



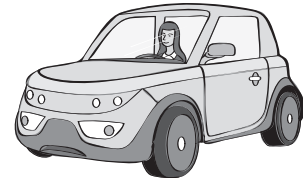
- 3.** Eventually items wear out and need to be replaced. The washer and dryer are 13 years old. Jen plans to replace them in 1 year.
- a)** Research the cost of a washer and dryer from a local retailer.

Appliance	Brand and Model	Price	Tax	Total Cost
• Washer	_____			
• Dryer	_____			

- b)** How much should Jen save per week so that she can pay cash for the washer and dryer in 1 year?

- 4.** Jen’s bookkeeper suggested that the business pay a mileage allowance whenever she drives her car for business reasons.

- Last week, Jen made deposits to her bank twice. The bank is 4.7 km from her house.
- Also, last week, Jen drove to an office supply store and to a wholesale store where she bought cleaning supplies. This trip was 17.3 km.



- a)** Calculate the amount that should be reimbursed to Jen’s business if the mileage allowance is 52¢/km.

- b)** Set up a third page on the spreadsheet. Use it to record the following:

- date of travel
- reason for travel
- distance
- reimbursement amount

- c)** Enter the data from #4 into the spreadsheet. Use the spreadsheet to confirm your answer to part a).

**Hint:** You need to enter 2 formulas.

- Enter a formula to calculate the amount per trip.
- Enter another formula to determine the total amount.

- Jen deposits all of her income into 1 bank account.
  - She pays all of her bills with 1 credit card.
  - She is responsible for collecting and remitting HST.
  - She has no payroll deductions.
5. Jen’s schedule varies from day to day. Therefore, her weekly income can vary from week to week. Her average monthly income is between \$2000 and \$3000. She complains that when she files her annual tax return she always has to pay. Her bookkeeper determined that Jen’s taxable income last year was about \$19 000.

For the CRA payroll deductions online calculator, go to **www.mcgrawhill.ca/books/workplace12** and follow the links.

- a) Go to the CRA payroll deductions online calculator. Use the calculator to determine the amount that would be deducted from Jen’s weekly income if she were a regular employee. Since she is self-employed,
- do not deduct EI
  - double the amount for CPP

What is the amount? \_\_\_\_\_

Self-employed people also have to pay the employer’s portion of CPP.



- b) Based on the answer to part a), what suggestion could you make since Jen is concerned about her tax bill at the end of every year? \_\_\_\_\_

- Jen needs to keep accurate business records that show her annual income and business expenses.
- She will use her records to complete a statement of business activities.
- Then, she can use the T1 form to file her business taxes as part of her personal income tax return.



### ✓ Check Your Understanding

1. Jen can either keep records and file her own tax return or hire someone to do these tasks. What are the advantages of hiring a bookkeeper or an accountant to file a tax return for a self-employed person?

\_\_\_\_\_

\_\_\_\_\_