

MODULE ELEVEN: BOOKKEEPING

The Highlights

Keeping records

Records of income and expenditures tell you where you are now, and help you to plan the future. Detailed records, presented in proper form, are required if you are incorporated. But simpler formats can be used by self-employed small businesspeople, such as artists, to keep track of their finances and to satisfy CRA requirements. Accurate records are essential tools in managing your career.

An accountant or a bookkeeper can do your record-keeping for you, at a price. Some companies even specialize in bookkeeping, budgets, and cash-flow projections for artists. You still have to collect the paperwork for your paid helper, so you may decide that you might as well do the rest of the job yourself. Check out the options for how to keep your own books in TAMYC, pp. 93-94. Talk to fellow professionals to find out what financial record-keeping systems they use. People love to share this sort of expertise. Talk to your professional association as well.

All accounting methods and accounting programs boil down to recording how much money moves, when it moves, where it comes from, where it goes, and for what purpose that movement takes place. Whether it's a year-by-year record of your life, or the finances of a project, with care and patience you'll get a more realistic picture by keeping more thorough financial records. By knowing how the finances played out during a previous similar project, you'll be able to see more clearly when you need financial help, a larger advance, a grant, a sponsor, a loan, or how much to charge for your services.

GST/HST

Most commercial transactions in Canada are subject to GST at a rate of 5% in 2009. Every individual holding a GST registration number is required to collect GST at the prescribed rate on all revenues generated during the year. However, if you are a GST registrant, you can claim credits for all the GST that you paid to purchase goods and services related to your commercial activities; these credits are called Input Tax Credits.

You must fill out and submit to Canada Revenue Agency a GST declaration on a regular basis that shows your income on which GST was charged and the amount of GST you collected and paid. The difference between GST collected and paid is either remitted to Canada Revenue Agency or refunded to you.

You must register, collect and report on GST if you gross over \$30,000 from self-employment over a period covered by four consecutive quarters. The Canada Revenue Agency (CRA) website provides information on how to register, different methods for reporting GST: www.cra-arc.gc.ca.

THE HOMEWORK

Bookkeeping Simplified

This is the Cole's Notes version of how to set up your books for income tax made easy for your individual books – you the artist. For setting up your company's books, and more extensive information, read Money – Keeping Track.

Record Keeping Layout

1. **Date:** If it's a week or so long, show duration.
2. **Item** – what generated the income or expense, where you went, what your expense was, if you had a meeting, with whom and why.
3. **GST paid** – if you have a GST number
4. **GST rec'd** – if you have a GST number
5. **Income** – convert to CDN dollars – show conversion rate. Includes sales, gig and session work, teaching income, royalties and mechanicals – in short, all self-employed business income.
6. **Mileage** – actual kms. traveled to and from gig to your home. At the start of the year note your auto's mileage and then again at the end of the year. The total kms. traveled for work divided by the total kms. traveled in the year gives you the % you are allowed to deduct of your **total fuel, auto repairs, driver's license, auto plates and insurance, CAA**, etc. Alternately, you can write off the current govt. mileage rate on all the miles you traveled – i.e. \$.45 per kilometer in 2007. You could not then depreciate your vehicle.
7. **Food** – you can only claim 50% - so total and then use 50% on your income tax. Add in your tips. **If, for example, you want to pay your band member's meals, give them a per diem instead as you can deduct 100% of the per diem.**
8. **Gas** – the total fuel consumption of the vehicle for the year. If other people use your car, you may need to make this actual fuel consumed for that gig.
9. **Travel** – hotel, airfare, taxis, parking, etc.
10. **Side Player/Employee** – if you hire anyone to play with you or assist you
11. **Management** – any management or agency fees you pay
12. **Art Supplies** – any supplies used in the production of your work.
13. **Admin.** – Any administration costs relevant to your business – computer paper, work visa costs, mailing costs, etc. I also put business licenses/professional assoc. fees or dues such

as MARIA or CARAS, etc. in this column. You can put these in a separate column if you like.

14. **Manufacturing** – any costs you pay another company for production of your product. (If you incorporate, you may choose to have this column in your company's books)
15. **Accessories** – anything you need to do your job – like guitar strings, etc. Here you can list repairs to your equipment. This can also include CD's purchased to practice from or learn new songs, blank CDR's, sheet music, industry related magazines, etc. Any large expenses, like a guitar, are put in under capitol cost allowance and a portion can be written off each year. Generally, any cost over \$500 goes to CCA.
16. **Costume** – those clothes that are only worn on stage and could not be deemed street wear.
17. **Makeup** – this includes stage makeup and hairdressing expenses related to the stage
18. **Dry-cleaning** – laundry and dry-cleaning costs on the road.
19. **Promo** – any promotion costs – such as printing flyers, photos, publicist fees, advertising, web site costs, etc.
20. **Rental** – any rental costs relevant to the gig such as sound system rental.
21. **Vehicle Repairs** – all vehicle repairs that then can be deducted as per number 6 - % of vehicle usage over the year.
22. **Training** – any specific training or lessons relevant to your work that you take to develop your skills
23. **Union** – any union dues or work tax payable.
24. **Pension** – All pension payments are directly deductible from income.

Other allowable expenses:

Accounting. This includes your accountant's fees and any legal fees that are business related (not speeding tickets!)

Telephone – separate out business calls. Again, you can claim the GST if you have a number.

Office/rehearsal space allowable. Figure out the % of your house's square footage that your office/rehearsal space takes up and this % can then be used to deduct that % of your household expenses – i.e. rent or taxes, interest on mortgage, utilities, cleaning, etc. You can also deduct any rent you pay for outside rehearsal or office space. If you do repairs specifically to that space you can deduct them, or, a portion of repairs to the whole house that affect that space – i.e. roofing. This can include a bathroom as this is necessary for an office.

Child care expenses – when child care was needed while you pursued business activities

Interest paid on loans taken out for business purposes

Capitol Cost Allowance

There are three categories.

- a. Vehicle – 15% in year on and then 30% in each subsequent year**
- b. Computer – after Feb 2009 to Jan 2011 – 100% - 50% in first year and the other 50% in next year**
- c. Accessories over \$500. – 20%**

Mileage logs - Keep One In Your Car!

Used to determine your business use percentage of your vehicle and should include the date, destination, and business purpose of the travel.

| Date | Odometer Reading start | Odometer reading end | Mileage | Client / customer | Business purpose |
|--------|------------------------|----------------------|---------|-------------------|------------------|
| Jan 1 | 1000 | 1005 | 5 | D. Nicholson | Tax return |
| Jan 2 | 1020 | 1030 | 10 | Concert hall | Performance |
| Jan 12 | 1050 | 1070 | 20 | Staples | Get supplies |
| | | | | | |
| Total | | | 35 | | |

Business use $35/70 = 50\%$

Inventory – the cost of inventory is not deductible (except for visual artists) until it is sold. Inventory must be valued at the lower of cost or market value. Cost includes all costs – i.e. shipping, manufacturing, production. This applies to all merchandise – i.e. CD's, T-shirts, hats, etc.

Money — Keeping Track

Artists have always been able to handle the business side of life.

Michelangelo ran a veritable art factory, and his correspondence is full of complaints about his staff. **Shakespeare**, who thought of himself as a poet, made enough from producing plays to buy his father a grant of arms.

Bare Naked Ladies looked for unique marketing and promotion opportunities wherever they could find them. In their early years, they recorded a video clip of “Be My Yoko Ono” in a tiny “Speaker’s Corner” booth and hand-sold their demo, “Yellow Tape,” which became the first indie recording to reach platinum status in Canada. They also developed fan cruises, sought film and television tie-ins, and made their music available online on many websites, including their own highly-interactive site.

Knowledge is power, but money gives you time and freedom – both of which allow you to concentrate on what you really want to do.

After the success of her third album, *Loose*, **Nelly Furtado** parlayed her international reputation into opportunities in television and gaming, including *CSI: NY* and *Max Payne*.

Most people work to make enough money to take time off work. Artists and cultural workers are luckier. Our work is our fulfillment. We enjoy what we do so we don’t need to regularly escape from our careers. Cultural workers may not put money first, but that doesn’t mean we can ignore it completely. **If you’re a self-employed artist, you’re running a business.** That’s a simple fact that you need to accept, get used to, and then rise to the challenge of making the business work. It isn’t going to be easy either. Most small businesses fail within five years, half fail in only two years. Although there are many reasons for these failures, financial mismanagement is high on the list. This module will help you avoid the many pitfalls that derail most small businesses and, by the same token, most self-employed cultural careers.

For the latest information on self-employment, income tax, GST/HST, and anything else related to income and taxes, your best source for information is the Government of Canada’s Canada Revenue Agency: www.cra-arc.gc.ca.

Remember the Golden Rule – He who has the Gold makes the Rules. Anyone controlling money looks for evidence that you have similar skills. If knowing how to present good-looking, accurate, financial statements will get you a loan, or a business partner, or a grant, it’s a skill worth having or developing.

There are two reasons for actively managing your finances:

Because you have to – the funding body needs a budget; Canada Revenue Agency (CRA) requires documentation of your income and expenses, – and **because you really should.**

The earliest writing was **Sumerian** clay records of harvest volumes and grain stores. The Sumerians realized that planning their future depended on knowing what they had today and what they needed tomorrow. Their meticulous record-keeping averted grain shortages that could have resulted in mass starvation. You won't have to be the starving artist or cultural worker either if you control your finances. **Instead, you will be in charge of your career and able to prosper from it.**

WHAT'S THE BEST WAY TO KEEP FINANCIAL RECORDS?

Whatever works for you.

Records of income and expenditures tell you where you are now, and help you to plan the future. Detailed records, presented in proper form, are required if you are incorporated. But simpler formats can be used by self-employed small businesspeople, such as artists, to keep track of their finances and to satisfy CRA requirements. Accurate records are essential tools in managing your career.

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Method 1 is better than no method at all. How does it work? You just keep all your receipts to prove your expenses and whatever paperwork helps record your income. This method, at an absolute minimum, allows you to know what you received and what you paid out. That information explains your profit or loss. Of course, at the end of the project, or the end of the year when you sit down to fill out your income tax forms, you'll have a heartbreaking pile of paper.

Method 2 is a bit better than Method 1, enough probably to keep the tax man off your back, but basically useless for any planning purposes. Here you sort out the paperwork as you go. Your project's Action Plan (see Chapter Three) will suggest a list of types of expenses, otherwise look at the categories in the Tax section of this chapter and choose those that fit. Label sections of an accordion folder, envelopes in a box, or boxes on a shelf. Store your receipts and your income paperwork in their respective categories. At the end of the project, or at the end of your fiscal year, you have small piles of sorted receipts and income records to work with.

Method 3 a refinement of Method 2, provides more detailed records that can be analyzed as you go along. List your expenses and income as you put them in their storage.

| Date | Details | Income | Expense |
|---------------------|----------------------------|---------|----------|
| 01/01/08 | Second-hand bicycle | | \$73.76 |
| 30/01/08 | Sale of "It's Not A Horse" | \$479 | |
| | | | |
| Year to date | | \$1,789 | \$657.97 |

Method 3a is one tiny step more that will make your financial records even more useful. List your income and expenses separately by categories. Use a different record page for each category, and use a simple computer book-keeping program as Excel or Simply Accounting. Or buy a columnar pad. You'll have more columns than we have room to lay out in full.

| | Income | | Expenses | | | |
|---------------------|----------|---------|-----------|----------|----------|----------|
| Date | Sales | Teach | Advertise | Office | Supplies | Travel |
| 01/01/08 | | | | | | |
| 30/01/08 | | | \$27.90 | | | |
| 23/11/08 | \$134 | | | | | |
| 17/12/08 | | \$456 | | | | |
| | | | | | | |
| Year to date | \$456.78 | \$4,456 | \$234.56 | \$678.90 | \$848.90 | \$112.56 |

INCOME EXPENSE

Date Sales Teach Advertise Office Supplies Travel

All accounting methods and accounting programs boil down to recording how much money moves, when it moves, where it comes from, where it goes, and for what purpose that movement takes place. Whether it's a year-by-year record of your life, or the finances of a project, with care and patience you'll get a more realistic picture by keeping more thorough financial records. By knowing how the finances played out during a previous similar project, you'll be able to see more clearly when you need financial help, a larger advance, a grant, a sponsor, a loan, or how much to charge for your services.

Don't lie to yourself. Good financial records allow you to make sound decisions. Not accurately recording an embarrassing expense (That's the third \$45.00 electric drill I burned out this year!), or a pathetic deal (Still no allowance for the scaffolding, Michelangelo?) only changes your records, but not the facts. Having accurate information enhances the quality of your future decisions (That's it, this time I'll buy a \$125 drill!).

- Choose the simplest method that will do the job well.
- Ask fellow professionals, your tax preparer, and your professional association what is needed and where to get it.
- Sort out the paperwork as you go.
- **DON'T PROCRASTINATE!**
- Don't lie to yourself.
- Take the time to agree on the ways and means that will make your accountant's life easier as well as your own.
- Ten minutes spent today saves hours later.

HOW DO I PREPARE AND ADMINISTER A BUDGET?

"Economy is the art of making the most of life." – Bernard Shaw

A budget is a financial map of the future. It is based on those factors, of which you are aware, that are relevant to a specific project or to your overall career. A budget should also consider and reflect elements that are uncertain, potential surprises, and unpredictable factors over which your control is limited. A budget may cover a week, a year, a single project, or, mirroring Mao Tse Tung and Joseph Stalin, project an all-encompassing five-year plan. The better the map the more enjoyable and profitable the journey. Columbus told us that.

A cash-flow projection schedules your costs and income. Having a project worth \$10,000 that costs \$2,000 to complete may prove a financial disaster if you won't earn any money for a year, but must ante up the \$2,000 at the outset. Obtaining instalment payments as the project develops would address this problem, and a properly prepared budget will warn you of this need.

- Look at your Action Plan and cost each item
- Ask for advice from others
- Look at grant applications to see what income and expense categories they expect to see included
- Start with what is predictable; otherwise estimate realistically, even conservatively
- Conservative estimating translates as guessing low for your income and high for your expenses
- Don't leave things out because you can't price them exactly. Again estimate on the high side

Here is a greatly simplified cash-flow record for an eight-member theatre company, planning a production that will open on April 7.

| | January | | February | | March | |
|----------------------|-----------------|--------|--------------|--------|---------------|--------|
| INCOME | Budget | Actual | Budget | Actual | Budget | Actual |
| Cash on hand | \$0 | | \$8,175 | | \$7,250 | |
| Income / grant | \$10,000 | | \$0 | | \$0 | |
| Income / sales | \$0 | | \$0 | | \$0 | |
| Income/other | \$0 | | \$0 | | \$0 | |
| Total Cash in | \$10,000 | | \$0 | | \$0 | |
| EXPENSES | | | | | | |
| Hall rental | \$425 | | \$425 | | \$425 | |
| Set materials | \$1400 | | | | | |
| Designer | | | \$500 | | | |
| Cast | | | | | \$6400 | |
| Total Expenses | \$1825 | | \$925 | | \$6825 | |
| Cash flow this month | \$8175 | | -\$925 | | -\$6,825 | |
| Carried forward | \$8,175 | | \$7,250 | | \$425 | |

The \$10,000 grant is promised for January. They will pay out \$1,825, and the theatre company plans on being left with a positive cash flow of \$8,175. This surplus will be forwarded to the company in February.

But this is how it turned out:

| | January | | February | | March | |
|----------------------|-----------------|---------------|--------------|--------|---------------|--------|
| INCOME | Budget | Actual | Budget | Actual | Budget | Actual |
| Cash on hand | \$0 | | \$8,175 | \$550 | \$7,250 | |
| Income / grant | \$10,000 | \$0 | \$0 | | \$0 | |
| Income / sales | \$0 | | \$0 | | \$0 | |
| Income/other | \$0 | \$3000 | \$0 | | \$0 | |
| Total Cash in | \$10,000 | \$3000 | \$0 | | \$0 | |
| EXPENSES | | | | | | |
| Hall rental | \$425 | \$600 | \$425 | \$600 | \$425 | |
| Set materials | \$1400 | \$1350 | | \$0 | | |
| Designer | | \$500 | \$500 | | | |
| Cast | | | | | \$6400 | |
| Total Expenses | \$1825 | \$2450 | \$925 | | \$6825 | |
| Cash flow this month | \$8175 | \$550 | -\$925 | | -\$6,825 | |
| Carried forward | \$8,175 | \$550 | \$7,250 | | \$425 | |

The Actual columns show what really happened. The grant didn't arrive, so everyone put in \$500, \$375 in January and \$125 in February. The hall rental didn't include heating and there were a lot of blizzards that month. The designer wisely refused to start, unless paid his first installment up front.

What have they learned?

They should have seen the risk of counting on the grant arriving on time. At least they knew how much they had to find to get through the first month. Let's hope the grant arrives before the actors do.

Sticking to your budget

You can't. But you're not meant to. Remember that a budget is a map of the future. Just as a map is not the landscape it charts, a budget is not the financial reality it attempts to predict. You use a budget, like a map, to plan a route. A budget gives you a sense of what you're getting into. Just as a map tells you where a detour is possible, a budget tells you where you can save, or how much you have to find, to continue your journey.

- A budget helps you see problems before you reach them.
- A cash flow predicts when those problems will happen.
- Both can warn you of bad news, and it's better to know before you set out than later when there's no turning back.
- Use your budget and cash flow predictions to alert you to when you need to borrow from other people's experience or hire an expert guide.
- Budgets and cash flows predict the journey you face. Whether you choose to proceed after considering the details contained in these maps is your decision.

HOW AND WHEN DO I INVOICE?

You don't always have to invoice; it depends on the business practices of your discipline. Generally, if you're hired to do a project, say to write chapters for a Career Guide or mount an exhibition of Worm Cast Art, you'll invoice. But if you're hired for a period of time or for a season, as is often the case for actors, musicians, or presenters at historical sites, you probably won't. If you're not sure whether you should be invoicing, ask your peers or the client beforehand. If your client says not to bother, write a letter to him that will serve as written confirmation that an invoice is not required. And if you aren't paid on time and the problem persists, you may want to start issuing invoices to the troublesome client as visual reminders that you need to be paid.

It's always safer to invoice if you're in doubt.

If your work entails live presentations, such as performing a mime or a musical show, and if you are contracting with an unproven engager, ask for a deposit upon the signing of the contract. Also consider getting full payment in cash *before* the start of the first rehearsal for the engagement. It is impossible to repossess a performance or workshop after the presenter has absconded with the proceeds. If the engager does not have the money when he signs the contract, he won't have it when ticket sales fail either. Remember, if he anticipates the profit, he should also take the risk.

An unfortunate reality of business is that there will be people who owe you money who will pay it as late as they possibly can. Many artists and cultural workers feel uncomfortable about discussing their fees with clients for fear of appearing pushy or of rubbing the client the wrong way so that repeat business is lost. They are even more fearful of trying to collect money owing. Don't be. Unscrupulous engagers, clients, publishers, and producers all prosper from this reluctance by delaying initial payments, and being chronically late in paying royalties and residuals

for continuing use. If you work through an agent, or under a contract required by your professional association, ask for their advice or their help in getting paid. If not, then the enforcement is your responsibility. The first step to ensuring you get paid is to have a well-drafted signed contract and always submit good-looking, precise invoices.

What an invoice looks like

Your contract provides the basis for your invoice. Be sure to put on the invoice the name of the person with whom you have a contract, regardless of whether he is responsible for payment or not.

YOUR LETTERHEAD IF POSSIBLE

(with your business name and contact address)

INVOICE

(Number xxx)

To

(The name of the person who signed your contract)

(The company name, if any)

(Their address and phone number)

Date

Re: (as agreed)

Professional fee \$XXXX,XX

(Your contracted fee)

List of expenses \$XXXX,XX

(as agreed)

Sub-total : \$XXXX,XX

+ GST/HST @ ___%

+ PST/QST

Total : \$XXXX,XX

Your GST number

Your PST number (if so)

Payment, by cash or certified cheque, within 30 days following (delivery, performance, whatever you are providing). Overdue payments are subject to an overdue monthly charge of X %.

- Make your invoice as professional-looking as possible.
- An invoice number may help your record-keeping.
- Without a "Pay by" date, you'll have trouble enforcing the payment.
- A warning of interest payable after the due date may seem discourteous, but it may motivate the chronically late.
- Add a cover letter (or e-mail note, if they accept electronic invoices), as a courtesy.
- If you're asked to directly invoice Accounts, Payroll, or whatever, copy the invoice to the person who contracted with you for the work, to show who'll be held liable if you don't get paid on time.

When to invoice

- Your contract should specify when and how you are to be paid. Perhaps you will get paid everything at the end. This is only a good approach if the time frame of the work is very short.
- It will more likely be in your interest to insist on being paid in instalments as the work progresses, possibly with some money paid up front when the contract is signed.
- Put the payment due dates in your work diary, and take them seriously.
- Insist on payment on the due dates. Not doing so weakens your position if there is a serious default later.

You did the work, you deserve to be paid

- If they don't pay up, chase them. Wait until three or four days after the end of the month that the fee is due, then call your client.
- If you get no result, write. The game you play is that you know something went wrong in Accounts.
- If that doesn't work, phone your contact and ask him to address the problem. Repeated phone calls are okay, if the first didn't produce results. Remember that the squeaky wheel usually gets the grease. Remain courteous but be firm.
- A month after your first invoice's due date, send a formal REMINDER invoice. If your invoice sets out the interest due on late settlement, add it to the total amount. Clients often refuse to pay the interest owing, but many immediately pay your first invoice.
- Don't be embarrassed about insisting on getting paid. The contract may say that, as long as they pay the required instalments, they own some rights to part of your work, but that same contract also guaranteed you part of their money. Some contracts even read that the buyer loses *all* rights if the final payment is not made.

Eventually, you may have to take late or non-payers payers to Small Claims Court. Their cheque will often promptly answer your submitted formal Statement of Claim. If you go to Small Claims Court, be sure to include the costs of the action in your suit. Don't hesitate to retain a collection agency if necessary, before or after you get a favourable Court judgement.

Be creative

One Ontario writer, owed money by a magazine publisher who was welshing on fees owed to all his freelance writers, took her two toddlers and set up in his waiting room, refusing to leave until she was given a cheque in full. She got her cheque. The more timid, less determined writers went unpaid. The magazine then folded, the publisher disappeared, and the unpaid writers never collected.

Artists have been known to show up at the door to physically repossess a commissioned painting for which final payment was never made. Whatever you do, don't write off a debt before you have exhausted all avenues of collecting.

- If you do have to write off a debt, learn from the experience by getting more cash up front from other clients and never working for the delinquent client again.
- Don't forget to spread the word. Let your friends and professional association membership know about your negative experience, so others don't get similarly burned.

So, a good invoice:

- Refers to the same job as your contract, and is addressed to the client who signed it
- Lays out the agreed fee and costs to be covered, plus applicable taxes.
- Indicates when payment is due.

HOW DOES SELF-EMPLOYMENT DIFFER FINANCIALLY FROM EMPLOYMENT?

There was a time when the self-employed person worked in a far less secure environment than a person who had regular employment. Today, downsizing and an unstable economy means that most employed people will change employers, and even careers, many times during their working lives. A good number of those desiring regular employment will also find themselves moving in and out of periods when they may have to become at least temporarily self-employed. There are also cases where self-employed people may be required by law to become employees for the duration of a specific project or in order to take on a certain type of work. The lines between the self-employed and the employed are becoming increasingly blurred.

As a self-employed artist or cultural worker, you have probably come to this lifestyle and vocation through a reasoned choice. Or there may simply be few regular employment opportunities in your discipline. Whatever your reason for entering into self-employment, you need to realize the basic financial differences that exist between yourself and the employed.

The major differences are:

| EMPLOYED | SELF-EMPLOYED |
|--|--|
| 1. Tax is deducted from your pay cheque. | 1. Tax is payable at year-end, or quarterly by instalments if your income is high enough. |
| 2. All income from your job is reported to Canada Revenue Agency | 2. Some income may not be reported to Canada Revenue Agency by the engagers. Yet <i>all income</i> , whether you receive an income tax slip or not from the engager, must be declared. |
| 3. Your employer pays half of the CPP Premiums - EI and Workers' Compensation premiums are paid, and benefits are available if you qualify. | 3. You pay all CPP premiums as determined by your Income Tax report. No EI premiums are paid on your behalf. Furthermore, the self-employed do not qualify for EI benefits unless you also receive a salary on a full-time or part-time basis from employment. |
| 4. Your bookkeeping is minimal, except to keep the receipts for the few expenses allowed (education tuition, political party contributions, charitable donations, etc.). | 4. You are responsible for keeping all records and receipts. The Canada Revenue Agency may demand to see documentation of your income and expenses. |

For the latest information on self-employment, income tax, GST/HST, etc., consult the Canada Revenue Agency: www.cra-arc.gc.ca.

Because of the perceived advantages self-employed people enjoy, CRA often challenges the self-employment status of some groups or individuals. It is in the interest of the CRA for you to be classified as an employee because they then have better knowledge of your income and get the tax payable easily via direct deductions from your wages. And, as an employee, you are entitled to fewer deductions. You may be told you will be hired as an employee and be left with no choice in the matter. It is entirely possible that your engager may have been told by CRA that everyone in your category must be considered an employee.

Sometimes you can fight this successfully, sometimes not. Self-employed artists teaching courses at Canadian colleges are often considered by Canada Revenue Agency as faculty members of that college and, thus, staff, unless they own an incorporated company. Yet seldom do these same self-employed artists have access to the same benefits accruing normally to faculty. Because of their self-employed pursuits outside of the college position, few will ever be able, for example, to collect EI benefits even if the teaching job is lost. Notwithstanding that reality, you may qualify for other programs provided by EI. While you are employed, you will also benefit from the obligation on the part of the employer to make CPP contributions on your behalf.

Should you automatically fight for self-employed status in all cases?

Not necessarily.

If you are a curator employed at a museum, for example, most of your expenses will be covered by your employer. You could simultaneously be self-employed under another contract that allows you to write a book and claim the expenses related to that project.

As a member of the employed ranks of society, you will be better liked by landlords, loan officers, and bank managers because your income is easily proven. For this reason, you may want to secure credit lines and necessary loans when you are temporarily employed. They may be harder to obtain when you return to full-time self-employment.

As an employee, you may also become eligible for certain benefit packages such as paid vacations, extended medical coverage, and subsidized pension packages.

How can you defend your self-employment status with regard to CRA?

Self-employed artists and cultural workers behave as if they are in business. They look for work and have numerous sources of revenue, even if they do only one type of artistic or cultural work. Keep the evidence that shows you are running a business. That evidence consists of your diary, contracts, promotional material, and well-organized income and expense records.

Canada Revenue Agency has a booklet laying out the factors they consider in assessing self-employment. Although enforcement varies, they will certainly suspect employment if you have only one engager all year, and are part of someone's chain of command.

You may be asked to demonstrate that you are truly carrying on a business in order to earn a profit. Businesses do have losses, especially during start-up, but continued losses ring alarm bells.

You may be required to show that you:

- Are qualified to do what you do.
- Spend enough time doing it.
- Are working at promoting and improving yourself.
- (Not your engager) assume the risk of your venture.
- Own your own tools.
- Are not under supervision while working.
- Have a reasonable expectation of making a profit.

As a self-employed individual, you should work under a contract for service(s), rather than as an employee with an employment contract. The consideration of a reasonable expectation of profit point is also extremely important.

A prize-winning poet was refused his business loss because CRA deemed that “poetry in Canada is not a pursuit likely to turn a profit.” He was told it was a hobby, and his expenses were disallowed (although his tiny poetry income was declared non-taxable). The test CRA uses is whether the expectation of profit is “reasonable”. Even if it is, then only those expenses related to the pursuit of that profit, or loss, can be deducted from taxable income.

If your losses continue over a set period of consecutive years, your artistic or cultural work can be designated as a hobby by CRA and, consequently, will no longer qualify for the deductions you have been enjoying.

What other financial concerns should a self-employed person consider?

Your personal finances

Unless they are incorporated, self-employed people seldom differentiate their business finances from their personal finances. Indeed, you may well run both your business and your personal life out of the same bank accounts. It is important, therefore, to closely manage both of your financial personalities and to make sure they are in synch with each other. If you are fiscally conservative in business, but just can't resist going on overseas trips twice a year that you know are an excessive luxury beyond your means, chances are that you're going to find your business and your personal finances in a mess.

Consider your *personal* finances as being just as important to the future of your artistic or cultural worker career as your *business* finances. Failure to effectively manage both can derail your career and force you to take work that in no way relates to your chosen discipline.

Your health

As pointed out in the chart referring to the difference between self-employed and employed status, you will lack the normal “safety net” that many employed people enjoy. In other words, nobody will contribute to extended medical and other benefits besides yourself. Yet such protection is necessary to ensuring your ability to protect your health and personal well-being. You should investigate the costs of, and if at all affordable, secure the following forms of protection:

- Extended medical coverage for treatment not covered by your provincial, territorial, medical plan.
- Basic dental protection.
- Basic extended eye care.
- Accident insurance.
- Long-term disability insurance.
- Life insurance to provide for your partner and/or children in the case of your death.

Such coverage can be expensive for the self-employed, but the alternative of not being protected can be devastating. Many a self-employed artist or cultural worker has been left impoverished because of an accident that rendered her unable to continue working in her discipline. Don't wait

until a medical problem arises to seek such coverage. By then, the premiums will probably be astronomical or insurers will refuse coverage. Many professional associations carry group health and pension plans.

Your retirement

Because you love what you do for a living, you may think that planning for retirement is hardly important. Why would you want to retire? But everyone ages and eventually continuing to work in your chosen field may no longer be an option or you may need to slow down. Better to have a regular source of income that can kick in at that time to enable you to sustain your lifestyle than to have to cut back on things you enjoy because no provision for such a time was made earlier in your career.

You will have had to pay into CPP each year when you earn income. But that pension will probably be fairly minimal. So be sure to take further steps to save money for those years when you may wish to stop working full time at your discipline. An RRSP started in your twenties or thirties to which you only modestly contribute can grow into a sizeable investment over time if you don't collapse it prematurely. Talk to your financial institution, a broker, insurance agent (only for segregated funds), or other investment advisor about which plan is best for you.

A rainy day fund

No matter how shrewd you are in managing your career and personal life, there may come a day when you can't find another contract or gig, or face an unexpected and expensive cost. A good rule of thumb is to always save enough money to cover your basic costs for six months. Again, such a fund can make the difference between coming out of a dry spell relatively unscathed or emerging from it deeply in debt or even forced to abandon your career.

Should I incorporate?

If you set up a corporation, you create another "person," who gets some tax breaks but needs special care and consideration. For example, you will have to prepare financial statements and corporate tax returns and file annual returns.

Some factors to consider in deciding whether incorporation is for you are:

Legal

A business is often easier to sell if it is incorporated because it is more easily separated from the personal aspects of the vendor's financial picture and has a legal identity. A school or a pottery *studio*, for example, is more likely to attract buyers if it is an incorporated entity. However, inherent problems might arise. When you buy the shares of an incorporated business you also buy all the past indebtedness that might have accrued, either officially or unofficially.

Consider the case of a **musician** who bought an incorporated antique violin retail shop. Unknown to the musician, the previous owner had often lied about the value and identity of the violins he was selling. A past customer, having tried to recoup the value of his \$80,000 violin, was dismayed to have it appraised at several other shops as being constructed by an entirely different craftsman than the one alleged and worth no more than \$10,000. Furious, the customer demanded to be reimbursed by the original shop and succeeded in a legal action against the new owner of the corporation, who had played no part in the original deception.

Here legal advice as to the proper structure of a purchase transaction is critical because typically a purchase of the assets of the business as opposed to the shares does not result in the purchaser assuming "hidden" liabilities. It is also advisable to require some kind of indemnification by the vendor in these types of circumstances.

On the positive side, at the owner's death, an incorporated business attracts lower probate fees because the owner died, not the corporation. However, owners as agents of the corporation may personally share in legal penalties imposed on the corporation.

Financial

A corporation has "limited liability." However, lenders routinely require personal guarantees from small business owners that tend to nullify this advantage.

Tax

The people who once contracted with you personally now enter into a contract with a corporation, which in turn pays you a salary.

Corporations pay taxes at different rates than those for personal taxes. For information on corporate tax rates, consult the Canada Revenue Agency website (www.cra-arc.gc.ca). A corporation reduces its taxable income by deducting its expenses, which include your remuneration. When you take any money out of the corporation, you pay tax on it at the personal rate. This means that any money you spend on yourself is taxed at the regular rate, anything you leave in the corporation qualifies for the lower rate.

If you sell an incorporated business, the shares may qualify for a capital gain exemption.

The decision

If you are a high-earner, there are constantly changing payment options, investment, income splitting, and tax shelter advantages to incorporation, which your professional adviser can outline for you. You may also be able to set up a company pension and medical benefit plan or a CPP account for yourself, your spouse, and anyone else you legitimately employ to work for the incorporated body.

The advantages of incorporation vary from case to case, but the disadvantages are the same:

- \$300-\$2,000 – the cost of setting it up. You can buy a "Do-It-Yourself" book, but you may not get the advantages you are hoping for.
- \$400-\$5,000 a year – the cost of precise and legally necessary paperwork and rituals, formal bookkeeping, annual return, the preparation of the minutes of the shareholder's meetings, and a corporate tax return. This is routine for lawyers, but costly and time-consuming for their clients.

You needn't think seriously about incorporation unless you are regularly earning enough from self-employment that your tax savings exceed the extra costs associated with incorporating.

Before you incorporate, talk to a specialist. Properly set up, a corporation might save you money. But you need an experienced lawyer and accountant to look at your situation and fit a corporate identity to it. But beware of the lawyer or accountant who is just looking for billable hours.

Here's a basic rundown on the requirements of a corporation versus that of a self-employed individual:

| | Corporation | Self-employed individual |
|-------------------------|--|--|
| Start-up | Needs expert advice | Very simple |
| Maintenance | Formalities and corporate bookkeeping and tax return | Personal tax return (also necessary after incorporation) |
| Regulations | Closely regulated | Varying, but limited, regulation |
| Legal liability | Some liability relief | Personal liability |
| Tax liability | Low tax paid on money staying in the corporation. Some tax-saving options on money taken out. Opportunity for income splitting. | Personal tax on profit and earnings |
| Inheritance | Corporation does not die, hence nothing is deemed sold at the moment of death. RRSPs or property held in the corporation can continue to be preserved. | At death, your estate is responsible for capital gain taxes. |
| Change of owners | Corporation continues, tax break on increased value | Can sell only assets, no continuity |

HOW DO I HANDLE INCOME TAX?

Canada Revenue Agency's *Declaration of Taxpayer Rights* says:

"It is our job to collect only the correct amount of tax, no more and no less... You are entitled to arrange your affairs to pay the least amount of tax the law allows ..."

Self-employment is full of tax puzzles, but everyone is ready to give advice. Unfortunately, free advice is worth exactly what you paid for it.

Here are a few examples:

"You can't be self-employed until you are a union member (or have an agent, or make some money from self-employment)."

False. You are self-employed if you are carrying on a business with a reasonable expectation and intention of making a profit. Belonging to a professional association or union *does*, however, indicate that you are serious about your endeavour.

"To be self-employed means that you must operate a registered business, have a business name, or be incorporated."

False. You show you are running a business by keeping records and entering the results, generally on the Business Income line, on a regular tax return. See Section 4 for the benefits and drawbacks of incorporating.

“You don’t need to file a tax return because you haven’t made enough money.”

False. Very few people are legally allowed not to file tax return, and anyway, if you don’t file, you’ll miss out on refunds of tax deducted from employment, the Goods and Services Input Tax Credit, and refundable tax credits. By filing, you increase your allowable RRSP contribution room because your income is higher. Every Canadian citizen with income must file an income tax return.

“You’re working abroad (or on a cruise ship), so there’s no Canadian tax.”

False. Canadian residents pay tax on their world income. Any foreign tax paid is credited against the Canadian tax payable. Get advice, considering which country, and whether there is a tax treaty in effect.

“There’s no T4A, so how can they know what you made?”

Even without a T4A, the fee paid to you by an engager will be entered in his books. Use your contracts, bank deposits, pay stubs, and work diary to construct the missing information and then report all your income.

“You can claim \$50 a day as a per diem if you’re working away from your home town.”

False. There is no set amount to cover this extra cost. You should keep your receipts.

“You can’t claim for an office unless it’s a separate room for that use only”.

False. Canada Revenue Agency interpretation bulletin No. 514 explains it all for you and gives examples of shared use. If you use space for business, you can claim the expenses related to that square footage, a portion of the rent or mortgage, utility costs, etc.

“You can deduct all the goods acquired for your business for the fiscal year during which you purchased these goods.”

False. All goods that have a life expectancy exceeding one year (for example, a computer, desk, drawing table, or sound system) are considered capital expenditures. This means that only a fraction of the purchasing cost can be deducted on an annual basis. Canada Revenue Agency requires these to be written down over specified periods per item as a Capital Cost Allowance. Revenu Québec has a similar structure. Contact either body for an appropriate write-down table.

HOW CAN I PAY LESS TAX?

Defer tax by putting money into an RRSP. You pay no tax on that contribution. You pay tax on the money only when you withdraw it.

Hire a tax preparer who knows the realities of your discipline and how to present your facts to Canada Revenue Agency. Keep a log of the information you give to your preparer. You and your tax preparer are a team, but it’s your tax return: you sign it, and you are responsible for its accuracy. If it’s inaccurate, you pay the penalties – unless the qualified preparer was negligent, in which case s/he should pay the penalty.

Keep good records. The cost of anything you use for your business is deductible from your income in the year you spent it. Keep your receipts, sort them out as often as you can, make appropriate explanations on the receipt to show that they are business-related. Keep a work diary

to remind you of forgotten fees and to note expenses, like parking meters and pay phones, which don't come with receipts.

Canada Revenue Agency is authorized to examine your income and expense records to check your return. When something is used partly for business and partly for pleasure, take a fraction of the total cost (see "Motor vehicle," and "Business use of home"), and keep all the receipts, both personal and business.

If you are sometimes employed to do the same things you do also as a self-employed individual, it's a good idea to divide the common expenses in proportion to the time spent on, or money made, from each form of employment. Get the tax bulletin *The Statement of Conditions of Employment* from your employer, and claim your employment expenses on Canada Revenue Agency's *Statement of Employment Expenses*.

Most people use the Canada Revenue Agency form *Statement of Business Activities* (in their *Business and Professional Guide*) to declare professional income and expenses. This is a listing of the sorts of things you might put in their categories. You will have other expenses. Find the place that makes most sense to you, or use the Other Expenses line. The categories are much less important than the viability of an expense.

Purchases of raw materials. Most artists choose to take the cost of raw materials as an expense in the year they were bought. If you stockpile materials, or work for years on a piece without any fees, keeping track of the value of your inventory will enable you to deduct the cost of your piece in the year you sell it.

Subcontracts. Fees to those directly involved in your process, for instance, the understudy, your accompanist, the foundry.

Direct wage costs. Employees who work in your process, for instance, the laboratory assistant, the lighting operator.

Advertising. The cost of résumés, catalogues, portfolios, CDs and DVDs, recording studios, your website, social marketing efforts, complementary tickets, professional gifts, advertisements. Generally, anything that promotes your work.

Bad Debts. You should declare income when it falls due. If you chase your client unsuccessfully (refer to "How and when do I invoice?") you should declare the fee as a bad debt in the year following, and take it as a deduction.

Business taxes, fees... Deduct the membership fees for the organizations necessary for your business. Include professional associations, and also service organizations. However, if you live in Québec, fees paid to the *Office des professions du Québec* and to professional or artistic associations (except the fraction applied to professional liability insurance premiums) are **NOT** deductible as a business expense. These fees instead qualify for non-reimbursable tax credits that can be claimed when submitting your income tax report.

Delivery, freight. Claim any courier and messenger costs, and the cost of moving your art works.

Fuel costs (except for motor vehicles). This does not mean gas for the car, but wood for the kiln, propane for the brazing torch.

Insurance. Claim coverage for your work and third-party coverage if you have visiting clients. Life and disability insurance are personal costs. Contents insurance goes under Business Use of Home, auto insurance under Motor Vehicle, and travel insurance under Travel. Medical insurance premiums are a professional expense — claim them under Other Expenses.

Interest. Claim interest on loans for business purposes. Bank and credit card charges are best claimed only on strictly business accounts.

Maintenance & repairs. Claim the costs of work done on your business space in the home, your separate work space, any business-related equipment, and, if you travel professionally, baggage. Work done on the home in general goes under Business Use of Home, and on your car under Motor Vehicle.

Management & administration. Claim commission and fees paid to agents or galleries, in fact, representatives of all sorts.

Meals & entertainment. Claim half the cost of restaurant meals taken while travelling or living away from home, or when you are caught between appointments, and meals serving a business purpose (discussing the project, schmoozing the booker). Include tips. Mark the names of your table guests on the back of the receipts. Remember that only 50% percentage of reasonable restaurant costs can be deducted.

The self-employed can also deduct the full cost of admission tickets to Québec-based cultural events, provided the attendance is business related, and you buy three or more tickets or a subscription.

Motor vehicle. If you keep a mileage log, you'll know the business proportion of your total mileage. Apply that proportion to your costs for: leasing or car loan, gas and oil, repairs and maintenance, tune-ups, washing, registration, licensing, insurance, and regular garage or street parking fees. Add all your business-related parking. Traffic fines aren't deductible.

Office expenses. This is the place for basic stationery store items, software, paper, Internet charges, and postage. Larger equipment goes in Capital Cost.

Supplies. Supplies are anything you use up in the year for business purposes.

Legal, accounting fees. Claim your tax preparer's fee and lawyer's fees for contract or travel documents. Fees for fighting an income tax assessment are an allowable personal expense, entered in Other Deductions, in Step 4 of the tax return. If you are a Québec resident, you should consult Revenue Québec.

Property taxes, rent. Claim these for rented or owned work spaces, not for your home (see “Business use of home”).

Fees or salaries. These are wages and benefits for employees who work on the production, sale, or promotion of your creation. Any remuneration paid to yourself cannot be deducted. Such payments are categorized under “owner’s expenses” and, therefore, cannot be considered deductible expenditures.

Travel. Claim fares if you go out of town to work, to look for work, or for professional development. Claim fares from door to door, accommodation costs if you are maintaining your home base, travel within your destination city. Claim meals under Meals and Entertainment. When a trip is partly personal, try to set up appointments ahead of time, keep a detailed diary of what you did for your business, and take a reasonable percentage of the total cost.

You can put Local Transportation (public transit, cabs, bicycle costs) here, or under a separate heading on your Other Expenses list. When you are employed, you can’t claim travel to work in town, but you can for your self-employed work, because your home is your Principal Place of Business. Claim the trips to and from the gallery, out to the airport to meet a visiting client, over to the stationers, to the convention for networking.

Telephone & utilities. Claim utilities for your separate work space (home utilities go under Business Use of Home). You may be able to deduct a percentage of the cost of basic telephone service, and certainly the full cost of any extra services that you use for business purposes, a second line, cell phone and pager, Internet charges, and telephone service when you are working away from home. Deduct the cellphone call charges noted in your work diary.

Capital cost. Anything bought for your business that remains useful beyond your year-end. Your deduction isn’t really depreciation, but it works the same way, as it depreciates year by year. You don’t have to take the deduction if you’d prefer to save it for later. The *Business and Professional Guide* tells you more than you’ll care to know about the calculation. Check out CRA’s website: www.cra-arc.gc.ca for more information.

Eligible capital expenditures. The purchase of what are considered intangible assets are also considered eligible capital expenditures. Two examples of intangible assets are trademarks and patents. Like any other capital expenditure, such assets are not totally deductible from income. For more information see the *Business and Professional Guide*.

Business use of home. As is true for car costs, all the costs of your home (rent, mortgage, interest, property tax, insurance, utilities, general repairs, and maintenance and cleaning) are deductible to the extent that you use space for your business. Imagine a visual artist, who rents a house, and uses the ground floor as a studio and for art storage, and one of the two bedrooms as an office. Once a week, he spends a day hosting arts discussion groups in his living room.

The purchase of what are considered intangible assets are also considered eligible capital expenditures. Two examples of intangible assets are trademarks and patents. Like any other capital expenditure, such assets are not totally deductible from income. For more information, see the *Business and Professional Guide*.

Rooms for business use only. As is true for car costs, all the costs of your home (rent, mortgage, interest, property tax, insurance, utilities, general repairs, and maintenance and cleaning) are deductible to the extent that you use space for your business. If you have one or more rooms that you use only for your business, including a finished or an unfinished basement, you can determine the amount to claim on the basis of area. You can claim the part of the total expenses for your home that is equal to the ratio between the area you use for business and the total area of your home. In Québec, self-employed workers must limit deductions of those incurred expenses to 50% of the total eligible expenses. Heating and electricity are not subject to the 50% and can be deducted at the full ratio. See CRA form T-80 and Québec form IN-155.

Rooms used for business and personal living. Canada Revenue Agency, in IT 514, "Work Space in the Home," allows the claimant to calculate the business-use percentage of his house 'on a reasonable basis,' that is, either by ratio of the square metres used to the total area, or by ratio of the number of rooms used to the total.

Other expenses. For expenses that do not fit any other category, use the "Other Expenses" category. Use this for private medical insurance premiums, and for expenses that do not fit any other category. However, Québec residents should note that medical insurance fees are not deductible from business income. Rather, they should declare medical expenses as a non-reimbursable tax credit. On a separate sheet labelled "Other Expenses," put your name, SIN, the tax year, and then the list of expenses broken out in your own categories. Put the list total on the Other Expenses line.

Groups, co-ops

The Charmin' Billies is (an imaginary) band burning its first CD. Their plan is to sell the CD at their tour gigs, and to send it to radio stations as promotion. They hire a studio with the services of an engineer, and bring in a producer, a sound mixer, and a second percussionist to beef up the sound. The percussionist gets a fee, which she declares on her tax return as part of her income, backed up by her invoice to the band. The producer's contract may make her a member of the group for the recording of the CD: he will contribute to the financing, and receive a negotiated royalty on sales. He and the other regular members of the band file with their tax returns a summary of the books for the project, showing the costs (including the studio and the session musician percussionist) and the first year's income from sales. They each show their share of the profit or loss.

- Artist-generated projects often cause endless bad feelings among the members at tax time.
- Make sure that everybody involved in the cooperative venture agrees with the financial set-up while they are still friends and it is understood what happens if someone leaves the project or group.
- Ensure someone is responsible for the financial paperwork.
- That everyone involved knows what's going on at all times, and that each individual gets a statement of income and expenses when the project is over (or at year-end).

HOW DOES THE GOODS AND SERVICES TAX WORK?

Most commercial transactions in Canada are subject to GST at a rate of 5% in 2009. Every individual holding a GST registration number is required to collect GST at the prescribed rate on all revenues generated during the year. However, if you are a GST registrant, you can claim credits for all the GST that you paid to purchase goods and services related to your commercial activities; these credits are called Input Tax Credits.

You must fill out and submit to Canada Revenue Agency a GST declaration on a regular basis that shows your income on which GST was charged and the amount of GST you collected and paid. The difference between GST collected and paid is either remitted to Canada Revenue Agency or refunded to you.

Many artists are still hesitant to seek a GST registration number, even if it has definite advantages.

Do I have to register?

Not unless you gross over \$30,000 from self-employment over a period covered by four **consecutive** quarters. For more information, see Canada Revenue Agency (www.cra-arc.gc.ca) and Revenu Québec (www.revenu.gouv.qc.ca).

An architect finally breaks out of designing recreation room add-ons and after a year-long dry spell she lands a contract guaranteeing her \$50,000 or 1% of the project cost. If the fee is to be paid in \$10,000 instalments at six-month intervals, she doesn't have to register because she won't make over \$30,000 within any four quarters. Payment will be made in two \$20,000 instalments, one on signing and one six months later, with the \$10,000 balance payable on completion. She must register before the end of the month following the quarter in which the second instalment is due, which is when she went over the \$30,000 threshold. If it's the dream deal, with \$50,000 up front, she has made more than the threshold within one quarter, and she is deemed to have become registered right before the payment, which therefore attracts GST, and must apply for registration within 30 days of the payment being due.

How do I register?

The Canada Revenue Agency website has a useful guide on why and how to register, available online (www.cra-arc.gc.ca), and specifies the information you need to provide to first register for a Business Number (required in order to register for GST/HST) as well as to register for GST/HST. If you're registering voluntarily, i.e. if you are earning less than \$30,000 in a twelve-month period, it makes sense to start on January 1st, so that you don't have a transition year.

You have two options to calculate your remittances: the **Regular Method**, and the **Quick Method**.

REGULAR METHOD

Your clients pay GST on top of your fee, and you pass that on to Canada Revenue Agency, less the GST you paid on your business related expenses (your Input Tax Credit, or ITC). In this method, you have to track each of your business-related goods and services purchased, and all GST paid on those expenses. On your income tax return, you declare both your income and your expenses without including GST.

QUICK METHOD

This method is the same as the Regular Method in terms of how taxes are collected and declared. However, it makes the calculation of the requested tax credits easier because, with this method, it is unnecessary to maintain a detailed account of each good and service purchased or to specify, for each item, the amount of GST paid. For more information about how to use this method, see *The Quick Method of Accounting for GST/HST* guide, available on the Canada Revenue Agency website (www.cra-arc.gc.ca).

The Quick Method has easier calculations and will benefit you if expenses are a very small proportion of your income and also if your expenses are primarily items not subject to GST (such as salaries, insurance, etc.). If you use this method, you do not receive Input Tax Credits (ITCs). Look at your own situation and determine which is most advantageous.

Who shouldn't register?

Anyone who is an employee need not register. If you register as a self-employed person, you are required to collect GST and remit it for any work you do in that capacity. **The law says you are required to collect the tax.** Your clients are not required to pay it if you do not charge them for it. If you, as a self-employed individual, agree to work without collecting GST, you will have to eat this amount because the GST will still be owing to the Canada Revenue Agency. Your alternative is to refuse to work for clients who won't agree to paying GST. In most cases, clients don't care. They simply claim the GST paid to you as an Input Tax Credit of their own, provided that they are also registered with the GST. The problems will come if a lot of your clients are not registered because they won't be able to recover the extra GST you're asking for.

If your usual \$200 for the bar piano gig isn't increased to \$210 by the owner after you register, you'll have to declare it as \$190.48 plus \$9.52 GST. Your fee drops. Beware how you contract for the services of your band. The band may easily earn more than \$30,000 in a four-quarter period, but do the individual musicians earn more than \$30,000? The answer to that depends on the language in the contract.

What do I do when I've registered?

- Give your clients your GST number
- Make it part of your contract, and include it on all invoices
- Give the number to anyone who might pay you residuals or royalties on old work, too, because these new payments generate GST
- Segregate the expenses and income for the year so far (BEFORE and AFTER registering), because, by registering, you have changed the rules for the rest of the year
- To avoid this complication, if possible, take January 1st as your start date

Filing GST returns

The GST return asks for your personal information, gross self-employed income, and GST received and due. If your annual revenues are less than \$500,000 you must produce a GST declaration annually. The filing date is June 15 for self-employed workers. However, all GST must be paid no later than April 30. You may also choose to file a monthly or quarterly report. Some people find that doing so keeps their accounts up to scratch year-round. If you expect to claim tax credits on a regular basis, you may be advised to file your GST report more frequently than once a year.

Remember that once you opt for a set filing schedule, you must maintain this for at least one year.

Our newly-successful architect also has income from racy adventure stories, which she writes under a pen-name. She included her writing income as a business expense when she worked out that she didn't have to register. But now that she has registered, her speaking fees are subject to GST.

Remember:

- Your registration is attached to you personally, not to a group, a project, or an activity.
- If you need to, you can cancel your registration, but only by completing and filing the proper form.
- This advice is drawn from research and experience, but may not be right for you.
- If you have a tax preparer, you should discuss the GST for your particular case.

Harmonized Sales Tax (HST)

Some provinces now have their provincial sales tax and GST handled at the same time by Canada Revenue Agency. If you are GST-registered, and provide a service in, or supply goods to, a province participating in the HST, you must charge HST on your fee and declare it on your GST return as part of your tax collected.

If you use the Regular Method, and are charged HST on goods or services provided from a participating province, you claim that as part of your Input Tax Credit. When using the Quick Method, look for the correct the calculation factor applicable for all purchased goods and services subject to HST in Canada Revenue Agency's *The Quick Method of Accounting for GST/HST* guide.

| For Income Tax | For GST |
|--|---|
| Business and Professional Guide Work Space in Home Expenses (IT514) Tax Information for Professional Artists (R3222) Performing Artists (IT525R) Visual Artists and Writers (IT504R2) Tools (IT422) Business and Professional Income (T4002) Statement of Employment Expenses (T777) Quebec Business and Professional Income (IN155) | CRA Bulletin RC4058 <i>General Information for GST Registrants</i> <i>Information for the Arts and Entertainment Industry,</i> <i>Basics for Self-employed Craftspeople, and</i> <i>Basics for Performing Artists.</i> These guidebooks and forms are available from Canada Revenue Agency (www.cra-arc.gc.ca) or Revenu Québec (www.revenu.gouv.qc.ca). |

For other publications visit www.cra-arc.gc.ca/formspubs/menu-e.html

Sample Invoice

Heather Bishop

Invoice number: 140315

Date: January 7, 2014

Bill to: Thomas Sparling
Arts and Cultural Industries Association of Manitoba
62 Albert St. Suite 501
Winnipeg, MB.
R3B 1E9

DESCRIPTION

January 7, 2014

Installment #2 for contracted services

| | | |
|--------------|----------|-------------------|
| Fee | | \$ xxxx.xx |
| | GST @ 5% | xx.xx |
| Total | | \$xxxxx.xx |

GST # 126333780

Payment, by cash or certified cheque, within 15 days following invoicing.
Overdue payments are subject to an overdue monthly charge of 5 %.

HEATHER BISHOP
heather@heatherbishop.com

Box 41, WOODMORE, MB

CANADA

ROA 2MO

www.heatherbishop.com

Benefits and Donations

As an artist you will continually be asked to give away your work for free or a much reduced rate in exchange for "gaining exposure". The industry joke is, of course, in Canada one can die from exposure.

My philosophy is:

- a. Don't do benefits for free – you get treated like you and your time are not worth much.
- b. Only do a limited number each year and make sure you explain to the organization making the request that when you do this, you limit your opportunities to draw in that town for a certain period of time – ie. a better paying gig may not work as the audience has already seen you and you are diluting your future draw.
- c. Insist that they put up the ticket price – otherwise, you are the only one contributing to the cause. For example, if people normally would pay \$15 to see you, insist that they add at least \$5 to the ticket price so the audience is kicking in an extra \$5 for the cause while you are contributing perhaps \$500 or more depending on how much you have lowered your fee.
- d. Never let them set the ticket price as free or really low – you get treated badly by an audience that has not paid to see you and you devalue yourself and your work.
- e. When we devalue our work – playing for too little or giving away our product, we devalue our industry as a whole. We are affecting more than just ourselves.

