

# RECORDKEEPING BASICS

A Cheat Sheet for Small Business Owners by **income tax plus.**

## Tips for Success



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Organize your business income and expenses by category, rather than by month. You will find the most common categories in this box. Create any categories you feel necessary. Sort your receipts into each folder.

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Keep this box for your business income and expenses only. Don't include any personal expenses here.

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The following pages contain important notes for each category of expenses. Don't skip this step!

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### Keeping Records

You are required to keep records of all your transactions to be able to support your income and your expenses. Records can be kept in paper or electronic format. Don't forget to save or print expenses that are delivered to you electronically (like purchases from Amazon) If you have multiple businesses, keep a separate set of records for each business.

### Income Records

Income records must include the date, amount and source of the income. You should also record how the payment was received. In addition to your sales invoices, you should also keep other records like; cash register tapes, bank deposit slips, sales contracts, etc.

### Expense Records

Always get receipts when purchasing something for your business. You should be sure that the supplier includes the following on the receipts; date of purchase, name and address of supplier, name of the buyer (you or your business name), full description of the goods or services and the supplier's business number if they are charging GST/HST.

Visa and Bank Statements alone are not enough to support your business income and expenses.

Make notes on your receipts as you sort them. You won't remember what some of the receipts are for a year later!

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Once your box is organized you have lots of options to prepare for your year-end tax filings.

- Provide your box of sorted receipts to your tax professional to total.
  - Provide a summary with totals by category to your tax professional. We have some free resources on our website to make this easier for you!
  - Enter receipts into a program like Microsoft Excel or Google Sheets. We have a free template you can download on our website. (It does all the math for you!)
  - Enter receipts into an accounting software, and simply use this box to organize your receipts.
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This guide is designed for sole-proprietorships and partnerships. Corporations should seek alternative means of organizing their documents.

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# CHEAT SHEET

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Include all of your sales invoices.

## Income

1

### What should be included on my sales invoices?

- Invoice number
  - Date
  - Your company name
  - Your business number, if GST/HST registered
  - The customer's name and address
  - A description of the goods or services provided
  - The amount to be paid
- 

## Inventory

Inventory is a list of goods that have already been purchased but have not yet been sold. Keeping inventory is important for tax purposes for many reasons:

- **Accurate Income Reporting:** Inventory helps determine the cost of goods sold, which is subtracted from total sales to calculate taxable income. Overstating or understating inventory can lead to incorrect income reporting, impacting your tax obligations.
- **Business Insights:** Proper inventory management also helps monitor the financial health of your business.

The value of each item in your inventory should be - the **lower** of your cost or the fair market value.

Use the inventory tracking sheet in this guide, or create one of your own! Excel versions are available for download on our website "Small Business Workbook"

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## Purchases (Cost of Goods Sold)

2

Cost of Goods Sold refers to the direct costs associated with the production of goods that a company sells during a specific period. This includes expenses such as raw materials, direct labour, and manufacturing overhead. This is likely your biggest expense. Examples:

- If you own a construction company, your raw materials might be lumber or steel.
  - If you are a hair stylist, your raw materials might be hair dye or hair extensions.
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## Subcontracts

3

Include sub-contractor invoices in this category.

You may be required to submit T4As or T5018s for sub-contractors and you should collect the following information from each contractor:

- The contractor's program account number;
    - For contractors that are GST/HST registered, this is their CRA Business Number
    - For contractors that are not GST/HST registered, this is their Social Insurance Number
  - The contractor's business name and address
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## Advertising

4

These are the expenses related to promoting your business. Some examples include:

- Media advertising including social media posts, newspaper and radio ads
  - Business cards and flyers including design and printing costs
  - Signage
  - Promotional items and Gifts that have been purchased for clients (note your client's name and invoice number on the receipt!)
  - Donations and sponsorships where a tax receipt has not been provided
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# CHEAT SHEET

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## Meals & Entertainment

5

These expenses are for providing meals to or entertaining current or potential clients or customers and is incurred for the purpose of earning an income. Meals for yourself during your work day are not deductible expenses.

In most cases, the maximum amount you can claim in this category is only 50% of the cost. This limit does not apply to expenses for an office party or similar event.

### Note for GST/HST Registrants:

Be sure to only claim 50% of GST/HST Paid when calculating your GST/HST Return. (Include 50% of the GST/HST paid for these purchases on line 106)

### Tax Tips!

- Write the name of your client and the purpose of the meeting at the top of your receipt before filing in your box.
- You cannot deduct green fees at a golf course as a business expense, even if the purpose is to entertain a client or customer.

Specific Rules for **Convention Expenses**. If you incur Meals and Entertainment expenses while at a convention - indicate this on your receipt!

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## Bad Debts

Bad debts are a result of an invoice that has become uncollectable. You can generally deduct an amount as a bad debit if you meet the following conditions;

- You had included the account receivable in income (accrual method accounting)
  - You have determined that the invoice is no longer going to be fulfilled because the customer is unable to pay the outstanding debt.
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## Insurance

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Types of insurance that are considered a business expense:

- Commercial liability
- Commercial property
- Cyber liability
- Property liability
- Business interpretation

**Do not** include your home, automobile, or life insurance in this category.

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## Interest and Bank Charges

7

You can deduct interest incurred on money borrowed for business purposes. This includes credit card interest on cards used for **business only**.

**Tax Tip!** Keep separate bank accounts and credit cards that are used solely for business purposes. If you put a business expense on a personal use credit card, you will not be able to deduct any interest incurred for the expense.

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## Business Taxes, Licences, Memberships and Subscriptions

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Any fees related to your business, such as license renewals, dues paid to keep your membership in a trade or commercial association, and subscriptions can be claimed as a business expense. Examples include: trade licenses, beverage licenses, permits, etc.

You **cannot claim** gym memberships or any club memberships if the purpose of the club is primarily for dining and recreation.

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# CHEAT SHEET

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## Office Expenses

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Include any office expenses related to earning business income. Examples include: pens, stationary, cleaning supplies, business cards, etc.

**What not to include in this category:** Things like office furniture, filing cabinets and computer equipment are generally considered to be a Capital Expense (See Capital Expenses Category) and should be depreciated.

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## Telephone

9

If you use your cell phone for both **business and personal use**, you can deduct the percentage of air-time expenses related to earning your business income. Record this under business-use-of-home expenses.

If you have a separate telephone for **business use only**, you can deduct the basic monthly rate of your telephone service. Record this under office expenses.

The cost of the phone is considered to be a capital expense. (Not eligible for personal phones)

How to determine a percentage of business use: The CRA suggests evaluating the business use portion based on time. *Example: You spend, on average 32 hours working per week on your business, 32 hours / 168 hours available in a week = 19%*

**Tax Tip!** Don't forget to print or save (or both) your detailed cell phone bill before you can no longer access it if you receive online statements.

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## Internet

9

If you use your internet for both **business and personal use**, you can deduct the percentage of your internet usage that is related to earning your business income - record under business-use-of-home expenses.

If you have internet access for **business use only**, you can deduct the basic monthly rate of the service - record under office expenses.

How to determine a percentage of business use: The CRA suggests evaluating the business use portion based on time. *Example: You spend, on average 32 hours working per week on your business, 32 hours / 168 hours available in a week = 19%*

**Tax Tip!** Don't forget to print or save (or both) your internet bill before you can no longer access it if you receive online statements.

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## Supplies

10

Supplies are items used in the day-to-day operations of a business but are not part of the production of goods sold. These expenses are generally classified as part of the operating expenses. They help run the business but are not directly tied to the production of your good or service.

Examples:

- A retail business might include cleaning supplies and small displays here.
  - A contractor might include nails, glue, tie straps, etc.
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## Small Tools

11

Include small tool purchases in this category. Generally, if the cost is under \$200 and the tool's useful life is a year or less, it belongs in this category. For larger tool purchases, see the **capital expenses** category.

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# CHEAT SHEET

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Professional Fees 12	Any fees incurred for professional advice and services can be used as a deduction, such as legal or consulting fees related to your business.
	<p>You can deduct accounting fees for bookkeeping, payroll and records. You can also deduct fees for preparing and filing your income tax and GST/HST returns.</p> <p><b>Do not</b> include legal expenses and other fees you incur to buy capital property. Instead, we add this to the cost of the property and deduct the total depreciation expense.</p>

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Rent 13	You can deduct rent incurred for property used in your business. This may include rent for land, or a building used specifically for business.
	<p><b>Do not</b> include the rent you pay for your principal residence here. See more in the business-use-of-home expenses category.</p>

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Maintenance, Repairs & Rental of Equipment 14	Any expenses related to maintaining and repairing the equipment used to operate your business can be deducted. Equipment rented to perform a specific job or task for your business can also be deducted.
	<p>Examples:</p> <ul style="list-style-type: none"><li>• Tools and machinery rentals</li><li>• Repairs and maintenance to equipment (scissor sharpening, oil changes on small equipment, etc.)</li></ul> <p><b>Do not</b> include; The cost of your own labour, repairs that are capital in nature (increases the value of an asset), repairs that you have been reimbursed for by insurance.</p>
	<p>Include any maintenance and repairs to your vehicle in the motor vehicle expenses category.</p>

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Salaries & Wages 15	Include paystubs, records of employment and T4s in this category.
	<p><b>Do not</b> include the cost of your own labour here. Reminder that as a sole-proprietor, you are not considered to be an employee of your company and any amounts withdrawn for your personal use don't come into consideration when calculating the net income tax.</p>

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WSIB 15	Include any WSIB premiums here.
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Travel Expenses 16	You can deduct travel expenses you incur to earn business income. Travel expenses include transportation fares, hotel accommodations and meals. (In most cases, the 50% limit applies to the cost of meals, beverages and entertainment when you travel - see "Meals and Entertainment" category)
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Utilities 13	Use this category to record utilities costs for space that is used solely for your business. <b>Do not</b> include the utilities you pay for your principal residence here. See more in the business-use-of-home expenses category
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# CHEAT SHEET

Fuel Costs  
(Except for Motor  
Vehicles)

17

Use this category to record fuel costs for machinery used in your work. **Do not** include fuel for your vehicle here. Instead, place in the motor vehicle expenses category.

Ask the Accountant

18

Use this category to place items you have questions about, or if you're not sure which category they belong in. We will review the expense and ensure that the item is correctly recorded.

Capital Expenses

18

These purchases are those that are made to acquire or upgrade physical assets. - Usually property, buildings, technology, or equipment. These types of purchases are intended to be used over a period of time and should be recorded on your tax return in the same way. Different types of purchases are listed under different classes, each of which have specific rules and rates of depreciation. Each purchase in this category should be **provided to the accountant**, even if you have completed your own worksheet. See the chart below, **Current or Capital Expenses** to help you determine the difference when sorting your purchases! If you dispose of a capital asset, include this information for your year end and GST/HST filings as well.

Note: If you've made an improvement to your principal residence for business-use that would be considered a capital expense, you could make this portion of your home subject to capital gains. These improvements should be discussed with the accountant.

## CURRENT OR CAPITAL EXPENSES

Does the expense provide a  
lasting benefit?

A capital expense generally gives a lasting benefit or advantage.  
Example: A tool that can be used for multiple projects.

A current expense is one that usually recurs after a short period.

Does the expense maintain or  
improve the property or item?

The cost of a repair that improves property beyond its original condition is probably a capital expense. Example: If you replace wooden steps with concrete steps.

An expense that simply restores a property to its original condition is usually a current expense.  
Example: the cost of repairing wooden steps.

### Examples of Capital Expenses

- vehicles
- buildings and property
- equipment
- large tools
- office furniture
- computer equipment

### Examples of Current Expenses

- rent
- utilities
- office supplies
- computer toner and paper
- vehicle expenses, such as fuel and insurance

# CHEAT SHEET

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If you **regularly** use your personal vehicle for business and personal trips, you can claim the part of the total operating expenses that are business related. You must keep a vehicle log book to determine the business use percentage and to support your claim in an audit. Keep a separate log book for each vehicle. Search for smartphone apps like *Mile IQ* and *Google Maps* to help you track your business related travel. You can also find more free resources for tracking your business related travel on our website.

If you purchase a new vehicle in the tax year, please **include the bill of sale** with your tax documents.

## Motor Vehicle Expenses 19

Complete the **information page** in this package so that we can accurately prepare your tax return.

Operating Expenses you can claim:

- Fuel
- Maintenance & Repairs
- Insurance
- License & Registration Fees
- Depreciation
- Interest on Vehicle Loan
- Lease Payments

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You can deduct expenses for the business use of a work space in your home if you meet **one** of the following conditions:

- It is 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, customers or patients

Expenses you can claim:

- Heating
- Electricity
- Water/Sewer
- Insurance
- Property Taxes
- Rent
- Mortgage Interest
- Maintenance\*

## Business Use of Home Expenses 20

\*Maintenance and minor repairs can only be deducted if they relate to your workspace. If an expense is for a part of the house not used as a workspace, you cannot deduct it. However, if it's for the workspace only, you can deduct all or most of it. For example, light bulbs for your office are a reasonable deduction.

If an expense covers both the workspace and other areas, you can deduct a percentage based on the workspace. For example, you could claim a portion of the cost of household cleaning products.

For expenses solely related to the workspace, you can deduct the full amount if reasonable. Example: light bulbs or wall repairs after installing office equipment.

If your business is showing a net loss, business-use-of-home expenses cannot be deducted to further increase the loss.

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# INFORMATION

Client Name:	Tax Year:		
Business Name (if different):			
Business Address:			
Email Address:	Phone:		
Main Product or Service:			
GST/HST Registration No:		Access Code:	
Are we preparing your GST/HST return(s)?		Yes	No
GST/HST reporting frequency:	Monthly	Quarterly	Annually

## Business Use of Home

Sq footage of your home:	
Sq footage of space that is used solely to earn business income: Example: An office space that is dedicated to your business	
Sq footage of space that is used for both business and personal living: Example: A desk located in your family room	
How many hours in a day do you use this shared space for your business?	
How many days in a week do you use this shared space for your business?	
Business use of personal cell phone percentage:	%
Business use of personal internet percentage:	%

## Business Use of Motor Vehicle

Please complete for each business use vehicle

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Make:

Model:

Year:

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Opening Odometer Reading:

The beginning of the year, or at the start of business use period:

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Closing Odometer Reading:

The end of the year, or at the end of a business use period, or disposition of the vehicle

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Kilometers driven for business purposes:

Please visit our website for information on keeping a vehicle log-book.

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Make:

Model:

Year:

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Opening Odometer Reading:

The beginning of the year, or at the start of business use period:

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Closing Odometer Reading:

The end of the year, or at the end of a business use period, or disposition of the vehicle

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Make:

Model:

Year:

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Opening Odometer Reading:

The beginning of the year, or at the start of business use period:

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Closing Odometer Reading:

The end of the year, or at the end of a business use period, or disposition of the vehicle

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Kilometers driven for business purposes:

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**If you purchased a vehicle in the tax year, please include the bill of sale.**

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