

# RECORDKEEPING BASICS

A Cheat Sheet for Farmers by **income tax plus.**

## Tips for Success



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Organize your farm 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).

### 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. If you are GST/HST Registered you will collect GST/HST based on the product or service you are providing.

### 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 types of income. Break down the income by category. If you are writing sales invoices, include them here. **Tax Tip!** Our free workbook helps you sort your income into the possible categories.

## What should be included on my sales invoices?

### 1 Income

- Invoice number
  - Date
  - Your company name
  - Your GST/HST registration number.
  - The customer's name and address
  - A description of the goods or services provided
  - The amount to be paid
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Inventory should be taken each year on December 31st. A farm inventory should include all the raw materials and finished goods used in the farming operation that have not yet been sold. Example: livestock, crops, seeds, fertilizers, pesticides, fuel.

### Inventory

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 "Farming Workbook"

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### 2 Containers & twine

Costs you incurred for material to package, contain, or ship your farm products.

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### 2 Fertilizers & lime

Cost of fertilizers and lime.

**Tax Tip!** There is no GST/HST on fertilizers, but there is GST/HST on the rental of a spreader.

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### 2 Pesticides

Expenses incurred for herbicides, insecticides and fungicides.

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### 2 Seeds & plants

Cost of seeds and plants.

**Tax Tip!** Most seed is not subject to GST/HST.

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### 3 Feed, supplements, straw & bedding

Costs of feed, supplements, straw and bedding. You cannot deduct the value of the feeds, straw and bedding you grew.

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### 4 Livestock purchased during the year

Cost of livestock purchased during the year. If you are providing us a summary, please breakdown the livestock into category. Example: Cattle, poultry, etc.

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### 5 Veterinary fees, medicine and breeding fees

Cost of veterinary fees and medicine for your animals. You cannot claim veterinary fees for your pets. If you have a livestock guardian dog, please specify this by writing "LGD" on the invoice.

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# CHEAT SHEET

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6	Machinery repairs, licenses, and insurance (excluding motor vehicles)	Cost of machinery repairs, licenses and insurance. Do not include the costs of your motor vehicle in this category.
7	Machinery fuel and oil (excluding motor vehicles)	Cost of fuel and oil for your farm machinery. Do not include diesel, gasoline or oil for your motor vehicle in this category.
8	Building and fence repairs	Cost of repairs to building and fences you used for farming. If you have built a new fence, list this under capital purchases. (See capital purchases and disposals)
	Clearing, levelling and draining land	Costs incurred for clearing land of brush, trees, roots and stones; building and unpaved road and installing land drainage.
	Crop insurance	Cost of deductible premiums to the Crop Insurance Program specifically.
9	Custom or contract work, and machinery rental	Cost incurred for custom and contract work, and machinery rental. Example: You hired someone to custom grade your eggs or to combine your corn. <b>Tax Tip!</b> Custom work is subject to GST/HST - be sure to collect a proper invoice.
10	Electricity	Only the part of your electricity costs that relates to your farming business is deductible. To determine the part you can deduct, keep a separate record of the amounts that apply to the farmhouse and include this in business-use-of-home expenses if you are eligible to claim them.
10	Insurance	Cost of farm-business related insurance premiums you paid for your farm buildings, farm equipment, livestock and business interruption. Do not include the insurance premiums you paid for your house or motor vehicles here.
10	Interest & bank charges	The interest you incurred on money borrowed for farming business purposes or to acquire property for farming business purposes. Be sure to keep adequate records in this category.  You can deduct interest paid on any real estate mortgage you incurred to earn farming income, but you cannot deduct the principal part of the loan or mortgage payments. You cannot deduct interest on money you borrowed for personal purposes. <b>Be sure to include your final property tax bill so that we can determine which percentage of your property is for farm vs. personal use.</b>  <b>Tax Tip!</b> If you have a line of credit that is being used for farming purposes, it is essential that no personal expenditures are made using the LOC. We cannot calculate which part is considered personal and which part of the interest is considered a business expense in this scenario.

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# CHEAT SHEET

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- 11 Office expenses Cost of office expenses. Small items like stationery and stamps. Items like desks and filing cabinets would be considered a capital purchase. (See capital purchases and disposals)
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- 11 Legal & accounting fees Cost of legal and accounting fees. Please note if any of these costs were for purchasing or selling the farm business.
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- 10 Property taxes Cost of property taxes you paid for property used in farming. **Please provide a copy of your final tax bill so that we can determine which portion is to be deducted for farm use.**
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- 12 Rent (land, buildings & pasture) Cost of rent incurred for land, buildings and pasture.  
**Tax Tip!** Land rental is subject to GST/HST - be sure to collect a proper invoice.
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- 13 Small Tools If a tools costs you less than \$500, you can deduct it's full cost. If it costs you \$500 or more, include it in capital purchases (See capital purchases and disposals)
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- 14 Other expenses Any other expense that you incur to operate your farm business. Please specify each expense. Some examples include, advertising, trucking, membership fees, etc.
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- 15 Ask the accountant 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.
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- 16 Motor Vehicle Expenses If you **regularly** use your personal vehicle for farming 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. If you do not live on your farm, the travel between the farm and your home is not considered business travel
- If you purchase a new vehicle in the tax year, please **include the bill of sale** with your tax documents.
- Complete the **information page** in this package so that we can accurately prepare your tax return.
- Expenses you can claim** include; fuel, maintenance and repairs, insurance, license and registration fees, depreciation, interest on vehicle loan, and lease payments.
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# CHEAT SHEET

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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** include; insurance, property taxes, rent, mortgage interest, maintenance\* (see not on maintenance below)

## 17 Business-use-of-home expenses

\*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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## 15 Capital Expenses

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.

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## 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.

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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.

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# CAPTIAL PURCHASES

Description of the Item Purchased Include the bill of sale for equipment purchases	Date of Purchase	Subtotal	GST/HST Paid	Total Purchase Amount

# DISPOSAL OF CAPITAL ASSETS

Description of the Item	Date of Sale	Subtotal	GST/HST Collected	Total Sale Amount

# INVENTORY

A x B = C

Item Description	Quantity	Fair Market Value per item	Total Fair Market Value
Cows			
Bulls			
Heifers			
Stockers			
Calves			
Sows			
Boars			
Weaners / Feeders			
Market pigs			
Horses			
Poultry			
Ewes			
Rams			
Lambs			
Market Sheep			
Feed - Silage			
Prepared Feeds			
Corn			
Soybeans			
Mixed Grain			
Canola			
Wheat			
Oats			
Hay			
Straw			
Seed			