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BUSINESS EXPENSE

INFORMATION PACKAGE

Let me first begin by saying that this package is not the b- all, end-all of business expense information. It is meant as an overview and [Rogue Bookkeeping \(RBK\)](#) encourages everyone to do their own research and/or ask an accounting professional.

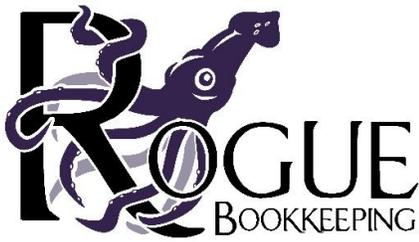
The information presented in this package is current as of **February 2020**.

If you are a sole proprietor, you are writing these expenses off against your personal income (any revenue generated by your business is considered personal income). I've heard a lot of people casually say that they'll just write it off, as if it's no big deal. Well, the fact is, you're still spending that money. That's still money out of your pocket. Please keep that in mind. Don't go all crazy and buy the bestest, most awesomest computer just because you can; get the one you need, even if it's not as flashy.

Common Business Expenses

These include, for example, advertising costs, accounting fees, insurance, etc. Basically, the costs to run your business.

Office expenses typically include pens, paper, paper clips, etc. However, you do not want to include filing cabinets, chairs, desks, etc as these are capital items – [click for more information](#).



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Start-up expenses

You need to stock your office, and you can absolutely expense these items BUT the date when the business started must be known. This way, you can purchase supplies and equipment for the start up “during preliminary steps leading to the start of normal operations”. More information on start-up expenses can be found [here](#).

Bad Debt

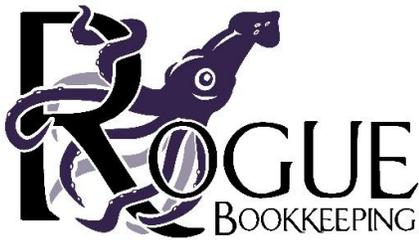
A bad debt is a receivable that you have determined you will not be able to collect. To account for a bad debt expense, you must have “determined that an account receivable is a bad debt in the year” and “you had already included the receivable in income” – from the CRA.

If you’ve recorded the income but not collected the money, you can write it off as a bad debt. A small consolation.

Home Office Expenses

In order to deduct expenses for the business use of space within your home, it must either be your principal place of business or you use the space exclusively to earn business income and you use it on a regular basis to meet clients, customers or patients.

You can deduct heat, home insurance, electricity, cleaning materials, rent, property taxes, mortgage interest, telephone, internet, etc.



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To calculate the portion you may deduct, typically you would take the area of the space used to conduct business and divide it by the area of the entire home. You may then expense this percentage of each of the home office expenses.

If the part of your home that you use for business is also used for living (let's say you work at the kitchen table) you would calculate the average number of hours the space is used for work and divide that by the number of hours in a day (hold on...let me do the math... 24! There are 24 hours in the day.). In this instance, you would take the entire bill and apply the percentage of space of the home used for business, then take that number and reduce it again by the percentage of hours in a day that space was used for business purposes.

Ex. Let's say you live in a 1000 sq ft apartment (lucky you) and you have a 200 sq ft office that is used solely for business purposes.

$$200 / 1000 = 0.2 \times 100 = 20\%$$

So if you have a utility bill of \$200 (you're doing something wrong), you would be able to write off \$40.00 of that bill.

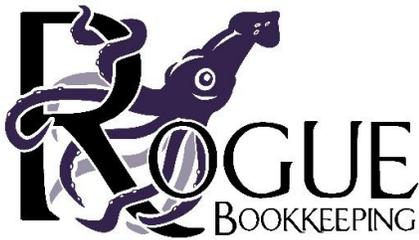
If you only used that space for business 5 hours a day then you'd have to reduce that amount again as follows:

$$5 / 24 = 0.21 \times 100 = 21\%$$

\$40.00 x 21% = \$8.40 is the amount you could write off.

**It should be noted that the amount of your home expenses cannot exceed your net income before you deduct these expenses. Which means that you cannot use these expenses to increase or create a business loss.*

Proper home office deductions can be tricky – we highly recommend discussing this with an accountant. In many cases these expenses are entered by bookkeepers at 100% of the expense and



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then when the file goes to the client's accountant at year end the accountant will supply the bookkeeper with an adjusting entry to account for the actual amount written off.

To view the CRA's information on this topic, please [click here](#).

Meals and Entertainment

From the CRA, "the maximum amount you can claim for food, beverages, and entertainment expenses is 50% of the lesser of the following amounts:

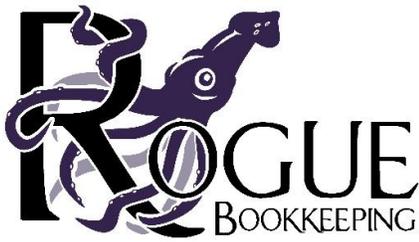
- The amount you incurred for the expenses
- An amount that is reasonable in the circumstances"

This, obviously, does not apply if your business is, say, a restaurant. Here are some of the main exceptions to this rule:

- If you bill your client for the meal and show it on their bill
- It was for an office party and you invited all of your employees from a particular location (this can be done up to 6 times per year)

More details can be found [here](#).

The 50% rule applies to meals and entertainment when travelling as well.



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Vehicle Related Expenses and Mileage Tracking

If the vehicle is used solely for business purposes – this one is easy – 100% of expenses related to maintenance, insurance, and fuel for this vehicle are eligible expenses.

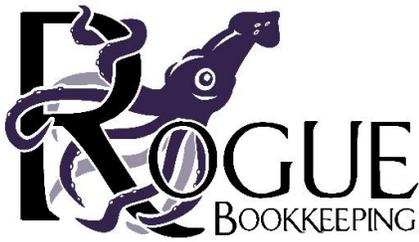
However, if you use your personal vehicle for business purposes then only a portion of those same expenses will qualify to be written off. Mileage tracking will help determine the percentage of the expense that you can write off.

CRA recommends that you record your vehicle's odometer at the beginning of the first day of your fiscal year (for sole proprietorships that's January 1st) and again at the end of the last day of your fiscal year. In addition, you also need to track each individual business trip (there are some great apps for this and RBK would be happy to recommend). Every business trip should be recorded with information such as date, purpose of the trip, destination, and distance travelled.

To calculate, you would take the odometer reading at the end of the year and subtract from it the odometer reading at the beginning of the year. That's the total number of kilometers travelled that year. Then, from your trip log, you would calculate the number of kilometers travelled for business during the fiscal year. Next, take the number of business kilometers and divide them by the total distance travelled for the year. Multiply that number by 100 and it will give you the percentage of vehicle expenses you can claim.

***Ex. Say your odometer started at 10,000 km and ended the year at 30,000 km. That's 20,000km travelled during the year. From your mileage log, you know that 10,000km were business trips.
 $10,000 / 20,000 = 0.5 \times 100 = 50\%$.***

A good source of information on this topic can be found [here](#).



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Buying vs. Leasing

There are a number of factors to consider when deciding whether to purchase or lease equipment including cars, laptops, printers, etc. And those factors even vary depending on what you're considering buying vs leasing.

One of the main advantages of leasing over buying is that you can (generally) expense 100% of the lease payment but you cannot expense the purchase of a capital asset, instead you can expense the annual depreciation of that asset.

Conversely, one of the main advantages of buying over leasing is that at the end of the term, you own the asset.

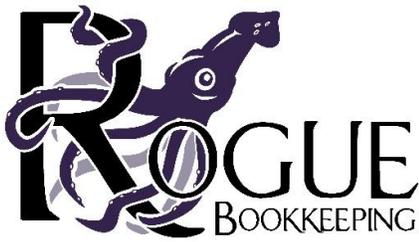
RBK recommends consulting an accountant on this matter to help you look at the bigger picture and consider all the ramifications, including tax implications and planning.

Here are some articles we found interesting from [Turbo Tax](#) and [BDC](#).

Final takeaway:

Save all of your receipts! And make notes where appropriate. (There are apps available to help with this and RBK can help get you set up).

A good rule of thumb for whether something is a business expense or not, is any expense that helps your business generate income qualifies as a business expense. However, it is always a good idea to check CRA's website for specific references or ask your accountant,



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What's Next?

Rogue Bookkeeping (RBK) is a full-cycle, customer-focused bookkeeping company that also offers services on an a la carte basis. Our goal is to work with you to figure out what best suits your needs (and budget) and develop a plan from there.

Maybe bookkeeping is the biggest pain point in your business? We can do monthly entries of all transactions, bank reconciliations, GST and PST reconciliations and filing when required.

Maybe you're a one person show and sending out timely invoices is your biggest hurdle? -we can help prepare and enter those invoices and distribute.

Maybe you're looking to grow your company this year and want help developing a budget and cash flow forecast? -we can help set those up and even review those with you periodically and compare to how your company is actually performing so you know exactly where you are on your way to achieving your goals.

[Click here](#) or visit RogueBookkeeping.ca to book your *no-obligation consult call* to find out how we can help.