

Starting Your Own Business?...Consider This!

According to recent Statistics Canada numbers, there were more than 3.8 million self-employed Canadians in 2016. If you are one of the thousands of Canadians who started their own business in 2019, there are a number of factors to consider.

- **Business plan:** It is great to take a hobby or passion and try to turn it into a business, but you need to have a plan for how you will earn money. If you need to raise money, your investors or bank will also want to see your plan and projections. The Canada Revenue Agency (CRA) may be interested as well. Although the CRA does not expect you to earn a profit in the early years, you need to have some expectation of profit or they may decide your venture is actually a hobby, rather than a business. Losing money every year will most likely attract the attention of the CRA auditors.
- **Business and day jobs:** If you are keeping your day job and starting your business on the side, you can deduct business losses against employment income. If your losses from the business exceed your income from other sources, you have a non-capital loss which you can carry back three years or forward 20 years and deduct against business income in those years.
- **Hiring employees:** You must also open a payroll account with the CRA and remit taxes, EI premiums and CPP contributions on a monthly basis if you hire employees.
- **Registering your business:** If you think your gross revenues will be more than \$30,000, you need to charge GST/HST on your invoices and remit payments to the CRA on a quarterly or annual basis. In order to submit GST/HST payments, you need to have a business registration number with the CRA. If you don't think you will hit the \$30,000 mark in your first year, you can always wait to register with the CRA until you have more revenue generated. And if you are far more successful in your first year than anticipated but didn't register for GST/HST it is possible to register afterwards and catch up on GST/HST filings.
- **Insurance:** You should also investigate your insurance needs. If you have purchased expensive equipment as part of your business, it will most likely need its own policy. And if you are providing consulting services, you may want to look at professional liability insurance. Your insurance premiums would be considered a business expense. Depending on the type of equipment purchased, you can depreciate a percentage of the asset over a specific timeframe, based on CRA guidelines.
- **Record keeping:** Make sure you keep receipts and maintain a log book of business kilometres, if you use your car. Trying to re-construct your receipts at the end of the year is not recommended. Even if you are the worst record keeper ever, keep all your paperwork in one place so at least it can be sorted at tax time. But without receipts, you cannot claim business expenses. Remember, your expenses help reduce your tax payable, so every piece of paper helps.

None of this should discourage you from venturing out on your own. If you have a good business plan and the energy to make it work, starting a business can be very rewarding. But it is always best to understand all the conditions before you jump in.

EI for the Self-Employed Is a Commitment

Statistics Canada estimates there were 3.8 million self-employed Canadians in 2016. Until recently, there were no benefits available for self-employed Canadians, unless they purchased a private plan. For business owners looking to have a child or take care of a sick family member, leaving work meant no income for an extended period of time.

In 2012, the Federal government extended Employment Insurance (EI) benefits to self-employed Canadians but, unlike EI for employees, coverage is only provided for special benefits like pregnancy or illness, not regular benefits which employees get when they lose their jobs. Self-employed people pay the same premiums as salaried employees, with the amount determined by your income for the entire year, no matter when you register. The premium is paid when you file your tax return.

The program is not mandatory for small business owners. In 2012, only 6,875 taxpayers opted into the program. To enroll, you must be a Canadian citizen or permanent resident; to opt in, contact Service Canada. You are required to contribute to the program for a year before you can begin making claims so, if you are planning to get pregnant and collect EI, you need to register in time.

Maternity and parental benefits are the most generous. New mothers are entitled to 12 months at a 55 per cent rate or 18 months at a 33 per cent rate (new federal changes started in 2018), which you can choose to share with the other parent. But sickness benefits are restricted to 15 weeks, with 600 hours of work required before you can make another claim. Compassionate care is only six weeks.

But before you join, there is one major condition to consider. Once you opt into the program, you are only allowed to withdraw if you have never made a claim. If you receive benefits at any time, you must continue to pay EI premiums on your self-employed earnings for the rest of your life. This applies even if you close one business and start another.

This means EI benefits may be a good idea for some self-employed Canadians but you must be aware of all the conditions before enrolling.