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"...in this world nothing can be said to be certain, except death and taxes." Benjamin Franklin

With the help of your Isagenix products, the former may be delayed through improving your health while the latter can be minimized and delayed with the help of proper financial organization.

The purpose of this document is to help young entrepreneurs organize their finances and to avoid surprises come income tax time. None of the advice contained herein should be taken as being specific to your personal situation, but rather should serve to illuminate the need for you to seek a competent financial advisor or accountant to ensure that you are taking advantage of all possible avenues.

What must I pay tax on?

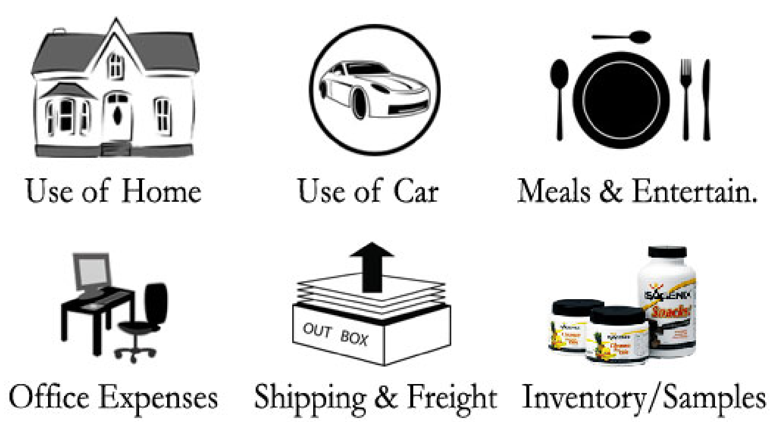
As a Canadian resident, you are taxed on worldwide income. This means that you must declare, and pay tax on any and all income made anywhere in the world. As such, your Isagenix income must be reported on your Canadian income tax return and taxes owing must be remitted before April 30th, 2011 for unincorporated individuals. Fortunately for us self-employed individuals, we are entitled to 'write-off' business expenses to reduce the amount of money we make that must be included in income (net income). Although you earn regular income, you only have to pay tax on the taxable income.

Earned Income − Eligible Expenses (see below) = Taxable Income

Let's look at what self-employed individuals are entitled to expense.

What is an eligible business expense?

A basic rule of thumb for determining whether or not an expense is tax deductible is to ask yourself the following question: was this expense necessary for me to earn income? If the answer is 'Yes', then it is most likely a qualifying expense, though one should always verify with the Canada Revenue Agency. In all cases, receipts and logs must be recorded to support the expense. Here is a visual representation of some of the expenses that you can deduct from your total income to arrive to your taxable income.



Use of home: If you operate your business out of your home, you may be entitled to deduct some the expenses of your home against your earned income. To satisfy Revenue Canada's guidelines for this expense, you must meet ONE of the following conditions:

- it is your principal place of business; or
- 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.

Revenue Canada presents specific guidelines as to what may or may not qualify and how to calculate the eligible amounts. It is strongly suggested that you contact an income tax professional to help you determine what may, or may not qualify as an expense in your particular case. Here is a short list of some the home expenses that can be considered eligible expenses under use-of-home for business:

Heat / Gas	Water	Electricity	Insurance	Maintenance
Internet	Telephone	Property Taxes	Mortgage Interest	Hot Water Rental

Use of car: If you make use of a motor vehicle for the purpose of earning income, you may be entitled to deduct some of the expenses against your earned income. Revenue Canada expects anyone who uses their vehicle for business to maintain a log that summarizes the business use of the car versus personal use. They suggest using a log book and entering the number of kilometres at the start and end of each trip, and indicating personal or business use beside each journey. This will help determine what percentage of the use was for business, and thus allow you to expense the following:

Fuel	Insurance	License & Registration Fees	Maintenance & Repairs	Interest & Leasing Costs

Meals & Entertainment: Up to 50% of the expenses you incur on meals and entertainment for the purpose of business like taking out a client, attending a meeting or conference, etc. Special rules apply for attending conventions and should be discussed with a professional to determine deductibility. As always, it is important to keep all your receipts, and it is recommended to indicate the client name and reason for the meeting at the back of the receipt for your own records.

Office Expenses: Office expenses such as paper, printer ink, pens, staples, stamps, etc. may be an eligible business expense. As always, original receipts are required to support your claim.

Shipping, Delivery & Freight: Expenses pertaining to shipping goods, documents or supplies for the means of earning business income may be an eligible expense.

Supplies: The cost of purchasing supplies that are strictly used for business (non-personal consumption) may be an eligible expense. The specifics pertaining to your use should be discussed with a professional.

All other business expenses: Accounting, Bookkeeping, Business Licensing Fees, Advertising, Interest on business debt, Purchases of Capital Goods (Computers, Desks, Chairs, etc.), Salaries & Wages, Business Insurance, Telephone, etc. may be eligible business expenses, and so receipts should be withheld and filed accordingly then discussed with your income tax professional to determine eligibility in your particular case.

For a complete list of eligible business expenses and specific guidelines, please visit: http://www.cra-arc.gc.ca/tx/bsnss/tpcs/slprtnr/bsnssxpnss/menu-eng.html

How do I keep track of these expenses?

As noted earlier in this document, every expense you intend to use for income tax purposes must be supported by a receipt or proof of purchase. The most effective way to minimize the income tax you pay is to ensure that you are deducting all eligible expenses. As such, proper organization is the most fundamental skill that an entrepreneur needs to develop if he or she is to maintain an efficient, scalable and profitable business. It is easy to keep track of spending in a small business with one employee, but it can become incredibly time-consuming and a source of frustration if good systems and processes are not put in place right from the start.

In my experience, the easiest way to maintain a good filing system is to take the time to build a colour-coded and labelled filing system in which you can store your receipts. Investing the time and money in coming up with a good system is well worth it as it will save you countless hours of digging for receipts and minimize the income tax payable.

Whenever I have a receipt for a given eligible expense, I simply slide it into the appropriate folder. Come year-end, I know where all my receipts for 'Meals and Entertainment' can be found as they are all nicely tucked into one location.

Here is how I have my own three-drawer filing cabinet organized: Drawer #1 - Business Use of Home, Business Use of Auto ; Drawer #2 - All Eligible Business Expenses ; Drawer #3 - Historical Business Expenses & Tax Returns

Drawer #1

- Large BLUE hanging folder labelled "Home Expenses" with four subfolders labelled as follows:

> **Utilities:** All Heat, Electricity and Water bills are placed in this folder as soon as they come in.
> **Maintenance:** All receipts for paint, yard work, repairs, etc. are placed in this folder.
> **Annuals:** Statement of Property Taxes, Interest Paid on Mortgage or Line of Credit, etc.
> **Other:** Bills and receipts for internet, telephone, hot water rental, etc.

- Large RED hanging folder labelled "Use of Auto Expenses" with three subfolders labelled as follows:

> **Fuel:** All receipts for fuel are placed in this folder, trying to sort them by date.
> **Repairs:** Receipts pertaining to repairs or maintenance on my vehicle are placed in this folder
> **Other:** Insurance, Licensing, Lease agreements, Statement of Interest on Auto Loan, etc.

Drawer #2

- Multiple folders labelled as follows:

> Meals & Entertainment, Office Expenses, Shipping, Advertising, etc. organized as such.

Drawer #3

> Folders labelled by year containing all past tax filing information, receipts, etc.

The important thing is that you come up with a system that works for you! As a small-business operator who spends a lot of time in my car, I have come up with a system that works for me.

Basically, I keep a number of labelled 'Zip-Lock' bags in my car for each of the potential receipts that I may collect while on the road. Every time I stop in for gas, I make sure to grab my receipt and I indicate the number of kilometres on my car, I then slip that receipt into a Zip-Lock labelled 'Fuel'. By locating a January receipt, I can determine the number of KMs at the start of the year and determine how many kilometres I drove throughout the year. I keep a similar bag for automotive maintenance wherein I put receipts for oil changes, tune-ups, etc.

As I operate a few rental properties, I keep a specific bag for each building and anytime I pop into a hardware store to pick-up something for my buildings, I simply slip the receipt into the corresponding bag and note on the back what was purchased and why.

Similarly, I have a Zip-Lock for Meals & Entertainment, Office Expenses, etc. one for pretty much anything that I might collect a receipt for while on the road. Whenever I incur an expense that may be eligible, I simply put the receipt in its appropriate Zip-Lock.

Every few months when cleaning my 'mobile-office', I take the time to enter my receipts into a Microsoft Excel Spreadsheet noting the date on the receipt, the amount, what was purchased and for what business. I organize these and use them to file my income tax return. Alternatively, you could hire a bookkeeper to keep track of these expenses as your business grows and your time becomes more valuable.

This technique may not be the most organized, or the most high-tech, but it works for me!

How much tax do I have to pay/How much should I set aside?

For most employed individuals, remitting taxes on income has never been an issue they have had to contend with. Put simply, as an employee, it was being cared for by your employer who would deduct income tax payable, CPP and EI on your behalf and remit it to Revenue Canada. As you have taken control of your sources of income, you must now assume control of remitting to Revenue Canada.

It is strongly recommended that you get into the habit of setting aside monies for the income tax owing on your newly earned income. This can be achieved through a strict policy to be used when withdrawing monies from your business account wherein a specific percentage is always put aside into a separate bank account to help save for your upcoming tax burden.

The essential question that remains to be answered is "How much should I set aside", or "What percentage of my income should I set aside for taxes". Predicting income tax payable on earned income from a business is a difficult task. As such, it is recommended to err on the side of caution by putting away additional sums of money in case of sudden rises in income, which not only impact your tax burden going forward, but all income earned throughout the calendar year. It is strongly recommended that you contact a professional for assistance in this matter, though the following three-step process can assist you in estimating the amount to set aside.

1 – Project Net Business Income for the Calendar Year (Total Business Income – Eligible Expenses)

2 – Project Total Income from all other sources for the Calendar Year (Employment, Rental, EI, Investment)

3 – Determine your TOSF (Taxes Owing Savings Factor)

Once you have determined your projected income for the year, you can determine your TOSF. This is the percentage of business earnings you should set aside for your upcoming income tax burden. The following chart can assist you in determining a minimum amount to set aside (TOSF), but it is once again strongly recommended that you contact a professional for specific analysis of your situation as this is not meant to act as specific tax advice, but rather to suggest a minimum amount of business income to set aside.

Projected Income from all non-business sources	**Projected Net Business Income** (Total Business Income – Eligible Expenses)					
	$1 to $10000	$10k to $30000	$30k to $50000	$50k to $70000	$70k to $100000	$100,000+
$1 to $10000	10%	20%	25%	30%	35%	40%
$10k to $30000	20%	25%	30%	35%	40%	45%
$30k to $50000	30%	30%	35%	40%	40%	45%
$50k to $70000	35%	35%	35%	35%	45%	50%
$70000 to $100,000	45%	45%	45%	50%	50%	50%
$100,000+	50%	50%	50%	50%	50%	50%

These figures are to be used as minimum suggested percent of your business income that you should set aside for income tax owing. In all cases, a professional should be contacted to provide you with tax advice that is specific to your situation.

Joan case Study

Let's use an example to help us clarify how to use this table. Our fictional character Joan sits down in January to estimate her income for the calendar year of 2012. She comes up with the following:

Joan will continue working the same, working roughly the same hours as last years and so she expects to earn $48,000 in employment income. She has a rental property that typically earns $500 per month after expenses, for a total of $6000 per year and has a $50,000 GIC that earned will bring her a whopping $1500 in interest during 2012.

Joan is excited by the prospects of her growing network marketing business and expects to earn $52,000 in total income during 2012.

She operates her business out of a spare room in her home which is used solely for business and represents 10% of the square footage of the home. Her property taxes, insurance and utilities combined are usually around $10,000 per year, so she is entitled to a $1000 business expense on this amount (10% of $10,000).

She always uses her second vehicle when conducting business and has put 15224 kilometres on the car during the year, of which 11418 kilometres were driven solely for business according to the log she keeps in her car, resulting in 75% business use. Her maintenance on the vehicle, fuel costs, insurance, license and registration during the last calendar year was $4000, which she expects to be slightly higher (~4500) as she will be devoting more time to her business this year. As such, she can expect to have eligible vehicle expenses of $3000 (4500 * 75%).

Her remaining business expenses including bookkeeping fees, advertising, supplies, and 50% of eligible meals and entertainment expenses are expected to stay the same as last year, in the range of $6000.

Help Joan calculate her TOSF, or the minimum percentage of her business income she should set for her upcoming tax burden in April of 2013.

Step 1 - Determine Projected Net Business Income

Projected Eligible Business Expenses			
	Use of Home	$1000	
	Use of Vehicle	$4000	
	Other expenses	$6000	
	Total		$11,000
Projected Total Business Income			$52,000
Projected Net Business Income			$41,000

Step 2 - Determine Projected Total Income from other sources

Projected Income from other sources			
	Employment Income	$48,000	
	Net Rental Income	$6000	
	Interest Income (GIC)	$1500	
	Total		$55,500

Step 3 - Determine your TOSF

Projected Income from all non-business sources	**Projected Net Business Income** (Total Business Income – Eligible Expenses)					
	$1 to $10000	$10k to $30000	**$30k to $50000**	$50k to $70000	$70k to $100000	$100,000+
$1 to $10000	10%	20%	25%	30%	35%	40%
$10k to $30000	20%	25%	30%	35%	40%	45%
$30k to $50000	30%	30%	35%	40%	40%	45%
$50k to $70000	35%	35%	**35%**	35%	45%	50%
$70000 to $100,000	45%	45%	45%	50%	50%	50%
$100,000+	50%	50%	50%	50%	50%	50%

By matching the projected net business income on the top and the projected income from other sources on the left, we find the intersect at 35%. This tells me that for every dollar Joan earns from her Network Marketing Business (or any other small business) she should set aside 35 cents for her up and coming income tax burden if she wants to err on the side of caution. Her next priority will be to contact a good financial advisor to help her minimize this amount through RRSPs, investment management and complete income tax planning where applicable.

To incorporate, or not to incorporate, that is question!

For many, this discussion has become a contentious one that must be specifically analyzed to determine whether or not incorporation will benefit their particular case. To determine whether you should take the time to have someone examine the particulars of your situation, you should consider the following:

Discuss incorporation with a professional if:

- You are not making full use of the business income you are generating (e.g. $10k+ in profits annually not being spent, available for investment)

- Your spouse earns considerably less than you and you are willing to share profits with them

- You are earning a high level of income (100k+) that will likely continue growing rapidly in the future

- You would like to limit the personal liability of the business you are conducting

Until you satisfy at least one of these criteria, it is likely that the benefits of incorporation will be offset by means of the annual accounting, reporting and management fees as well as the added layers of complexity. Nonetheless, it is always a good idea to seek professional counsel on this, or any other financial matter.

What else should I discuss with my financial advisor?

A true financial advisor should be able to give you advice on all matters regarding your personal finances including mortgages, insurance and investments in RRSPs, Tax-Free Savings Accounts and non-registered savings. It is essential that your advisor is someone that you trust will do what is in your best interest while helping you reach your financial goals. You should feel comfortable using this person as a source of advice on all financial matters. Communication is a large part of that and you give them all the information necessary to formulate a complete plan, including your quantitative information (income, investments, debts, etc.) as well as your qualitative information (retirement goals, risk tolerance, etc.). A good financial advisor will take all these factors into account to help you build a flexible long-term plan to help you reach your financial goals.

Some financial advisors may also be able to help you in matters of taxation, such as whether or not to incorporate, how to make health spending tax deductible through personal benefit plans (massages, prescriptions, dental care, etc.) as well as a variety of other useful ways to maximize the use of every dollar. In all cases, it can be beneficial to obtain a second opinion and to ensure suitability in your particular case.

Most financial advisors receive compensation by means of either hourly remuneration or as a commission on the business you conduct together. In either case, it is important that your advisor discuss this openly with you to ensure that you have a good understanding of how he or she is being paid for their work. Good advice pays for itself quickly, so sometimes it is worth spending pennies to make dollars.

About the author

My name is Jean-François Démoré and I am a financial advisor with clients all over Ontario. I have a Master's Degree in Business and have taught introductory finance at the University Level. I have authored this guide with hopes that it can help the growing number of individuals venturing into the world of business ownership. For many entrepreneurs, financial organization and income tax planning is the most overlooked aspect of their business, even if they don't realize it. Uncovering value for a client in these aspects of their financial lives can be tremendously rewarding and my hope is that this guide can help you see the value of contacting a true financial advisor and working with them to reach your financial goals!

Please do not hesitate to contact me with questions or comments: jdemore@gmail.com