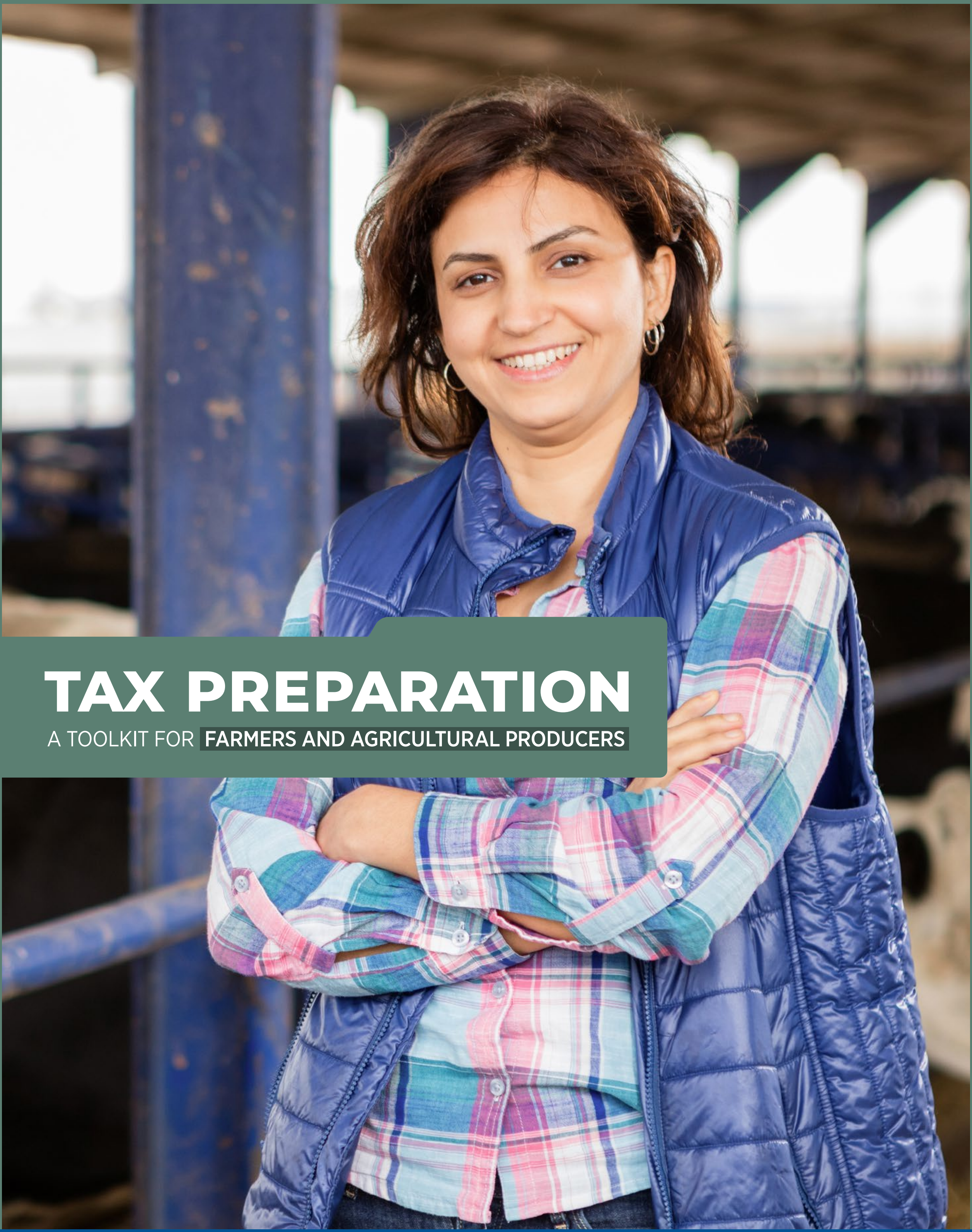


TAX PREPARATION

A TOOLKIT FOR FARMERS AND AGRICULTURAL PRODUCERS

We make life less taxing®

January is the start of a new tax season.

Many farmers and agricultural producers feel overwhelmed by the demands of tax season and the filing requirements established by the CRA.

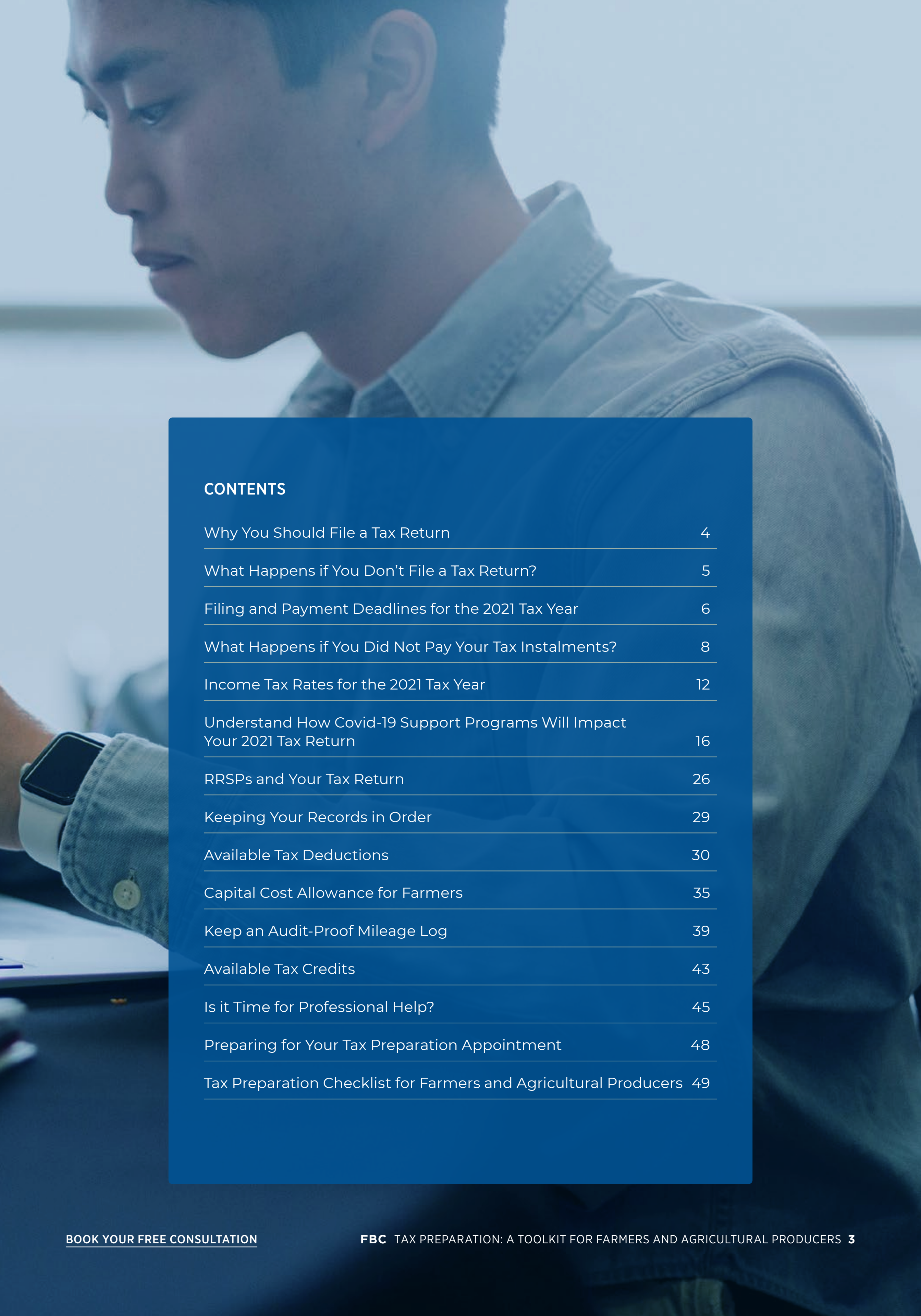
> That’s why we’ve compiled everything you need to be ready for the tax season in one handy toolkit.

ABOUT FBC

For more than 65 years, FBC has helped hard-working Canadian farmers and agricultural producers save time and money by connecting them to a people-powered network of tax, bookkeeping, and payroll experts.

We deliver industry-specific support for your business that helps maximize your tax savings, simplify your books and manage your payroll. Our legal services include incorporation, minute book filing, annual returns, financial and estate planning and more.

Disclaimer: This material is provided for educational and informational purposes only. Always consult a professional like FBC regarding your specific tax and accounting situation.



CONTENTS

WHY YOU SHOULD FILE A TAX RETURN

If you haven't made any income (or are showing a loss), you may think there's no reason to file a tax return. But by not filing your return, you're not only running the risk of losing access to benefits and credits that could help you and your family, but you're likely to run afoul of the CRA.

If you're a sole proprietor either by running a business or through self-employment, your income is viewed as personal income and must be included on your personal income tax return.

The amount you receive for credits like GST/HST or benefits like the Canada Child Benefit are all determined by the net income you fill out on your tax return.

Filing a return also creates contribution room in your Registered Retirement Savings Plan (RRSP) and your Tax-Free Savings Account (TFSA).

Last, but not least, filing keeps Canada Revenue Agency (CRA) interest charges and penalties from piling up, and causing you more stress and financial pain in the long run.

If your business suffered a loss, you could deduct that loss from the income you've earned for the year which will lower your overall taxable income and the amount of personal income tax you must pay.

WHAT HAPPENS IF YOU DON'T FILE A TAX RETURN?

If you owe money to the CRA and file your taxes late, you'll have to pay a penalty of 5% of the balance owed plus 1% for each month you are late, to a maximum of 12 months. If you are late multiple years, the penalty can increase to 10% plus 2% for each month your return is late, to a maximum of 20 months.

These percentages sound small, but they really begin to add up. Let's look at an example. Janet decided to wait to file her taxes until the following year (12 months later). She originally owed $8,000, but with penalties she ended up owing $9,360.

Original balance owing	$ 8,000.00
5% penalty for late filing	$ 400.00
1% per month late x 12 months	$ 960.00
TOTAL OWING FOR FILING 12 MONTHS LATE	**$ 9,360.00**

Late filing penalties may still apply even if you are eligible to get penalty or interest relief.

If you cannot afford to pay the entire amount you owe at once, you may be able to arrange a payment plan with the CRA.

FILING AND PAYMENT DEADLINES FOR THE 2021 TAX YEAR

There are several important deadlines you should be aware of for your 2021 income tax filing. These dates will vary depending on how your business is structured.

It's also important to pay on time. Postponing filings or payments will only push problems for a couple of months, but not make them go away.

Personal and Self-Employment Income Tax Deadline

The personal income tax filing date for self-employed Canadians is April 30, 2022 but since April 30 falls on a Saturday, you have until May 2 to file. However, if you're married or common-law, you and your spouse have until June 15th, 2022, to file your returns. This will include your T1 (personal tax form) and your T2125, Statement of Business or Professional Activities.

Here's the catch: although the CRA gives you extra time to file, if you have any amount owing, this amount must be paid by the April 30th deadline to avoid interest and penalties. So, it really is in your best interest to meet the April 30th deadline each year.

What if I'm Paying Tax in Instalments?

Instalments usually arise if the tax you owe in the previous year is more than $3,000 (before existing instalment payments).

By making these quarterly payments to the CRA, you're paying your taxes throughout the year, instead of paying a lump sum by the April 30 filing deadline.

Your tax instalments are determined by the balance you owe on your tax return from the prior year. However, if you end up making more money throughout the year, you could owe more tax as a result. Whatever additional tax you owe from making additional income must still be paid by April 30th of the following year.

Incorporated Business Tax Deadline

Tax returns for incorporated businesses are due 6 months after the corporation's fiscal year-end.

If you, like so many incorporated businesses made the calendar year-end (December 31) your fiscal year-end, this means your tax deadline will be June 30th.

If your business is incorporated and has a balance that it still needs to pay, you have until 2 months after the end of your fiscal tax year to pay it off (2 months after year-end).

There are some exceptions to this rule. Canadian-controlled private corporations with annual business income less than $500,000 may have up to 3 months rather than 2 if they meet the eligibility criteria.

Generally, corporations must pay their taxes in monthly or quarterly instalments. There are some exceptions to this rule which include (but are not limited to) the following:

- If your business is recently incorporated, you should not be required to make instalment payments until you have started your second fiscal year
- Your tax balance due is less than $3,000
- You are in a short tax year (less than one month or in the case of a small CCPC, less than one quarter)

Instalment payments are due on the last day of every complete month of your tax year, or of every complete quarter if you are an eligible small CCPC.

WHAT HAPPENS IF YOU DID NOT PAY YOUR TAX INSTALMENTS?

What are Tax Instalments?

If your income does not have enough tax withheld or if you are self-employed, have rental or investment income, certain pension payments, or have income from more than one job, you may have been asked to pay tax instalments.

Instead of paying one lump sum of taxes on April 30 of the following year, you pay tax instalments that same year in which you're earning the income, similar to how an employer deducts taxes from a pay cheque.

Tax instalment payments are always due by the following dates (except farmers and fishers who have one due date on December 31):

- **March 15**
- **June 15**
- **September 15**
- **December 15**

Please note: you may have to pay tax instalments for next year's taxes, if your net tax owing is more than $3,000 for 2022 and in either 2021 or 2020.

Tax Instalment Interest and Penalties

The CRA will charge you instalment interest and penalties if you don't pay your required instalments, if you're late in making payments, or you short your payments to them.

Instalment Interest

All late or insufficient payments are charged interest by the CRA. Because instalment interest is compounded daily at the prescribed interest rate (which is calculated quarterly and therefore can change every 3 months) it can be different depending on your business and tax situation.

To give you an example, the interest rate charged on overdue taxes, Canada Pension Plan contributions, and employment insurance premiums in the fourth quarter of 2021 was 5%.

Here's how CRA calculates your interest

Interest on each instalment payment you missed	−	Interest on each instalment you paid	=	Your total interest charges
CRA calculates interest from your balance due date, based on the option that results in the least amount of interest owed.		CRA calculates the interest for the year starting from the payment date or January 1 (whichever date is later) up to the balance due date.		If more than $25, then this is the amount you owe.

Instalment Penalties

If you made late payments or didn't pay the right amount, the CRA will also charge you a penalty on top of interest. They only charge the instalment penalty if your interest charges are more than $1,000.

There are two ways they calculate the penalty, and they charge you whichever results in a higher amount:

1. **If the flat rate of $1,000 is higher, you're charged this amount**
2. **If 25% of the instalment interest you would have paid if you had not made instalment payments is higher, you're charged this amount**

Here's an example to show you how it works, according to the CRA:

EXAMPLE: INSTALMENT PENALTY AND INTEREST

For 2021, John made instalment payments that were less than what he should have paid. **As a result, his actual instalment interest charges for 2021 are $2,500.**

If John had not made any instalment payments in 2021, his instalment interest charges would have been $3,200.

To determine John's penalty, we first calculate which rate is higher:

Interest if no payments were made	**$**	**3,200**
Multiply by the percentage rate	**×**	**25%**
Total using the 25% calculation	**$**	**800**

Since the flat rate ($1,000) is higher than the 25% calculation ($800), we use the flat rate to calculate John's penalty:

Actual interest charges	**$**	**2,500**
Minus the flat rate	**– $**	**1,000**
Difference between actual interest and rate	**$**	**1,500**

Now you divide the $1,500 by 2. John's instalment penalty would be $750.

How to Reduce Your Instalment Interest and Penalty Charges

It's easy to get demoralized when you owe interest and penalties on top of your taxes. What you may not know is that there is something you can do about it.

The CRA will reduce or eliminate interest and penalties if you:

- Overpay your next instalment payment, or
- Pay your next instalment early

These acts of good faith help you earn instalment credit interest. This credit interest can then be used against interest charges on late payments for the same tax year.

Fallen Behind?

Falling behind on your taxes or instalment payments is not uncommon. The most proactive things you can do in this situation is get caught up as soon as possible.

If you're behind by one or more years of filings or tax instalments, it may be worth it to connect with a tax professional to create a strategy to minimize your tax, interest and penalties.

With the right tax professional backing you up, you can make a plan to take back control of your tax situation and stop living with unnecessary stress.

The Price of Ignoring or Misrepresenting Your Taxes

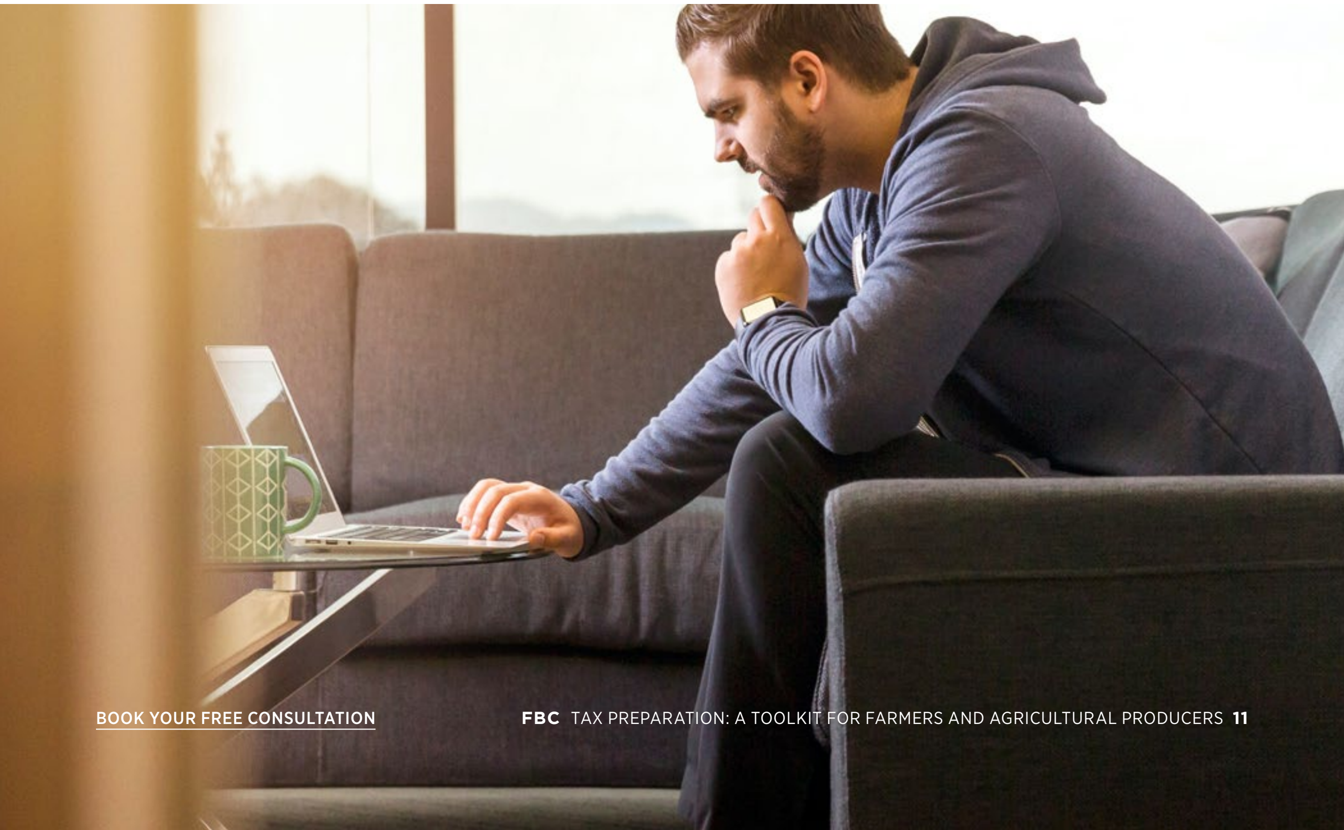
It goes without saying that whatever your tax situation, ignoring the problem or under reporting income can have far-reaching consequences.

Income tax fraud or evasion is taken very seriously by the CRA. Under the Income Tax Act, you may have additional fines and penalties imposed on you if:

- You do not file a tax return when required to do so
- You make false statements in your tax return
- You underreport your income to tax avoidance

If it is determined that you have acted fraudulently or have been found guilty of tax evasion, you can be criminally prosecuted.

The best way to avoid these scenarios is to make a tax plan that ensures you're paying the right amount of tax, at the right time.



INCOME TAX RATES FOR THE 2021 TAX YEAR

Personal Income Tax Rates

If you operate your business as a sole-proprietor or are self-employed, any income you earn through your business is taxed at the personal rate. In 2021, personal income is taxed as follows:

- **15%** on the first **$49,020** of taxable income, *plus*
- **20.5%** on the next **$49,020** of taxable income (on the portion of taxable income over $49,020 up to $98,040), *plus*
- **26%** on the next **$53,939** of taxable income (on the portion of taxable income over $98,040 up to $151,978), *plus*
- **29%** on the next **$64,533** of taxable income (on the portion of taxable income over $151,978 up to $216,511), *plus*
- **33%** of taxable income over **$216,511**

Provincial and Territorial Personal Income Tax Rates

Tax for all provinces and territories is calculated the same way as federal tax.

Provinces and Territories	Rates
Alberta	**10%** on the first **$131,220** of taxable income, *plus*
	12% on the next **$26,244**, *plus*
	13% on the next **$52,488**, *plus*
	14% on the next **$104,976**, *plus*
	15% on the amount over **$314,928**
British Columbia	**5.06%** on the first **$42,184** of taxable income, *plus*
	7.7% on the next **$42,185**, *plus*
	10.5% on the next **$12,497**, *plus*
	12.29% on the next **$20,757**, *plus*
	14.7% on the next **$41,860**, *plus*
	16.8% on the next **$62,937**, *plus*
	20.5% on the amount over **$222,420**
Manitoba	**10.8%** on the first **$33,723** of taxable income, *plus*
	12.75% on the next **$39,162**, *plus*
	17.4% on the amount over **$72,885**
New Brunswick	**9.68%** on the first **$43,835** of taxable income, *plus*
	14.82% on the next **$43,836**, *plus*
	16.52% on the next **$54,863**, *plus*
	17.84% on the next **$19,849**, *plus*
	20.3% on the amount over **$162,383**
Newfoundland and Labrador	**8.7%** on the first **$38,081** of taxable income, *plus*
	14.5% on the next **$38,080**, *plus*
	15.8% on the next **$59,812**, *plus*
	17.3% on the next **$54,390**, *plus*
	18.3% on the amount over **$190,363**
Northwest Territories	**5.9%** on the first **$44,396** of taxable income, *plus*
	8.6% on the next **$44,400**, *plus*
	12.2% on the next **$55,566**, *plus*
	14.05% on the amount over **$144,362**
Nova Scotia	**8.79%** on the first **$29,590** of taxable income, *plus*
	14.95% on the next **$29,590**, *plus*
	16.67% on the next **$33,820**, *plus*
	17.5% on the next **$57,000**, *plus*
	21% on the amount over **$150,000**
Nunavut	**4%** on the first **$46,740** of taxable income, *plus*
	7% on the next **$46,740**, *plus*
	9% on the next **$58,498**, *plus*
	11.5% on the amount over **$151,978**
Ontario	**5.05%** on the first **$45,142** of taxable income, *plus*
	9.15% on the next **$45,145**, *plus*
	11.16% on the next **$59,713**, *plus*
	12.16% on the next **$70,000**, *plus*
	13.16% on the amount over **$220,000**
Prince Edward Island	**9.8%** on the first **$31,984** of taxable income, *plus*
	13.8% on the next **$31,985**, *plus*
	16.7% on the amount over **$63,969**
Saskatchewan	**10.5%** on the first **$45,677** of taxable income, *plus*
	12.5% on the next **$84,829**, *plus*
	14.5% on the amount over **$130,506**
Yukon	**6.4%** on the first **$49,020** of taxable income, *plus*
	9% on the next **$49,020**, *plus*
	10.9% on the next **$53,938**, *plus*
	12.8% on the next **$348,022**, *plus*
	15% on the amount over **$500,000**

Small Business Corporate Tax Rates

One of the benefits of incorporating your business is that Canadian controlled private corporations (CCPC) can take advantage of the small business tax deduction.

What is the Small Business Tax Deduction?

The Small Business Tax Deduction (SBD) provides small CCPC with a reduced rate of tax payable on annual income up to $500,000 CAD (or $600,000 CAD in Saskatchewan).

Note that if your corporation holds in excess of $50,000 of passive investment income, you will see a reduction in the amount that your active income is eligible for the small business tax rate.

Corporate 2021 Tax Rates for CCPC

	Small Business Income Rate	SBD Limit	Active Business Income Rate	Investment or Passive Income Rate
Federal	9.0%	$500,000	15.0%	38.7%
Alberta	2.0%	$500,000	8.0%	8.0%
British Columbia	2.0%	$500,000	12.0%	12.0%
Manitoba	0.0%	$500,000	12.0%	12.0%
New Brunswick	2.5%	$500,000	14.0%	14.0%
Newfoundland & Labrador	3.0%	$500,000	15.0%	15.0%
Nova Scotia	2.5%	$500,000	14.0%	14.0%
Northwest Territories	2.0%	$500,000	11.5%	11.5%
Nunavut	3.0%	$500,000	12.0%	12.0%
Ontario	3.2%	$500,000	11.5%	11.5%
Prince Edward Island	2.0%	$500,000	16.0%	16.0%
Saskatchewan	0.0%	$600,000	12.0%	12.0%
Yukon	0.0%	$500,000	12.0%	12.0%

Combined Federal and Provincial 2021 Tax Rates for CCPC

Province/ Territory	Small Business Income Rate	SBD Limit	Active Business Income Rate	Investment or Passive Income Rate
Alberta	11.0%	$500,000	23.0%	46.7%
British Columbia	11.0%	$500,000	27.0%	50.7%
Manitoba	9.0%	$500,000	27.0%	50.7%
New Brunswick	11.5%	$500,000	29.0%	52.7%
Newfoundland & Labrador	12.0%	$500,000	30.0%	23.7%
Nova Scotia	11.5%	$500,000	29.0%	52.7%
Northwest Territories	11.0%	$500,000	26.5%	50.2%
Nunavut	12.0%	$500,000	27.0%	50.7%
Ontario	12.2%	$500,000	26.5%	50.2%
Prince Edward Island	11.0%	$500,000	31.0%	54.7%
Saskatchewan	9.0%	$600,000	27.0%	50.7%
Yukon	9.0%	$500,000	27.0%	50.7%

UNDERSTAND HOW COVID-19 SUPPORT PROGRAMS WILL IMPACT YOUR 2021 TAX RETURN

Did your business take advantage of federal COVID-19 support programs in 2021? If so, you may be concerned about the tax implications of receiving benefits from the various programs.

- **What do you need to report as income on your 2021 tax return?**
- **Will you have to pay additional tax on the emergency benefit programs that withheld tax at the source?**
- **Do you have to pay tax on a loan like the Canada Emergency Business Account?**

We've provided a summary to these common questions on the following pages.

Wage Subsidy Programs for Employers

A NOTE ON WAGE SUBSIDY PROGRAMS

During the 2021 tax year, the government created Canada Recovery Hiring Program (CRHP) in addition to the Canada Emergency Wage Subsidy (CEWS) to partially cover employee wages.

Employers can only claim one wage subsidy benefit: CRHP or CEWS, whichever program provides a higher benefit for eligible claim periods.

To ensure you're maximizing the subsidies available to you, we recommend speaking with your accountant or tax specialist. FBC offers subsidy application support for our Members.

Canada Emergency Wage Subsidy

What is it?

The Canada Emergency Wage Subsidy (CEWS) was a taxable wage subsidy program available to employers who experienced a drop in revenue due to COVID-19.

The intention of the program was to prevent layoffs and make it easier to resume operations as we move through the pandemic. Since salaries are often the biggest cost on an income statement, the subsidy helps with cash flow to make for operating costs like rent, utilities, insurance, and property taxes more manageable.

What were the program dates?

March 15, 2020, to October 23, 2021

What are the application deadlines?

Each CEWS claim period covered a specific period of 4 weeks and did not renew automatically. Eligibility and subsidy amounts must be confirmed before you apply for each period.

The deadline to apply is 180 days after the end of the claim period.

While the last claim period for CEWS ran from September 26 to October 23, 2021, if you are eligible for CEWS, you have until Thursday, April 21, 2022, to make your final CEWS claim.

Depending on where you’re at in the 2022 calendar year, you may be able to retroactively claim or increase your claim for periods that are still open to receive applications.

What to do for missed claim periods

In some circumstances, the CRA may accept your late-filed wage subsidy application or request to increase your subsidy for closed periods.

You will have to contact the CRA Business Enquiries line to determine your eligibility to submit a late application.

We recommend working with a professional if you find yourself in this position.

How CEWS will impact your tax return

The Canada Emergency Wage Subsidy is taxable. You must include the amount of CEWS you receive on your tax return. You have two options to consider:

1. **Reduce your related wage expenses by the amount of CEWS you received OR**
2. **Report CEWS as income earned in the tax year**

The CEWS is generally considered to be taxable income dated for the last day of the claim period, regardless of when you receive payment. For example, if you applied and received a wage subsidy for claim period 21 (September 21 to October 23, 2021), the CRA considers you to have received that income on October 23, 2021, regardless of when you receive payment.

How to report CEWS as income on your tax return

INDIVIDUAL EMPLOYERS:

- **Sole proprietors:**
  - Include CEWS subsidies as "other income" on line 8230 on your T2125 Statement of Business or Professional income
- **Self-employed farmers:**
  - Include CEWS subsidies as "other income" on line 9600 on your T2042 Statement of Farming Activities
- **Self-employed fishers:**
  - Include CEWS subsidies as "other income" on line 9600 on your T2121 Statement of Fishing Activities

INCORPORATED BUSINESSES:

The CEWS your incorporated business received during your tax year must be reported as income on both:

- **Schedule 1 of your T2 Corporation Income Tax Return (T2SCH1)**
  - Line 605 under "Other additions" should include a short description identifying CEWS (for example: "CEWS $10,000") and on corresponding Line 295, enter "0"
- **Line 8242 "Subsidies and Grants" on your General Index of Financial Information (GIFI)**

PARTNERSHIPS

The CEWS your partnership received during the fiscal period must be reported as income on both:

- **Schedule 1 of your T5013 "Net Income (Loss) for Income Tax Purposes"**
  - Line 109 "Income or loss for tax purposes from partnerships"
  - On any of lines 600 to 604, include a short description identifying CEWS (for example: "CEWS $10,000") and on corresponding Line 290 to 294, enter "0"
- **Line 8242 "Subsidies and Grants" on your General Index of Financial Information (GIFI)**

Canada Recovery Hiring Program

What is it?

The Canada Recovery Hiring Program (CRHP) is meant to help employers in their recovery process whether they're hiring and re-hiring staff, increasing shifts, or increasing overall pay.

Employers who meet qualifying revenue declines (0-10% depending on eligibility period) due to COVID-19 will receive a flat rate subsidy (this ranges from 20-50%, again, depending on the eligibility period).

Because CRHP launched while CEWS was still open, during the periods where employers are eligible for CEWS, employers may have had their wages subsidized through CRHP if the benefit payable was higher through CRHP. Employers may receive either CRHP or CEWS, for the period in which they are eligible to receive a wage subsidy but not both.

To ensure you are eligible to receive the wage subsidies and that your applications are submitted accurately to meet CRA requirements, we strongly recommend speaking with your accountant or tax specialist. FBC offers subsidy application support for our Tax Members.

What are the program dates?

June 6, 2021 to May 7, 2022

What are the application deadlines?

Each CRHP claim period covers a specific period of 4 weeks and does not renew automatically. Eligibility and subsidy amounts must be confirmed before you apply for each period.

The deadline to apply is 180 days after the end of the claim period.

Depending on where you're at in the 2022 calendar year, you may be able to retroactively claim or increase your claim for periods that are still open to receive applications.

How CRHP will impact your tax return

The Canada Recovery Hiring Program must be reported as income for the tax year or fiscal period in which you received it.

The CRHP is considered received on the last day of the claim period to which it relates. For example, if you applied for and received the subsidy for claim period 21 (September 26 to October 23, 2021), the CRA would consider you to have received the subsidy on October 23, 2021, regardless of when you applied or received it.

How to report CRHP as income on your tax return

INDIVIDUAL EMPLOYERS:

- **Sole proprietors:**
  - Include CRHP subsidies as “other income” on line 8230 on your T2125 Statement of Business or Professional income
- **Self-employed farmers:**
  - Include CRHP subsidies as “other income” on line 9600 on your T2042 Statement of Farming Activities
- **Self-employed fishers:**
  - Include CRHP subsidies as “other income” on line 9600 on your T2121 Statement of Fishing Activities

INCORPORATED BUSINESSES:

The CRHP your incorporated business received during your tax year must be reported as income on both:

- **Schedule 1 of your T2 Corporation Income Tax Return (T2SCH1)**
  - Line 605 under “Other additions” should include a short description identifying CRHP (for example: “CRHP $9,000”) and on corresponding Line 295, enter “0”
- **Line 8242 “Subsidies and Grants” on your General Index of Financial Information (GIFI)**

PARTNERSHIPS

The CRHP your partnership received during the fiscal period must be reported as income on both:

- **Schedule 1 of your T5013 “Net Income (Loss) for Income Tax Purposes”**
  - Line 109 “Income or loss for tax purposes from partnerships”
  - On any of lines 600 to 604, include a short description identifying CEWS (for example: “CRHP $10,000”) and on corresponding Line 290 to 294, enter “0”
- **Line 8242 “Subsidies and Grants” on your General Index of Financial Information (GIFI)**

Canada Emergency Business Account

What is it?

The Canada Emergency Business Account Loan (CEBA) provided up to $60,000 in interest-free loans to small businesses.

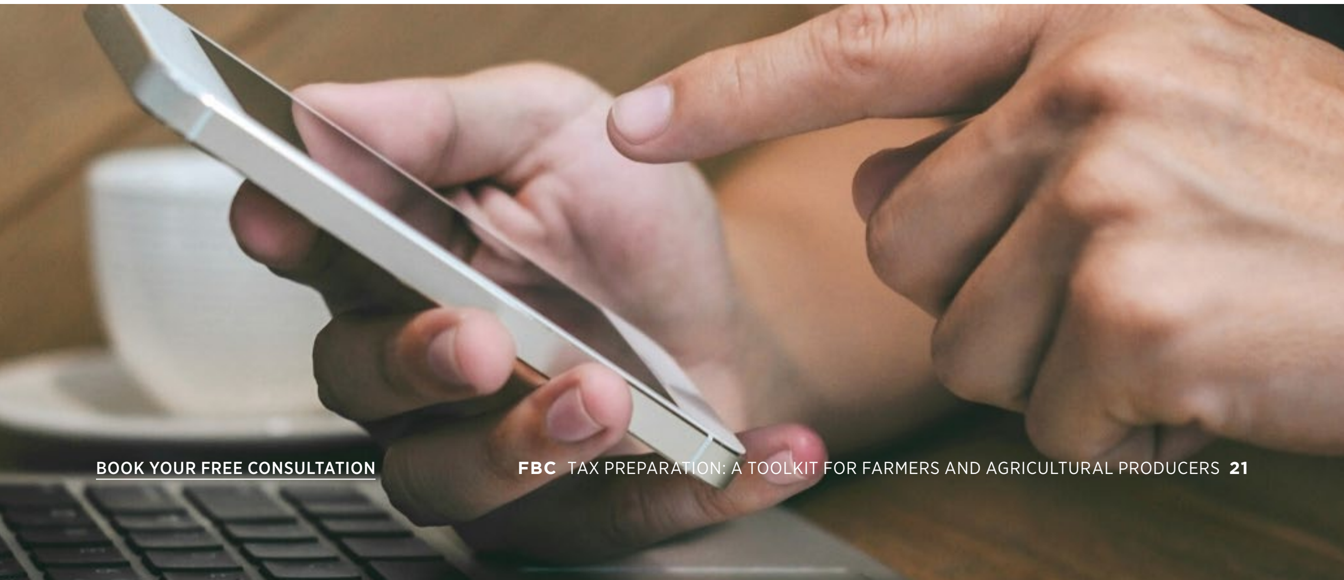
The program is no longer accepting applications but if you did apply and receive CEBA, remember that it remains interest free until December 31, 2023, and up to $20,000 of the loan is forgivable only if you repay it by then.

How CEBA will impact your tax return

The forgivable portion of the loan is taxable, but you have two options to handle this on your tax return:

1. **Include the forgivable amount as income in 2021 (or the year you received the CEBA loan).**
2. **Reduce the amount of non-deferrable operational expenses by the forgivable amount for the year in which CEBA was received. For example:**

> **Bill applied for and received the $60,000 CEBA loan** in February 2021 for his incorporated greenhouse operation to assist it with paying for non-deferrable expenses (including insurance, utilities, and lease payments for his equipment).
>
> The forgivable portion of this loan is $20,000 and since it was received during his fiscal (tax) year, it must be reflected in his 2021 income tax return. He and his tax professional have chosen that instead of adding it as income on his T2 return, they will reduce the amount of non-deferrable expenses he's claiming as deductions by $20,000.
>
> **If Bill does not repay the loan by December 31, 2023, he must then report the $20,000 as income received on the greenhouse's 2023 T2 income tax return.**



Canada Emergency Rent Subsidy

What is it?

The Canada Emergency Rent Subsidy (CERS) provided a direct rent and mortgage subsidy to qualifying businesses, charities, and non-profits.

The subsidy covers eligible fixed property expenses, including rent and is available on a sliding scale to business owners. As the amount your business receives proportional to your revenue loss, it may be well worth investigating if you're eligible for the subsidy. For example:

> If your business experienced a revenue drop of 70% or more compared to pre-pandemic levels, you could receive a subsidy of up to 65% for eligible expenses until October 23, 2021.

There's also another layer of support for businesses whose revenues have dropped and have had to close their doors or limit their activities due to public health orders.

If your business qualifies, it could receive an additional 25% of rent support, which could mean a rent subsidy of 90%.

Again, time is of the essence if you think you meet the eligibility criteria. If in doubt, it's always good to speak to a professional about your specific situation.

What are the program dates?

September 27, 2020, to October 23, 2021

The government has introduced new programs for hardest-hit industries including tourism and hospitality. Please visit our website at fbc.ca for more information.

What are the application deadlines?

Each CERS claim period covers a specific period of 4 weeks and does not renew automatically. Eligibility and subsidy amounts must be confirmed before you apply for each period.

The deadline to apply is 180 days after the end of the claim period.

While the last claim period for CERS ran from September 26 to October 23, 2021, those eligible for CERS have until Thursday, April 21, 2022, to make their final CERS claim. Depending on where you're at in the 2022 calendar year, you may also be able to retroactively claim for additional periods.

How CERS will impact your tax return

The amount of CERS support you receive is taxable and must be included as taxable income on your tax return.

CERS is considered received on the last day of the claim period it relates to. For example, if you applied for and received the subsidy for claim period 14 (September 26 to October 23, 2021), the CRA would consider you to have received the subsidy on October 23, 2021, regardless of when you applied or received it.

How to report CERS as income on your tax return

INCORPORATED BUSINESSES:

The CERS your incorporated business received during your tax year must be reported as income on both:

- **Schedule 1 of your T2 Corporation Income Tax Return (T2SCH1)**
    - Line 605 under "Other additions" should include a short description identifying CERS (for example: "CERS $3,000") and on corresponding Line 295, enter "0"
- **Line 8242 "Subsidies and Grants" on your General Index of Financial Information (GIFI)**

PARTNERSHIPS

The CERS your partnership received during the fiscal period must be reported as income on both:

- **Schedule 1 of your T5013 "Net Income (Loss) for Income Tax Purposes"**
    - Line 109 "Income or loss for tax purposes from partnerships"
    - On any of lines 600 to 604, include a short description identifying CEWS (for example: "CERS $10,000") and on corresponding Line 290 to 294, enter "0"
- **Line 8242 "Subsidies and Grants" on your General Index of Financial Information (GIFI)**

UNINCORPORATED BUSINESSES:

- **Sole proprietors, self-employed individuals:**
    - Include CERS subsidies as "other income" on line 8230 on your T2125 Statement of Business or Professional income
- **Self-employed farmers:**
    - Include CERS subsidies as "other income" on line 9600 on your T2042 Statement of Farming Activities
- **Self-employed fishers:**
    - Include CERS subsidies as "other income" on line 9600 on your T2121 Statement of Fishing Activities

Individual Emergency Support Benefits

The government provided support to individuals through a number of different programs. Below we summarize how each of these benefits should be reported on your personal income tax return.

Please note, the government has proposed additional benefits and changes to existing benefits that, at time of publishing, have not yet been confirmed. The following summaries are current as of time of publishing.

If you require additional information on each individual program, please go to the Government of Canada's website

Canada Recovery Benefit (CRB)

- September 27 to October 23, 2021
- Benefits of up to $1,000 for a two-week period (up to a maximum of 27 periods)
- The CRA will provide you with a T4A tax information slip
- CRB amount will be shown in box 202
- Report the amount received on line 13000 of your tax return along with any other COVID benefits reported on your T4A slip
- While 10% taxes are withheld at source, you may be required to pay additional tax on CRB depending on your total income in 2021 and marginal tax rate

Canada Recovery Sickness Benefit (CRSB)

- September 27, 2021, to May 7, 2022
- Benefits of up to $500 for a one-week period (up to a maximum of 6 periods)
- The CRA will provide you with a T4A tax information slip
- CRSB amount will be shown in box 203
- Report the amount received on line 13000 of your tax return along with any other COVID benefits reported on your T4A slip
- While 10% taxes are withheld at source, you may be required to pay additional tax on CRSB depending on your total income in 2021 and marginal tax rate

Canada Recovery Caregiving Benefit (CRCB)

- September 27, 2021, to May 7, 2022
- Benefits of up to $500 for a one-week period (up to a maximum of 46 weeks)
- The CRA will provide you with a T4A tax information slip
- CRCB amount will be shown in box 204
- Report the amount received on line 13000 of your tax return along with any other COVID benefits reported on your T4A slip
- While 10% taxes are withheld at source, you may be required to pay additional tax on CRB depending on your total income in 2021 and marginal tax rate

VERIFY YOUR TAX SLIPS

Here are a few pointers when it comes to declaring your COVID-19 benefits:

- All federal COVID-19 benefits that you received from the CRA in 2021 will be shown on one T4A slip
- If you applied for multiple benefits or made repayments, verify that the amounts on your T4A slip are correct before you report them in your tax return
- Verify COVID-19 amounts on your T4A
- Provincial or territorial COVID-19 financial assistance payments will be on separate T4A slips

RRSPS AND YOUR TAX RETURN

One of the best tools to lower your taxable income is a Registered Retirement Savings Plan (RRSP).

How RRSPs Work

RRSPs are a tax deferral mechanism. Contributions to an RRSP are deductible against your current income so you receive immediate tax relief and tax-sheltered growth. When you eventually go to withdraw the money in your retirement, it's taxed at that time when you are paying lower taxes.

To maximize the benefits of the RRSP, you should contribute to it when you're in a higher tax bracket and withdraw from it when you're in a lower tax bracket. Contributing to an RRSP can significantly bring down your taxable income.

For your 2021 tax year, you can contribute 18% of earned income to your RRSP, up to a maximum of $27,230.

If you're a high earner, the amount you contribute to your RRSP will significantly lower your taxable income.

Let's look at an example:

- **You make $120,000 in 2021 and contribute $15,000 to your RRSP**
- **The CRA will tax you on $105,000 of income instead of $120,000, since the contribution is tax deductible**
- **You pay tax on the contribution in the year you withdraw it so if you take out the money in your retirement when you have a lower income, you'll pay less tax**

How Much can you Contribute to an RRSP?

First, it is important to understand the difference between your deduction limit and your contribution limit:

- Your deduction limit is the amount you're permitted to put into your RRSP and use as a deduction on your income tax report. For the 2021 tax year, it is up to 18% of your reported 2020 income (to a maximum of $27,830, whichever is less).
- Your contribution limit is equal to the current year's deduction limit plus any unused deduction room from previous years.

Since most people do not contribute the maximum amount to their RRSPs every year, your deduction limit will be much lower than your contribution limit.

If you have multiple RRSPs, including one for a spouse, your deduction limit (as calculated above) applies to all of them combined.

Here's an example:

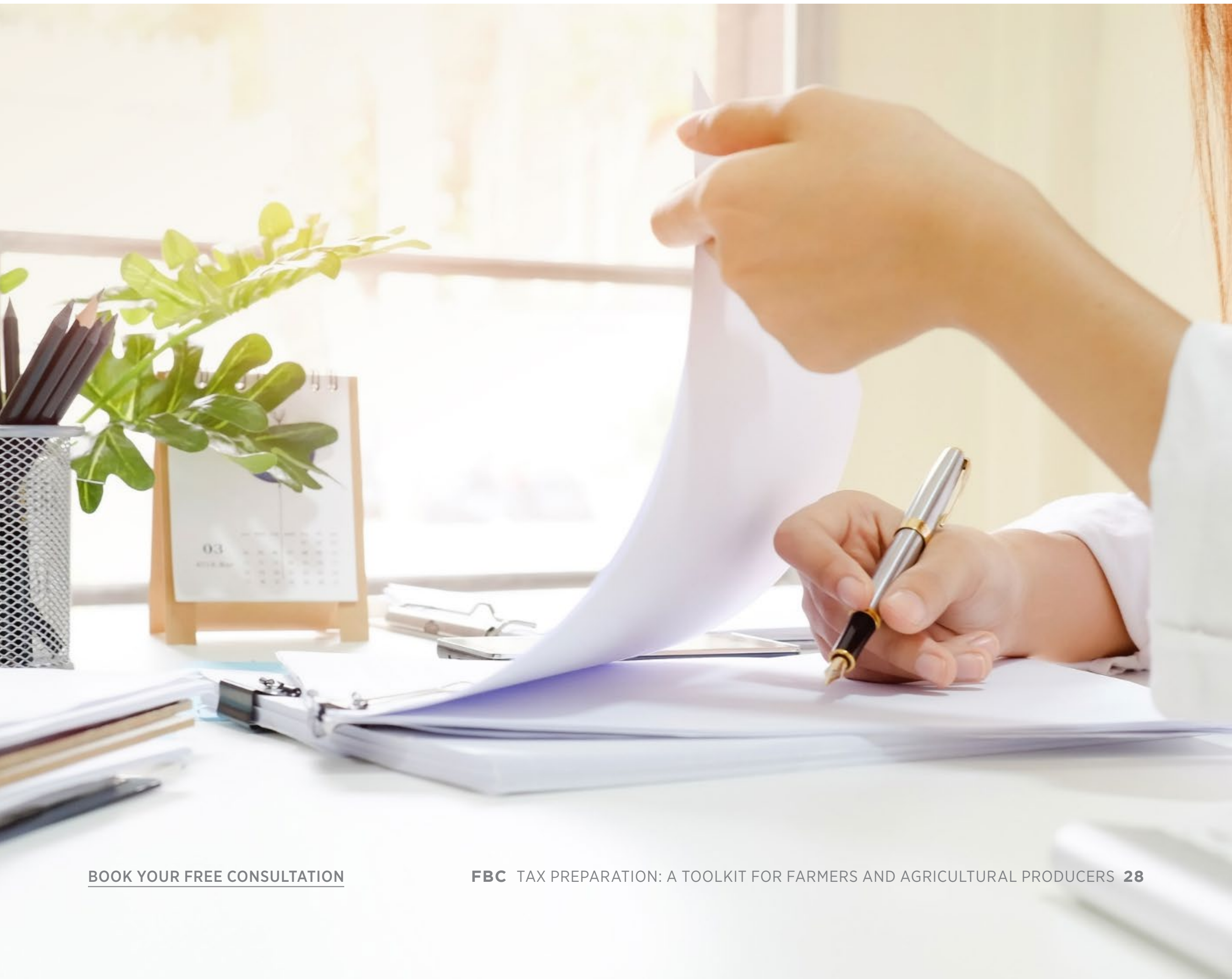
- Mary's full-time, pre-tax employment income in 2020 was **$80,000**. Her maximum deduction limit for the 2021 tax year would be calculated as follows: **$80,000 × 18% = $14,400** (less than the maximum limit of $27,830).
- Mary can deduct up to **$14,400** through her RRSP contribution for the 2021 tax year.
- If Mary contributes $6,000 to her RRSP for 2021, she'll have **$8,400** that she can carry forward in contribution room for the 2022 tax year. Assuming her deduction limit stays the same, she will be able to contribute a total of **$22,800 ($14,400 + $8,400)**.

2020 income		$	80,000
2021 maximum deduction ($80,000 × 18%)		$	14,400
Less 2021 actual contribution	–	$	6,000
Contribution carry-forward ($14,400 – $6,000)	=	$	8,400
2022 CONTRIBUTION ROOM		**$**	**22,800**

If you over-contribute to your RRSP by more than $2,000 in any given year, you may have to pay a tax of 1% per month on the amounts that exceed your RRSP deduction limit.

The CRA keeps track of your contributions so the easiest way to find out what you can contribute in 2021, is to review your latest notice of assessment or notice of reassessment. You can also find it on a T1028 form, which the Canada Revenue Agency (CRA) sends you if there were changes to your RRSP deduction limit since your last assessment.

This RRSP contribution deadline will vary based on the year; however, it will always be 60 days after December 31st of the taxation year. The deadline to contribute to your RRSP for the 2021 tax year is March 1st, 2022.



KEEPING YOUR RECORDS IN ORDER

The law requires you to keep records of all your transactions to be able to support your income and expense claims. You must keep daily records of your income and expenses, along with vouchers and receipts.

If you don’t maintain records and are audited by the CRA, you could face hefty fines and penalties.

When it comes to record-keeping, remember:

- Your records may be inspected by tax auditors – they should be filed along with cancelled cheques and other vouchers to support your book entries.
- Besides being essential for providing you with accurate, up-to-date information on the financial position of your business, good records help you with business planning and satisfy lenders when you go to apply for a loan or additional credit.
- Keep your records for at least six years after your last Notice of Assessment, which is as far back as the CRA will ask to see them in the event of an audit. You can keep the physical receipts or digital copies.
- Make sure the income you report is supported with original documents, which include sales invoices, bank deposit slips, fee statements, contracts and receipts.
- The CRA won’t accept your bank or credit card statements to justify deductible business expenses—you need an itemized receipt that corresponds with the transaction.
- The receipts must show the date of the purchase, name and address of the seller or supplier, your name and address, the full description of the goods or services and the seller’s business number if they register for GST/HST. If you don’t have receipts, the CRA could disallow your expense claims.
- Keep in mind that some COVID-related programs require unique calculations and supporting documents that would not have been required before COVID-19.

AVAILABLE TAX DEDUCTIONS

Most of the tax rules that apply to Canadian small business owners also apply to farmers and agricultural producers.

There are however some expenses, tax deductions and write-offs that apply specifically to income earned through agricultural activities that will help lower your tax bill.

Advertising

You can deduct expenses for online advertising, advertising on Canadian radio and television stations and Canadian newspapers and magazines, as well as promotional materials like business cards and pamphlets.

Sponsorship of local sports teams, and other branded charitable donations, can be claimed as advertising if the materials include your branding and logo, which could potentially increase awareness of your business.

Bad Debts

If you are owed money from a client but are unable to collect it within a year, you may be able to claim it.

Not all bad debt is eligible. The CRA will not let you claim bad debts related to a mortgage or debts that result from a conditional sales agreement. We always advise that business owners speak to a tax professional for more information.

Building Repairs and Maintenance

This includes repairs to fences and buildings used for farming (this excludes your farmhouse).

Business Taxes, Licenses and Memberships

You can deduct annual license fees (beverage, trade, motor vehicle licenses) and some business taxes (municipal taxes, land transfer taxes, gross receipt tax, health and education tax and hospital tax). You can also deduct annual dues or fees for trade or commercial associations, as well as magazine subscriptions, if they're expenses incurred to earn business income.

Note: golf club memberships are not tax deductible. They're one of the items specifically restricted by the CRA when it comes to tax deductions.

Business Use of Home Expenses

You can deduct expenses for the business use of a workspace in your home. This includes part of your maintenance costs (cleaning materials, utilities, home insurance) along with part of your property taxes, mortgage interest and capital cost allowance.

DID YOU CALCULATE YOUR DEDUCTION FOR BUSINESS-USE-OF- HOME EXPENSES?

You're able to claim this expense as a tax deduction if the workspace in your home is the principal place of business, or you use the space only to earn business income and meet regularly with your customers in the workspace.

To claim this expense and avoid CRA scrutiny, make sure you've calculated the percentage of your home that's used for your business and apply that percentage to the tax deduction. For example:

Total living space	1,000 ft^2
Total office space	100 ft^2
Percentage of home used for business (1,000 ft^2 ÷ 100 ft^2)	10%
Annual electricity bill	$ 1,000
Multiply by percentage of home used for business	× 10%
TOTAL DEDUCTION	$ 100

Clearing, Levelling and Draining Land

You can deduct expenses associated with clearing trees, roots, stones, and brush from your farmland, building an unpaved road and installing land drainage.

Containers and Twine

You can deduct expenses for materials you bought to package, contain, or ship farm produce or products.

Crop Insurance, Revenue Protection Program, and Stabilization Premiums

This includes premiums to participate in programs such as AgriStability, AgriInvest, AgriInsurance and AgriRecovery.

Custom or Contract Work (Includes Machine Rentals)

This includes costs related to hiring subcontractors, rental equipment used in earning farming income (aerators, dozers, plows, etc.)

A word of caution: you must ensure that the fees you are paying for subcontractor work would not qualify as employee wages as you may later find yourself on the hook for unpaid employment premiums, taxes and may be subject to penalties and interest.

Delivery, Freight and Express

Costs for delivery and freight related to your farming business can be deducted.

Depreciation Expense

If you purchase a capital asset (furniture, equipment, computers, etc.), you cannot claim the full purchase amount in one year. Instead, you claim the depreciation amount (Capital Cost Allowance or CCA) based on the rate allowed for by the CRA. Please speak with a tax professional to ensure you're using the correct CCA class and that you are claiming the correct amount.

To learn more, go to the next section: *Capital Cost Allowance for Farmers*.

Electricity

You can deduct expenses for electricity related to your farm properties.

Feed, Supplements, Straw and Bedding

You can deduct expenses for these items if they were purchased for your farming business.

Fertilizers and Lime

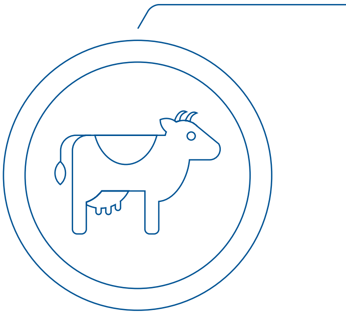
If they were used for your farming business, you can deduct these expenses.

Gasoline, Diesel Fuel and Oil for Machinery

You can deduct these expenses if used for your farming machinery.

Heading Fuel and Curing Fuel

You can deduct expenses related to heating farm buildings.



Insurance

You can deduct insurance premiums you pay for insurance on farm buildings, qualifying farm equipment, livestock and business interruption.

Interest and Bank Charges

You can deduct interest on money that was borrowed for business purposes or for buying property for your farming business. You can't deduct the principal of loan or mortgage payments, or any money borrowed for personal purposes.

You can deduct the fee you pay to reduce the interest rate on your loan, along with any penalty a bank charges you to pay off your loan before it is due. Talk to your tax professional for more information.

Livestock

You can deduct expenses related to purchasing livestock.

Machinery Expenses

This includes expenses related to upkeep of your machinery.

Motor Vehicle Expenses

If you use your personal vehicle regularly for business-related activities, you can deduct a portion of your license and registration fees, fuel and oil costs, insurance, maintenance and repairs and leasing costs. See *Keep an Audit-Proof Mileage Log*.

Office Expenses

This includes small items like pens, pencils, paper clips and stationery. You can't claim calculators, filing cabinets, chairs and desks, which qualify as capital items.

Pesticides

You can deduct the cost of herbicides, insecticides, and fungicides used for your farming business.

Professional Fees

Fees for accounting, bookkeeping, tax preparation and finances can be deducted, along with legal fees.

Property Taxes

This relates to property used in your farming business.

Repairs, Licences and Insurance (Machinery)

You can deduct these costs as incurred for your machinery.

Rent (Land, Buildings and Pasture)

If you rent the land for your farming business, you can expense the costs.

Salaries, Wages and Benefits

You can deduct employees' gross salaries and other benefits incurred by you as the employer. As the employer, you must deduct your part of CPP contributions and employment insurance premiums. You can also deduct workers' compensation amounts payable on employees' remuneration. You can deduct salaries paid to yourself or business partners ONLY if you are incorporated and pay yourself a salary through the corporation.

Seeds and Plants

This relates to seeds and plants used in your farming business.

Small Tools

If the tools cost less than $500, you can deduct their full cost. For tools that cost more than $500 you must deduct their cost over a period of years using Capital Cost Allowance.

Veterinary Fees, Medicine and Breeding Fees

You can deduct expenses related to medicine for your livestock, along with veterinary and breeding fees.

CAPITAL COST ALLOWANCE FOR FARMERS

If you acquire a depreciable property or asset for your farming business, such as a building, furniture, or equipment, and it is valued at more than $500, you can't deduct the entire cost as an expense in one taxation year.

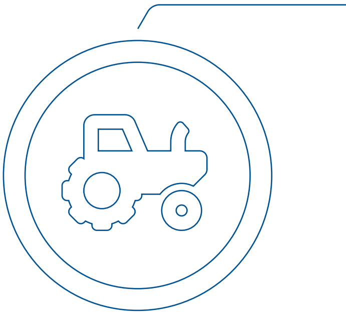
Since these assets wear out over time, they are considered "capital" and you can deduct their cost over a period of several years using Capital Cost Allowance (CCA).

The CCA is the portion of the asset the Canada Revenue Agency (CRA) will allow you to deduct as depreciation on your tax return each year.

There are a few rules you need to follow to claim CCA.

- You cannot deduct its full cost when you calculate your net business income for the year in which you acquired the asset or property. It must be deducted over a period of years and is subject to the Class allowances as defined by the CRA.
- CCA can only be deducted on assets available for use at the end of your fiscal year. If you purchased an asset but it isn't available for use, you can't claim CCA in that tax year. For example, let's say you buy a combine in the fall, but it hasn't been manufactured yet—it wouldn't be eligible for CCA since it's not available for use yet.
- While you don't have to use your purchase in the fiscal year you acquired it, it must be delivered and/or made available to you and be capable of performing the function for which you bought it.

There are different rules and classes depending on the asset, its use and its value. We recommend talking to a tax specialist to determine the optimal application for this deduction.



How much CCA can I claim?

It depends on the type of property you own and when you acquired it. The CRA groups fixed assets into different classes, and each class has its own depreciation rate.

For example:

- Silos are considered Class 8 property which allows you to deduct 20% for your annual CCA
- Tractors, trailers and trucks are typically considered Class 10 which allows for 30% CCA

You don't have to claim the maximum amount of CCA in any given year. You can claim the amount you'd like, from zero to the maximum allowed for the year. This is a good opportunity to take stock of your tax position and if it would benefit you to claim CCA.

If you don't have to pay income tax for the year, you may not want to claim CCA since it reduces the balance of the class by the amount of CCA claimed. As a result, the amount of CCA available for you to claim in future years will be reduced. In this case, you could save the CCA for future years when your tax bill is higher.

If you're hoping to bring down your income, and you purchased a fixed asset in the current fiscal year, you can take advantage of the Canadian government's accelerated investment incentive.

What is the accelerated investment incentive?

If the property (qualified equipment or a vehicle) is purchased after November 21, 2018, and available for use before 2024, it's eligible for a higher rate of CCA. You can claim 150% of the normal CCA rate in the year of purchase. This program is in effect until December 31, 2023.

Here’s an example* .

Let’s say Tom bought a $100,000 silo in 2021 to replace his previous silo and it’s been manufactured and is available for use.

He’s created an addition of $100,000 in eligible property in 2021.

His undepreciated capital cost (UCC) in the 2021 tax year is $32,000, which is the balance of the silo left for further depreciation.

He disposed of the old silo. So, with a proceed of $5,000 from the sale of the previous silo, and a purchase of $100,000 on his new silo, the net additions are $95,000.

Since equipment qualifies for the accelerated investment incentive, he takes advantage of the temporary accelerated CCA rate. The incentive suspends the half-year rule that eligible property is normally subject to and provides for an accelerated CCA rate of 150% in the first year the silo is acquired.

The UCC is adjusted with the CCA calculation giving Tom a base amount of **$174,500 ($95,000 net additions + $47,500 [additional 50% of the net additions] + $32,000 UCC opening balance = 174,500)**.

The CCA rate for the silo is 20%. The 20% is applied to the adjusted UCC. **(20% x $174,500= $34,900)** So Tom subtracts the CCA number from the base amount, along with the accelerated CCA rate, giving him **$92,100 available for depreciation in 2019.**

CLASS 8:			
Opening UCC			**$ 32,000**
Additions		$ 100,000	
Disposals: Lessor of cost or proceeds			
i) cost	50,000	(5,000)	
ii) proceed	5,000		
Net additions		$ 95,000	
Accelerated IIP rule		47,500	
			$142,500
Base amount for CCA			**$174,500**
CCA (174,500 x 20%)			(34,900)
Accelerated IIP rule			(47,500)
Ending UCC			**$ 92,100**

Note: this is a simplified example. Contact your tax professional to discuss how you can take advantage of the CCA for your farm business.

What if I want to sell my fixed assets?

If you have depreciable assets to sell, it may be better to wait until the new fiscal year. The delay lets you claim another year of capital cost allowance (CCA) in the current tax year.

However, any gains on the fixed asset will also be included in your income in the following year, and the CCA will be reduced by deducting the proceeds of sale. It's best to speak to a tax professional to strategize on which option is right for you.

What if I need to repair my fixed assets?

The cost of a repair that gives a lasting benefit or advantage is a capital expense. For example, if you placed vinyl siding on the exterior walls of a wooden property, you are extending the useful life of your property. This will need to be included in your CCA for that fixed asset.

What if I buy property for both personal and business use?

If you purchase property that is used for both business and personal use (such as a passenger vehicle), you will have to calculate the portion of the property used for business purposes and claim it in the CCA section on your T2042 Statement of Farming Activities.

Here's an example *(note, it will be helpful to have page 5 of Form T2042 open while you read this)*:

Thomas bought a car in 2021 that he uses for both business and personal use. The total cost (including fees and taxes) is **$68,000**. His car falls under Class 10 which allows for **30% CCA** but only on the portion used for business purposes. He determines that **21,000 out of 46,000 total km were used for business purposes**. Assuming he did not sell another vehicle in 2021, his CCA calculation on the new car would be as follows:

- $68,000 will be entered into column 3 of "Area A – Calculation of capital cost allowance (CCA) claim"
- $68,000 will also be entered into column 3 and column 5 of "Area B – Equipment additions in the year"
- By completing the remaining columns in Area A, he calculates a CCA claim of $10,200. However, since only a portion of the vehicle was used for business purposes, he must further calculate that amount. He does that as follows:

21,000 business km/46,000 total km × $10,200 CCA = $4,656.52 allowable CCA for business use. This amount will be entered into Line 9936 (Part 4 Net income (loss) before adjustments, page 3 of Form T2042)

We recommend working with a tax professional to determine the classes and application of CCA to lower your income taxes.

KEEP AN AUDIT-PROOF MILEAGE LOG

A big perk of using your personal vehicle for business is writing off your motor vehicle expenses.

But if you're doing this without keeping a mileage log, the CRA could reject your claims for these expenses.

The good news is that by following our advice, you can avoid CRA scrutiny and still lower your tax bill.

What Qualifies as Business Use of a Motor Vehicle?

Simply put, if you are self-employed and use your personal vehicle to earn business income, the CRA considers this to be business use of a motor vehicle.

This entitles you to deduct a portion of vehicle expenses such as fuel and maintenance costs based on your mileage. However, the CRA is very specific about what vehicle kilometers count and don't count.

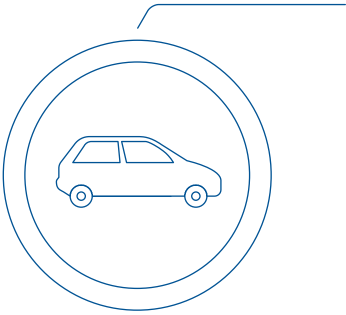
For example, driving from your home to your place of work is considered personal travel (or a commute) and does not qualify as business use of your personal vehicle.

The CRA has stated that ONLY in the following situations, driving to or from home would qualify as business use of your vehicle:

- Travel from your home to a client's place of business (or other location to attend a business meeting) and travel directly back home
- Travel from your home to a client's place of business (or other location to attend a business meeting) and back to your office/place of work
- Travel from a client's place of business (or other location to attend a business meeting) and back home

The devil is in the details which is why it's so critical to keep a detailed record of your mileage in a logbook.

What is a Mileage Log or Logbook?



A mileage log, also known as a logbook, is a record of your business travel for the entire year.

If you are self-employed and want to claim expenses on a vehicle used for business, you must keep a detailed logbook record. It should include:

- The date
- Your starting point
- Your destination
- The purpose of your trip
- Your starting mileage
- Your ending mileage
- Total kilometres driven on the trip

How do you Keep a Mileage Log?

There are lots of options on how to keep a log: you can go old school with a pen and paper; kick it up a notch by making your own spreadsheet; or even download a mileage app to your phone.

The CRA doesn't care how you keep your record – they just want a detailed one so they can verify your expense claims.

When it comes to logbooks, the more information, the better. If it ever comes down to an audit, the CRA will likely ask for your logbook and pour through it. As time marches on, it's all too easy to forget important details about where you went and why.

Ease of use is just one reason so many FBC Tax Members choose to go digital with a mileage app.

Using GPS technology, these apps record your mileage as you travel. When the trip is over, you simply classify the trip as personal or business. At the end of the year, you simply download a report and keep for your records.

Whatever method you chose, keeping track of your mileage needs to become another driving habit, as natural as doing up your seat belt or shoulder-checking before changing lanes.

Why do you Need to Keep a Mileage Log?

As stated above, if you can't provide a record of your mileage, the CRA will disallow your vehicle expenses as a tax deduction. Ultimately, this translates to you paying more taxes and making less money.

When people don't have a logbook, they tend to pull numbers out of thin air and take their best guess. But you can't guess your way out an audit; the CRA will always expect concrete and detailed proof.

From our experience, FBC Tax Members are often surprised at how much more they're able to claim just by keeping better mileage records. It might only be an extra 5%, but that's still more money in your pocket.

What Expenses are Eligible for the Business Use of Vehicle Deduction?

A portion of the following expenses are eligible when using your vehicle for business:

- Licence and registration fees
- Fuel and oil costs
- Insurance
- Interest on money borrowed to buy a motor vehicle
- Maintenance and repairs
- Leasing cost

You can also deduct the full amount of the following:

- Parking fees related to your business activities
- Supplementary business insurance for your motor vehicle

How do you Calculate and Deduct Vehicle Expenses?

For each tax year – from January 1 to December 31 – you must record your total kilometres from the year, and the kilometres you drove while earning business income. Remember:

- **Don't forget to record your odometer reading at the beginning of the tax year, and at the end of the tax year.**
- **If you change vehicles, note the dates of the change and the odometer reading for the new or leased vehicle.**

When you go to file your taxes, you will use your logbook to calculate what percentage of your vehicle was used to earn business income. You will then use this percentage to figure out how much you can deduct in order to lower your tax bill.

Let's look at an example:

Odometer reading beginning of the year	12,000 km
Odometer reading end of the year	70,000 km
Total km driven for the year (70,000 km – 12,000 km)	58,000 km
Kilometres logged as business use of vehicle	32,000 km
Percentage of deductible vehicle expenses (32,000 km ÷ 58,000 km)	55%
Annual vehicle expenses	$ 9,000
Multiply annual vehicle expenses by use percentage	55%
VEHICLE DEDUCTION AMOUNT	**$ 4,950**

This means you can deduct $4,950 of your vehicle expenses on your tax return.

If you use more than one vehicle for your business, keep a separate record for each one that shows the total kilometres driven in one year and the business kilometres driven, and all the associated expenses with each vehicle.

You'll have to calculate the expenses separately for each vehicle.

What Records do you Need Besides a Logbook?
How Long Should you Keep Them?

Aside from a copy of your logbook for the CRA, keep all your receipts for automobile expense deductions. Again, keeping your receipts organized is key to protecting yourself in the case of an audit.

Remember, anything pertaining to the vehicle is an eligible expense if it's a business vehicle. Don't lose receipts because if you do, you lose out on deductions.

We always recommend keeping your logbooks and associated receipts for 7 years (6 years after your last Notice of Assessment). This is the gold standard for audit protection when it comes to tax and accounting.

This way, if the CRA ever does challenge your automobile expenses, or reassess you after you've filed, you will have all the proof you need.

What if you've Purchased or Leased a Vehicle?

If you've purchased a vehicle, you can claim the cost of the vehicle itself over time through the Capital Cost Allowance (CCA).

One thing to note is that the kind of vehicle you own can affect the expenses you can deduct. The CRA has different rules (particularly as they relate to Capital Cost Allowance) based on its definition of "motor vehicles", "passenger vehicles", "zero-emission passenger vehicles" and "zero-emission vehicles."

There are also rules that apply if you jointly own or lease your vehicle.

As always, your best bet is to talk to a tax professional to ensure you're properly applying your deductions and CCAs.

AVAILABLE TAX CREDITS

There are tax credits available to self-employed individuals and small business owners, which can help bring down your tax bill.

Investment Credit

You may be able to claim tax credits if you invested in your small business, buying machinery, equipment, or new buildings. What if you could have taken advantage of investment tax credits, but forgot to? You can claim unused investment credits from the previous 20 years on your current year's taxes.

Apprenticeship Job Creation Tax Credit

If you own a small business that has hired an apprentice, you can claim 10% of their wages, up to a maximum of $2,000 per eligible employee.

An eligible apprentice is someone who works for you in a qualifying trade in the first two years of their field of expertise. Any unused credit can be carried back three years and carried forward 20 years (to help offset larger tax bills).

Input Tax Credit

If your small business claims goods and services tax/harmonized sales tax (GST/HST), you may be able to recover GST/HST paid or payable on purchases and expenses related to your business, by claiming input tax credits. If you own a business and buy supplies for it, you can claim the entire amount of GST paid for those items.

What expenses are eligible for input tax credits?

To claim an input tax credit, the expense(s) must be reasonable in quality, nature, and cost in relation to the nature of your business. According to the CRA's website, the following expenses may be eligible for input tax credits:

- business start-up costs
- business-use-of-home expenses
- delivery and freight charges
- fuel costs
- legal, accounting, and other professional fees
- maintenance and repairs
- meals and entertainment (allowable part only)
- motor vehicle expenses
- office expenses
- rent
- telephone and utilities
- travel

The following expenses are NOT eligible for the input tax credit:

- certain capital property
- taxable supplies of property and services bought or imported to make
- exempt supplies of property and services
- membership fees or dues to any club whose main purpose is to provide recreation, dining, or sporting facilities (including fitness clubs, golf clubs, and hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business
- property or services you bought or imported for your personal consumption, use, or enjoyment

Scientific Research and Experimental Development (SR&ED) Tax Credit

This program encourages Canadian businesses to conduct research and development by providing cash refunds and/or tax credits for your research and development expenditures.

You can pool your SR&ED expenditures and deduct them against your current-year income or keep them and deduct them in a future year.

You can also earn the SR&ED investment tax credit (ITC) and use it to reduce your income tax payable. In some cases, the CRA will refund the remaining ITC.

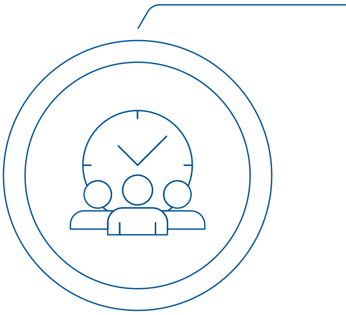
If your SR&ED work is eligible, your investment tax credit will be at least 15% and can be as much as 35% of qualified SR&ED expenditures. If you have any unused ITCs, you can carry them back three years or forward 20 years and apply them against tax payable for other years.

IS IT TIME FOR PROFESSIONAL HELP?

An experienced tax specialist that understands your business and your industry can be the difference between taking a loss and making a profit.

The right tax specialist should give continuous and ongoing support to:

- **Keep your books and records in order**
- **Track your progress**, and compare past and present financial positions
- **Plan and forecast future financial positions** and provide accurate information to help you make sound business decisions
- **Understand your business** and have experience preparing tax returns specific to your industry



5 SIGNS YOU HAVE THE RIGHT TAX PROVIDER

1 They Do More than Just File Your Taxes on Time

Keeping on top of filings is the bare minimum level of service any tax provider. Besides helping you avoid paying needless CRA late filing penalties and fees, they should stay up-to-date with tax rules and regulations, so you receive all the credits to which you're entitled.

2 They'll Build a Long-term Tax Strategy

The problem with using tax software or other one-and-done solutions is that there is no long-term planning and no tax continuity that comes with it.

An experienced tax professional knows that paying less tax means planning ahead. They should not only give you an overview of your current financial situation but should provide long-term tax planning strategy that will reduce your yearly tax bill now and over the long run.

3 They Stand Behind Their Work

It's not a matter of "if" your audited by the CRA, but "when". A trusted tax specialist should be there to not only support you when you are audited but represent you so you don't have to take time away from your business to deal with the audit process.

4 They Give You Confidence in Your Current Tax Position

Knowledge is power. While you don't need to memorize the tax code, you should at least understand your current tax situation, your tax return, and your long-term tax strategy. If your current provider doesn't give you this kind of insight, it may be time to get a second opinion.

5 They Offer an Integrated Approach to Accounting, Tax Planning and More

At some point, every small business owner hits the paperwork wall: they either don't have the time or the expertise to stay on top of bookkeeping and payroll while running their business.

A professional tax provider should offer you accounting and other back-office support under one convenient umbrella. Outsourcing things like payroll and bookkeeping not only makes your life easier, but it also ensures that all your business systems are aligned to save you money and build your wealth.

How exactly does back-office support help your tax position? Professional bookkeeping shines a light on your business so you can see where you're making money and where you need to trim the fat. A customized payroll solution prevents paperwork headaches and keeps you from making errors that result big CRA penalties. These services contribute an accurate financial picture that helps you make good business decisions all while informing your tax-saving strategy.

3 MOST COMMON TAX FILING ERRORS AND HOW TO AVOID THEM

A good tax professional will make sure you're claiming everything you can and point out deductions you may be missing. One of the first things we do for new clients at FBC is to analyze tax returns from the last three years. We frequently find opportunities for future tax savings.

Here are the three most common mistakes we see business owners (or other tax providers) make:

① Missed Credit and Deduction Carry-forward Balances

Don't forget to pick up credit and/or deduction carry-forward balances from previous years. Among these items are optional inventory amounts (OIA); mandatory inventory amounts (MIA); expenses related to home workspaces; business investment tax credits; and both capital and non-capital losses.

② Not optimizing Net Income for Discretionary Claims

These discretionary items include over-claimed capital cost allowance (CCA) that could have been used in future years when marginal tax rates might be higher and missed OIA.

③ Capital Cost Allowance Errors

After applying the one-half year rule adjustment to the cost of capital additions in the year they were acquired, we find some clients forget to add the remaining half balance of the cost to the correct CCA pool in the subsequent year. Also, new capital additions are often classified in the wrong rate classes resulting in a CCA under-claim or over-claim.

PREPARING FOR YOUR TAX PREPARATION APPOINTMENT

Your tax return is only as good as the information you provide. To create an optimized tax return that reduces your tax burden, you must gather all necessary tax slips and documentation from accurate income statements to tax receipts to GST/HST reconciliation and more.

Missing information punches holes in even the best tax strategy and can result in less tax savings.

The benefit of having an integrated tax specialist that also keeps accurate books and processes error-free payroll is that they not only have access to all the necessary information to optimize your tax return, but they can also verify the accuracy of the information being used.

This will translate into paying less tax and maximizing tax benefits. And, if the CRA ever should come calling, they have all the back-up information to support the return they submitted on your behalf.

TAX PREPARATION CHECKLIST

For Farmers and Agricultural Producers

We created this checklist and overview of tax deductions for our Tax Members in order to help optimize their taxes.

Feel free to use it to help you file your business income tax return and lower your tax bill.

As always, we recommend connecting with a tax professional if you need clarity or have questions about your personal and business tax situation.

The following pages are a summary of the documents you'll need to file your business tax return, along with a list of business deductions you can use to lower your tax bill.

BUSINESS RECORDS

- ☐ **Deposit slips**
- ☐ **Bank statements**
- ☐ **Business credit card statements**
- ☐ **Business taxes, licenses and memberships**
- ☐ **Income records**
  - ☐ Sales invoices
  - ☐ Receipts
  - ☐ Bank deposit slips
  - ☐ Cash register tapes
  - ☐ Cash purchase tickets from the sale of grain
  - ☐ Cheque stubs from marketing boards
  - ☐ Custom or contract work (including machine rentals)
  - ☐ Fee statements
  - ☐ Insurance proceeds
  - ☐ Program payments from subsidies, crop insurance or other
- ☐ **Loan Agreements and year-end balances statements**
- ☐ **Detailed year-end inventory listing**
- ☐ **Receipts on capital purchases or sales in 2021**

IF YOU HAVE EMPLOYEES

- ☐ **T4SUM: Summary of Remuneration Paid**
- ☐ **Worker’s compensation payments or benefits**
- ☐ **Payroll source deductions and taxable benefits for employees**

TAX SLIPS, CORRESPONDENCE AND RECEIPTS

- ☐ **2020 Tax Return(s)**
  - ☐ T1, T2125
- ☐ **2020 Notice(s) of Assessment**
- ☐ **CRA correspondence received throughout the year**
- ☐ **Instalment payments made for income tax, GST/HST/PST and payroll**
- ☐ **T4: Statement of remuneration paid**
- ☐ **T4A: Pension, retirement, annuity, and other income (including COVID individual support benefits)**
- ☐ **If you’re in a partnership, also include:**
  - ☐ T5013: Partnership information return

IF YOU’RE INCORPORATED, ALSO INCLUDE

- ☐ **T2: Incorporation income tax return for 2020**
- ☐ **Shareholder transactions and dividends**
- ☐ **T2 Financial Statements**
- ☐ **T5SUM: Return of Investment Income**
- ☐ **Articles of Incorporation**
- ☐ **Annual Registry Return**

INVESTMENT INFORMATION

- ☐ RRSP contribution slips
- ☐ T3 slips
- ☐ T5 slips
- ☐ TFSA Transactions
- ☐ T5008 Statement of Security Transactions
- ☐ Stock purchases and sales invoices

PERSONAL RECEIPTS (FOR T1)

- ☐ Receipts for eligible medical expenses
- ☐ Receipts for charitable donations
- ☐ Tuition or educational expenses
- ☐ Interest paid on student loans
- ☐ Childcare expenses
- ☐ Moving expenses

BUSINESS DEDUCTIONS

- ☐ Advertising
- ☐ Bad debts
- ☐ Building repairs and maintenances (including fence repairs)
- ☐ Business licenses and memberships
- ☐ Clearing, levelling, and draining land expenses
- ☐ Containers and twine
- ☐ Crop insurance, revenue protection program, and stabilization premiums
- ☐ Custom or contract work (including machine rentals)
- ☐ Charitable donations
- ☐ Delivery, freight, and express costs
- ☐ Depreciation expenses (Capital Cost Allowance)
- ☐ Fertilizers and lime
- ☐ Gasoline, diesel fuel and oil for machinery

- ☐ **Heating fuel and curing fuel**
- ☐ **Insurance**
- ☐ **Interest and bank charges**
- ☐ **Legal and accounting fees**
- ☐ **Livestock purchased**
- ☐ **Machinery expenses**
- ☐ **Meals and entertainment**
- ☐ **Motor vehicle expenses (business use of vehicle only)**
  - ☐ License and registration fees
  - ☐ Fuel and oil costs
  - ☐ Insurance
  - ☐ Interest on money borrowed to buy your vehicle
  - ☐ Maintenance and repairs
  - ☐ Leasing costs
  - ☐ Parking fees (business only)
- ☐ **Office expenses, stationery, and supplies**
- ☐ **Payment processing fees**
- ☐ **Pesticides**
- ☐ **Professional fees (accounting, tax preparation, legal)**
- ☐ **Property and taxes**
- ☐ **Rent (land, building and pasture)**
- ☐ **Repairs and maintenance**
- ☐ **Safety equipment and clothing**
- ☐ **Salaries, wages, and benefits incurred by you as an employer**
  - ☐ Gross salary amount paid to employees
  - ☐ Employer paid CPP and EI contributions
  - ☐ Employer paid premiums for sickness or disability insurance

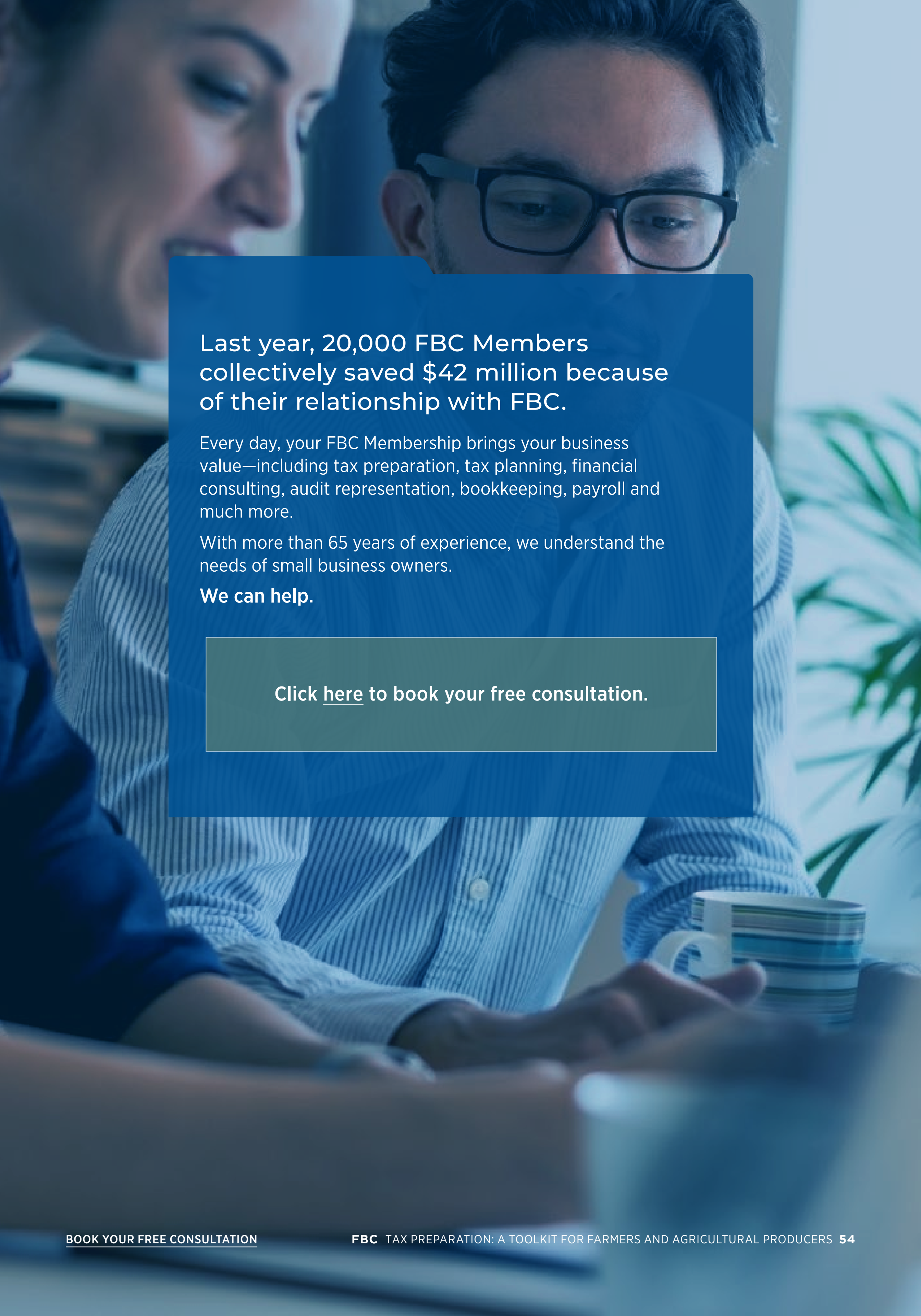
- ☐ **Seeds and plants**
- ☐ **Small tools**
- ☐ **Telephone and utilities**
- ☐ **Travel expenses**
- ☐ **Veterinary fees, medicine, and breeding fees**

DO YOU WORK FROM HOME?

- ☐ **Business use of home expenses**
  - ☐ Cleaning materials
  - ☐ Electricity
  - ☐ Heating
  - ☐ Home insurance
  - ☐ Mortgage interest
  - ☐ Property taxes
  - ☐ Portion of rent paid

For more free tax and business resources, please visit **www.fbc.ca/learn**

Click here to book a consultation



Last year, 20,000 FBC Members collectively saved $42 million because of their relationship with FBC.

Every day, your FBC Membership brings your business value—including tax preparation, tax planning, financial consulting, audit representation, bookkeeping, payroll and much more.

With more than 65 years of experience, we understand the needs of small business owners.

We can help.

Click here to book your free consultation.

For more free tax and business resources, please visit **www.fbc.ca/learn**

Click here to book a consultation

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