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# BOOKKEEPING PRACTICES AND TAX MATTERS

## PRIVATE MUSIC TEACHERS

January 20, 2023

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### DISCLAIMER

Certain of the topics below deal with complex matters and may not apply to particular facts and circumstances. For this reason, the material should not be relied upon as a substitute for specialized professional advice in connection with any particular matter.

### Bookkeeping Practices

- Have a separate business bank account – all teaching revenues and expenses should be recorded through the business bank account. **RECONCILE THE BANK ACCOUNT ON A REGULAR BASIS;**
- Maintain documentation (i.e. supplier invoices, receipts, etc.) to support all business expenses);
- If one incurs teaching business expenses and pays for the expenses with a personal credit card, the amount should be paid for with the business bank account. NOTE – only business expenses should be paid for (exclude personal expenses), or the personal portion of expenses should be a drawing (see below);
- Should consider some type of accounting software (QuickBooks) if you have several business transactions or one can use an Excel spreadsheet;
- If use an Excel spreadsheet, If possible, use “debit” and “credit” accounting. If not, ensure that you clearly break out the revenues and expenses by major category (i.e. teaching revenue, supplies expense, capital deposited and capital withdrawn, etc.);
- If accounting software used does not produce invoices, have a mechanism to bill customers and account for billings. Completeness of revenue is important if you are audited by CRA, thus billings should be maintained by numerical sequence;
- Maintain the accounts by tax year (calendar year, January 1 to December 31); and
- Ensure all business records are maintained for the required statutes (i.e. income tax, Work Safe, etc.)

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### Tax Matters

- Presumably, most teachers will be self employed for income tax purposes. Thus, revenue and business expenses will be included in their personal tax returns;
- For individuals, generally, one must file their annual tax return by no later than April 30 of the next year (i.e. 2022 tax return is due for filing no later than April 30, 2023). However, if an individual or their spouse is self employed, both tax returns can be filed by no later than June 15, 2023;
- Important to note, if a taxpayer has an instalment requirement (i.e. CRA requires to install every quarter in the tax year on March 15, December 15, September 15 and December 15) even if they are self employed and can file by June 15, any tax owing for the tax year must be paid to the CRA by April 30! If the tax owing is not paid by April 30 you will incur interest until the tax is paid;
- Due to rising interest rates, the current CRA interest rate (non-deductible) on late or deficient tax instalments/payments is now 8%!
- **IMPORTANT – ALWAYS FILE YOUR PERSONAL TAX RETURN ON TIME AS ANY UNPAID TAXES GENERATE A MINIMUM PENALTY OF 5% OF THE UNPAID TAX, INCREASING BY 1% PER MONTH FOR UP TO ANOTHER 12 MONTHS. EVEN IF YOU CANNOT PAY ALL THE TAX OWING BY APRIL 30, FILE THE RETURN ON TIME TO AVOID PENALTIES (INTEREST WILL STILL APPLY UNTIL ALL TAX IS PAID);**
- All revenue earned from teaching business must be reported and included in income whether received in cash or not;
- For an expenditure to be deductible for income tax it must be incurred to earn income (i.e. a logical trail to the earning process) **AND** it must be reasonable in the circumstances;
- As noted in bookkeeping practices, you must maintain supporting documentation for all expenditures;

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### Tax Matters (Cont'd)

- If you are able to deduct entertainment and promotion expenditures that are clearly related to earning income from teaching, you must document who you met with and why the expenditure relates to earning income (i.e. write person(s) name on the Visa chit or receipt);
- Meals and entertainment expenses are generally only 50% deductible for tax purposes;
- As noted above, expenses must be incurred to earn income and **might** include office supplies, entertainment & promotion, business taxes, licenses, memberships, professional development, etc.
- You **may** be able to deduct auto expenses if you can demonstrate that you have an office and are required to travel to customer premises. If you are attempting to claim any auto expenses, you must maintain a travel log!
- **Auto expenses can be complex, so one should review this area with their own professional;**
- Capital expenditures, such as a computer, can only be included in a capital cost class which is then depreciated for tax purposes, if the computer is used substantially for business purposes. If you purchase a computer primarily for personal use, the computer should **not** be included as a business asset;
- **Home office or business home expenses – potentially a very complex area and again, you should seek professional advice from your own personal advisor;**
- **To make any claim for business home expenses you must have a space in your apartment or home that is used exclusively in your business;**
- **If applicable**, business home expenses would include property taxes, utilities, insurance, mortgage interest, etc. The expenses are “pro-rated” relative to the percentage of space used for business. For example:

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### Tax Matters (Cont'd)

- Taxpayer has a space used exclusively for business and is 5% of the total space in the home. If the total eligible expenses are \$20,000, 5% of the \$20,000 or \$1,000 can be claimed as a business expense to the extent that the business has income after other business expenses:
- **VERY IMPORTANT – NEVER CLAIM ANY CAPITAL COST ALLOWANCE ON THE BUILDING PORTION OF YOUR HOME AS A BUSINESS EXPENSE AS IT CAN “TAINT” THE CURRENT TAX FREE STATUS OF THE SALE OF THE HOME (i.e. PRINCIPAL RESIDENCE DEDUCTION)!!!**
- Questions and any other matters