What new business owners need to know about tax write-offs

Operating in a tax efficient way is important

It's not easy running a company, yet it's entrepreneurs who keep the Canadian economy going, with [85%](#) of all people employed by small- and medium-sized businesses. As the many new business owners who started companies during the pandemic are finding out, operating in a tax efficient way is important.

For new business owners (and veteran ones, too) what qualifies for a tax write-off can be difficult to understand. Too many business owners either miss out on noting certain expenses or try and deduct items or activities that can't be claimed. As we get closer to year end, which is typically December 31st for most incorporated businesses (though you do have six months to file after that date), it's important that entrepreneurs understand the basics of how tax write-offs work and what claims or deductions can be made.

As we can't cover every detail and scenario to consider here, make sure to talk to an accountant or financial professional about tax write-offs before claiming any expenses for your business.

Tax deduction

To start, it's important to know how tax deductions work. The vast majority of what you claim will be a deduction, which directly reduces your taxable income. For instance, if you spend $500 on pens, paper and stamps, you can reduce your taxable income by that same amount. But as you'll see, you can't do a dollar-for-dollar deduction on every item—on some you can only claim up to 50% of the bill, while on others you'll need to separate out what was used for business and what was for personal use.

Don't get personal

One easy way to determine whether an expense can be written off or not is to think about how that cost impacts your business versus your personal life. That line can get blurry—business is life for most entrepreneurs and some expenses may appear to straddle both—but a good rule of thumb is if something can be used for the everyday then it's either not deductible or at least not fully deductible.

For instance, you can't claim haircuts and clothing, even if you need to look good in front of clients. You may be able to deduct promotional clothes, like branded T-shirts you give away at a trade show, but that's about it. Parking tickets while out for work are also off the list. While you can write off 50% of your meals and entertainment, that's only restaurant bills and bottles of wine purchased for business-related events, not the coffee and muffin you bought yourself while at work.

Saying that, working from home does have its advantages. You can write off a portion of your utilities, mortgage interest, home insurance, and property taxes, but how much you can claim depends on the percentage of your home you use for business. If your home office is 10% of your home's overall size, then that's the percent of home-related costs you can write off. Be careful about throwing in the dining room because you could maybe take a meeting there one day. If you really do meet clients at your dining room table, then you may be able to write a portion of that room off, but talk to your accountant to be sure.

One of the harder-to-manage write-offs is your vehicle. You can claim a percentage of your loan interest or lease costs, insurance, fuel, parking, and repairs come tax time, but it depends how much you use the car for business. This can be tough to track, because it's easy to run a business-related errand before meeting your spouse for dinner. The Canada Revenue Agency (CRA) might ask to see a travel log, so it's a good idea to keep a record of your business and personal travel. There are smartphone apps that can help you manage that.

Calculate startup costs

If you're new to business ownership, then you'll be happy to learn that startup costs are a valid and important write-off for a new company. Any investments you make to get a business going—even if it's not in operation yet—such as advertising, office supplies, professional fees, costs related to your home office, and legal, accounting, and other expenses can be claimed.

However, you can only write off startup costs in the same fiscal year you launch your business. You will need to choose a start date for your company to help determine which expenses you can include come tax time, and which you cannot. A start date could be the day you make a big investment, when you incorporate, or when you signed your first client; whatever makes sense.

Capital costs matter

Whether you're a new company or one that's been around for years, you will likely be investing in capital goods that help you run your business, such as equipment, computers, and furniture. These are considered capital goods that depreciate in value over time. (Property also qualifies as a capital good, as does a car you own and use for business.) You cannot write them off in full in the year you buy them; however, you can deduct a percentage over several years. The CRA calls this write-off a capital cost allowance.

Claim contractor fees

Another important write-off for most growing companies is staff and contractor fees. If someone you hire, whether it's a full-time employee, an hourly worker, or a subcontractor, is helping you with your business, you can deduct the full amount of those wages. If you pay yourself a salary, then you can deduct that from the business too, but you will have to pay personal tax on that money. (Whether you pay yourself a salary, a dividend, or anything at all is an entirely other issue for incorporated owners, and may vary each year, depending on the tax situation at that time. Speak to an accountant about the best way to pay yourself.)

Get advice

There are many more tax write-offs that business owners can take advantage of, such as bank fees, business travel expenses, and insurance costs. As an entrepreneur, you do need to know about write-offs so that you know which receipts to keep and can be mindful of not running afoul of the rules, but figuring out exactly what you can deduct and how to deduct it is for a trained financial professional to deal with. Work with a bookkeeper or an accountant year-round so you don't miss any deductions come tax time.