

The Art of Bookkeeping and Tax Saving for Visual Artists

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Introduction

Artists and income taxes don't always seem to mix well. Accounting for your business and taxes are often last on the list of concerns for the visual artist. The artistic temperament sometimes does not blend well with the exacting, rule-filled world of federal and provincial taxation. Artists tend to avoid the whole matter, consequently leaving themselves vulnerable to expensive predicaments.

The secret to overcoming this phobia is to develop a basic understanding of the mechanisms of the tax system and some simple, effective ways of complying with this onerous task. I often use the analogy that you may not need to know how to fix your car, but it is helpful to know basically how it works. By understanding the tax system and how it affects your business, you'll pay less tax and be less likely to fall prey to erroneous tax information.

Most visual artists are considered "self-employed" when filing their taxes. In a legal sense this means that your "business" as an artist, and you as an individual taxpayer, are one and the same. There is no legal separation such as one would have in a corporation, partnership, or other legal entity. A self-employed artist reports art income and expenses on a "T2125 Statement of Business Activities" as part of the regular T1 personal income tax return. A self-employed artist will also be required to pay CPP on net income (profit), as well as federal and provincial income tax. All these items are part of the year-end T1 income tax preparation, which must be filed by April 30 to avoid non-deductible penalties and interest.

Your goal is first and foremost to lower your taxes! As an artist, there are a number of tax deductions that are unique to you. In this guide, I will try to illustrate them to make them understandable and to help you to record and deduct all eligible expenses.

According to the Canada Revenue Agency (CRA), deductible business expenses are those that:

1. Are incurred in connection with your trade, business, or profession
2. Must be "ordinary" and "necessary"
3. Must "NOT be lavish or extravagant under the circumstances".

It doesn't take much to see that these guidelines are not an exacting science. An artist has a large group of basic expenses that easily fit the above criteria: travel (hotel, meals, etc.), vehicle and transportation costs, equipment, art supplies, home studio expenses, legal and professional fees, gallery costs & commissions, etc (see the attached list).

Is Being an Artist a Business?

The first hurdle visual artists often have is the question regarding whether your "art" is indeed a business for tax purposes. The heart of this matter is whether CRA sees the endeavor as a real "business" or as a "hobby." Because an artist's venture often (sadly) yields losses, the question then becomes when does the tax act determine an enterprise to be a true business as opposed to a hobby?

Here's how you may be affected by the so-called "hobby" rules. Although all taxpayers must claim the full amount of income earned from a hobby, hobby-related expenses are generally deductible only to the extent of income produced by the activity. So if you don't generate any income from your hobby, you can't claim any deductions. In short, a hobby loss won't cut your overall tax bill because the Income Tax Act stipulates that you can't use a hobby loss to offset other income.

However, converting a hobby into a bona fide business means you can deduct a business loss from other income you earn, such as wages and salaries. How does the CRA determine whether your activity is a hobby or a for-profit business? They consider these criteria:

1. Whether you carry on the activity in a businesslike manner.
2. Whether the time and effort you put into the activity indicate you intend to make it profitable.
3. Whether you are depending on income from the activity for your livelihood.
4. Whether your losses from the activity are due to circumstances beyond your control (or are normal in the start-up phase of your type of business).
5. Whether you change your methods of operation in an attempt to improve the profitability.
6. Whether you have the knowledge needed to carry on the activity as a successful business.
7. Whether you were successful in making a profit in similar activities in the past.
8. Whether the activity makes a profit in some years, and how much profit it makes.
9. Whether you can expect to make a future profit from the appreciation of the assets used in the activity.

The primary determinant is your ability to make a profit at what you are doing. If your efforts result in a profit in three out of five consecutive years, your activity is presumed not to be a hobby. If you don't meet the three-out-of-five years profit rule, is all lost? Not necessarily. If you can demonstrate to the CRA's satisfaction that you have made a genuine effort to earn a profit and that the reason you are not successful is related to special circumstances, the CRA might

agree that your art is, in fact, a business.

This is often true for individuals engaged in the arts, where profits and successes may be difficult to achieve. To increase your chance of gaining the CRA's recognition of your business, I recommend that you run your activity in a professional, businesslike manner. Doing such things as having business cards and stationery printed, maintaining a separate business bank account and telephone number, keeping accurate records of the time you put in, and carefully documenting all business-related expenses. CRA places great credence on computerized accounting records as evidence of the artist's "businesslike" intent. Keep records of all shows (even including ones that you don't get into) and all gallery activity. In short anything related to attempts to sell your artwork.

Income

Income for an artist includes all amounts paid to the artist for their artwork. It also includes commissions, prizes, awards, fellowships, and endowments received. There is also the concept of "taxable income other than cash." This includes trades of art between artist and other individuals. For example: an artist agrees to "sell" a painting to another artist by exchanging artwork. The painting that the first artist gives up "costs" \$75 (the cost of paint, canvas, and framing). The artwork received has a market value or price of \$1,000. The first artist will have a taxable income from this transaction of \$925 (\$1,000 less \$75). In other words the artist received something worth \$1,000 but only paid \$75.

In addition, if an artist donates an original piece of artwork with a market value of \$1,000 then they have taxable income from this transaction of \$1,000. Of course, you would also have a donation receipt for \$1,000. The resulting net tax impact is therefore zero.

GST

The GST is a tax that applies to the supply of most property and services in Canada. Almost everyone has to pay the GST on purchases of goods and services (other than zero-rated supplies).

Although the consumer pays the tax, businesses are generally responsible for collecting and remitting it to the government. Businesses that are required to have a GST registration number are called registrants. When your business exceeds \$30,000 in sales in any 12 month period, you are required to register.

Registrants collect the GST on most of their sales and pay the GST on most purchases they make to operate their business. They claim an "input tax credit" to recover the GST paid on the purchases they use in their commercial activities.

GST registrants must also meet certain responsibilities. Generally, they must collect the tax on taxable supplies they make in Canada, file GST returns on a regular basis, and remit any resulting net tax owing.

Out of Town Travel Expenses

An artist is allowed to deduct all expenses associated with overnight business travel. These include meals, hotel & lodging, reasonable tips, dry-cleaning, phone calls home, etc. Overnight travel is roughly defined by the CRA as travel that is far enough away from home so as to make it inconvenient to return home at night. Travel could include expenses related to gallery visits, openings of shows, delivering artwork, art fairs, etc. and will include many of the expenditures made on such trips.

The other question often asked is the travel deduction for mixed vacation/business travel. As long as the trip is **primarily** business then deductibility will be maintained. For example, what if the artist has a five-day trip to Victoria for a gallery opening and art fair that includes a two-day stopover in Vancouver on the way home to visit a friend. In this case the entire Victoria trip would be deductible but the expenses related to the Vancouver stopover, which was personal, would not be. Travel costs for spouses or dependents are not allowed unless they are employees of the art business.

Meals and Entertainment Expenses

Meals for meetings and promotion are deductible (but only 50%) when they meet the criteria of "ordinary," "necessary" and business related. This means that the meal must include direct business discussions. This can mean lunch or dinner meetings with agents, fellow artists, gallery owners, etc. If a direct business purpose is clearly documented then the deduction is allowed. These meals could include talks on potential gallery showings, museum exhibits, future sales, website design or setup, and meetings with lawyers or your favorite accountant. The best place to keep records for these expenses is in an appointment book. Record who was present and the nature and substance of the discussion. I also suggest that you keep a copy of the person's business card as further substantiation.

Automobile & Vehicle Expenses

The use of your automobile can be one of the most common and largest deductions for an artist. The automobile expense can be calculated in two ways. The first method is by using the CRA "standard mileage allowance." In 2011, this allowable amount is 52¢ per kilometre for the first 5,000 kilometres driven, and 46¢ for each additional kilometre driven (it's 0.53¢ & 47¢ a kilometre for 2012).

To take this deduction you do not need receipts, only records that show the distances driven and the business purpose of the trips. These would include travel to galleries and museums; trips to the art supply store, classes, bank, etc.

The best tool for tracking kilometres and calculating this expense is your appointment book or calendar. If your calendar has a record of business travel it can be used as a tool to determine your mileage deduction. CRA suggests that the best method is to record each business trip, the destination, the reason for the trip, and the distance covered.

The second method is to write off actual expenses. In this method you actually depreciate the cost of the vehicle (30% per year) and then tally up gas slips, repairs, insurance, etc and use that amount as a basis for your expense. This method requires more work and organization. If you were writing off a cube van or other larger vehicle, this second method would be preferred. In my practice I often find the mileage allowance method generally yields the highest deduction for straight automobile use. In any case, the CRA allows the taxpayer to calculate the best method year by year and take the one that yields the highest deduction (within limits).

Equipment

Equipment purchased is generally "depreciated" and written off over 3 to 5 years on Form T2125. Depreciation is a technique for expensing or writing off purchases when they have an expected useful life of greater than one (1) year. In other words, a camera or printing press is intrinsically different in nature than a tube of paint, brushes or photographic chemicals. Supplies such as inks, film, canvas, welding material, etc. will be written off (or deducted) in the year of purchase. Most art equipment, including office furniture and computers, is written off in 3 to 5 years as specified in the Income Tax Regulations. Either way, an artist is ultimately able to write-off (depreciate) the full cost of the purchase.

Artists' Inventory

The Income Tax Act requires that inventory be valued at its cost to the taxpayer or its fair market value, whichever is lower. Inventory of an artist will include unfinished and finished works of art and materials and supplies that are on hand and unsold at the fiscal year-end of the artist's business. The cost of a work of art includes the cost of materials (e.g., paint, canvas, sculpturing medium) and labour (other than the artist's own labour) used in its execution and an appropriate portion of variable overhead expenses (e.g., fees of models, kiln energy cost).

As a general rule, inventory is only deductible in a subsequent fiscal year when any such property is sold. However, for a business of creating paintings, murals, original prints, etchings, drawings, sculptures or similar works of art, an artist may elect to value the inventory of that business at nil.

The Home Studio

The home studio (office) has been a contentious subject in my profession for a number of years, but is an allowable deduction for most artists. If you use a room (or rooms) in your home exclusively as your studio, you will qualify for the home office deduction. The use of the room can be as a studio, storage area for equipment and art, record keeping for the business, marketing, etc. The home office is a fairly straightforward deduction to calculate on form T2125. It's simply based on the square footage of the home studio vs. the total square footage of your house or apartment. You then apply that percentage to all associated costs.

For a business, the deductible home office expenses include:

Rent, mortgage interest, property tax, supplies, heat and water, house insurance, cleaning and repair costs.

Other rules that come into play here include the "exclusive use" requirement. This rule states that the home office must be used only for the business - no "mixed use" allowed. In other words the studio cannot be a part of a larger room such as the living room unless the business part is partitioned off in some way.

The home office can be a powerful write-off in that it allows you to deduct a part of what were previously non-deductible personal expenses. One final note, the home office deduction cannot exceed your income from the business. In other words, the deduction cannot create a loss in the year. However, any excess expenses can be carried forward and deducted in the next year.

Avoid the Red Flag

One thing that you will want to avoid is being red flagged by the tax department (requiring special attention or bringing special attention to yourself). The reasons are obvious. Here are some important points.

1. Always, always, **always** file on time. A late Income Tax Return will get special attention, which you don't want, and it may trigger an audit or bring potentially outrageous penalties. If you owe any money, do everything you can to pay it with the return, but if you just can't pay, send in the return on time anyway with a letter informing them how you are going to look after the taxes

- due. Never, never avoid filing because you don't have the money to pay the tax.
2. If at all possible, try to fill out your own tax return. I strongly recommend a good computer tax program. These programs will also help you to avoid the most common mistakes. It's worth the effort and time investment to learn how to use it. But if you just don't have the patience for it, find yourself a great accountant. You won't find one at a booth in the local mall. Pay a little extra for a qualified accountant and avoid the "tax preparation services" that are all over the place at tax time. Ask the person who is going to do your taxes for his or her qualifications. Many of those who do this for the tax service companies are not accountants, but have been trained to just fill in the spots on the return. Good tax accountants must be sought out. Ask your colleagues for a recommendation and visit with a few to see if they subscribe to the same philosophy that you do. The best accountants will save you more than they'll cost you.
 3. Pay your taxes on time. If you are required to pay installments on self employed earnings, pay those on time too. Even if you have to borrow to do so, do your best to follow this rule, but as noted above, if you just can't pay, file on time anyway.
 4. Double-check your return for any errors or omissions.

Paying CPP and Income Tax Instalments

As a self-employed businessperson, you are required to pay your own Canada Pension Plan premiums. The amount you must pay is calculated as a percentage of your net income each year, minus a \$3,500 basic exemption. For 2011, the rate is 4.95% and, because you are deemed to be the employer as well as the employee, you have to pay twice the amount, or 9.90%. The maximum amount payable in 2011 is \$4,435.20 (\$2,217.60 x2).

In addition, you may have to pay your income taxes in instalments. If your net tax owing is more than \$3,000, you should pay quarterly to cover tax that you would otherwise have to pay in a lump sum on April 30 of the following year.

An instalment reminder is issued by CRA to help you determine if you have to pay income tax by instalments. The reminder will suggest an amount to pay and list the payment options. Your instalment payments for 2012 are due March 15, June 15, September 15, and December 15, 2012.

Finally

Remember that this guide is not intended to be the whole picture. The Canadian *Income Tax Act* is very complicated and changes often, so your specific situation should be reviewed with a tax professional before filing your tax return.

The visual artist is unique in the world of taxes. When you're shopping for an accountant, please make sure they have some experience in taxation for artists. Organize your income and expenses using software or work sheets (and this guide) to make the process easier, cheaper and to help you maximize your deductions.

Also ask your accountant about other tax saving strategies for self-employed individuals such as retirement planning, health insurance and the timing of deductions.

As previously stated, this is not a complete book on income tax or on income tax reducing strategies, but the techniques offered herein are proven, well used, and successful. I wish you good luck in moving forward to achieve your financial desires and goals in life and hope these suggestions will help.

Thank you.

References and Resources

The following references and resources provide additional information that you may find helpful.

Canada Revenue Agency Interpretation Bulletins

- IT 75R4 Scholarships
- IT 4473R Inventory Valuation
- IT-459 Adventure or Concern in the Nature of Trade
- IT 504R2 Visual Artists and Writers
- IT 514 Work Space in Home Expenses

Interpretation bulletins provide guidance from CRA on their application of the *Income Tax Act*. They can be found on the CRA website at:

www.cra-arc.gc.ca/menu/ITSC_500-e.html

Canada Revenue Agency Forms and Publications

- P110 Paying Your Income Tax by Instalments
- RC4022 General Information for GST Registrants
- RC4110 Employee or Self-Employed
- RC4409 Keeping Records

Forms and Publications can be downloaded from the CRA website at:

www.cra-arc.gc.ca/formspubs/menu-eng.html

Deductions for Visual Artists

Materials & Supplies

Art Magazines and Books
Brushes and Cleaning Supplies
Canvas and Stretchers
Chemicals for Film Processing
Commissions - Agent/Gallery
Food & Wine - Gallery Openings
Framing Costs
Gifts - Business
Legal & Accounting Fees
Modeling Fees & Props
Organization Dues and Memberships
Paints, Film, Papers, etc.
Rent - Studio & Gallery Space
Rents & Repairs of Equipment
Sculpture Supplies & Hardware
Slide & Film Processing
Stationary & Office Supplies
Other

Equipment Purchases

Camera (Digital & Traditional) & Lens
Cellular & Smart Phones
Computer & Laptops
Computer Peripherals
Darkroom Equipment
Enlarger & Camera Bag
Framing Apparatus
Press, Easel, and Paint Box
Power & Hand Tools
Sculpting Tools
Other

Continuing Education

Gallery Visits & Talks
Master Classes & Apprenticeships
Private Lessons
Schools & Conferences
Tickets to Special Exhibits
Other

Automotive (track # of kms)

Client & Business Meetings
Continuing Education
Gallery Interviews (Potential Shows)
Museum & Gallery Visits
Out-Of-Town Business Trips
Purchasing Art Supplies
Professional Society Meetings
Parking Fees
Other

Travel - Out of Town

Airfare & Auto Rental
Van Rental for Moving of Artwork
Parking
Taxi, Train, Bus & Subway
Tolls
Lodging (do not combine with meals)
Meals (100% of cost)
Communications & Wi-Fi Access
Laundry, Maid, & Porter
Other

Communications

Cellular & Data Services
On Line Communications
Land Line
Skype & Internet Phone Services
Other

Promotional Expenses

Business Cards & Resumé
Film & Slide Processing
Meals - Business (50% of cost)
Portfolio Costs
Postage & Shipping
Printing of Show Announcement Cards
Printing Costs
Slide and Photographer Fees
Shows & Exhibits
Other



Income Tax and Benefit Return

Complete all the sections that apply to you in order to benefit from amounts to which you are entitled.

7

Identification

Attach your personal label here. Correct any wrong information. If you are not attaching a label, print your name and address below.

First name and initial

VISUAL

Last name

ARTIST

Mailing address: Apt No – Street No Street name

10215 112 ST

PO Box

RR

City

EDMONTON

Prov./Terr.

A B

Postal code

T 5 K 1 M 7

Information about your residence

Enter your province or territory of residence on **December 31, 2010**:

ALBERTA

Enter the province or territory where you **currently** reside if it is not the same as that shown above for your mailing address:

If you were self-employed in 2010, enter the province or territory of self-employment:

AB

If you **became** or **ceased** to be a resident of Canada in 2010, give the date of:

entry

Month	Day

or

departure

Month	Day

Information about you

Enter your social insurance number (SIN) if it is not on the label, or if you are not attaching a label:

1	2	3	4	5	6	7	8	2
---	---	---	---	---	---	---	---	---

Enter your date of birth:

Year			Month			Day		
1	9	6	5	0	2	1	4	

Your language of correspondence: / Votre langue de correspondance :

English / Français

Tick the box that applies to your marital status on December 31, 2010: (see the "Marital status" section in the guide)

- 1 Married
- 2 Living common-law
- 3 Widowed
- 4 Divorced
- 5 Separated
- 6 Single

Information about your spouse or common-law partner (if you ticked box 1 or 2 above) (see the guide for more information)

Enter his or her SIN if it is not on the label, or if you are not attaching a label:

--	--	--	--	--	--	--	--	--

Enter his or her first name:

--	--	--	--	--	--	--	--	--

Enter his or her net income for 2010 to claim certain credits:

--	--	--	--	--	--	--	--	--

Enter the amount of Universal Child Care Benefit included on line 117 of his or her return:

--	--	--	--	--	--	--	--	--

Enter the amount of Universal Child Care Benefit repayment included on line 213 of his or her return:

--	--	--	--	--	--	--	--	--

Tick this box if he or she was self-employed in 2010:

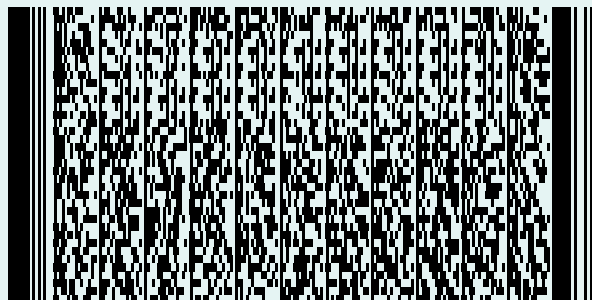
1

Person deceased in 2010

If this return is for a **deceased person**, enter the date of death:

Year			Month			Day		

Do not use this area



Do not use this area	172					171				
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Elections Canada (see the Elections Canada page in the tax guide for details or visit www.elections.ca)

A) Are you a Canadian citizen? Yes 1 No 2

Answer the following question **only if you are a Canadian citizen.**

B) As a Canadian citizen, do you authorize the Canada Revenue Agency to give your name, address, date of birth, and citizenship to Elections Canada to update the National Register of Electors?..... Yes 1 No 2

Your authorization is valid until you file your next return. Your information will only be used for purposes permitted under the *Canada Elections Act* which includes sharing the information with provincial/territorial election agencies, Members of Parliament and registered political parties, as well as candidates at election time.

Goods and services tax/harmonized sales tax (GST/HST) credit application

See the guide for details.

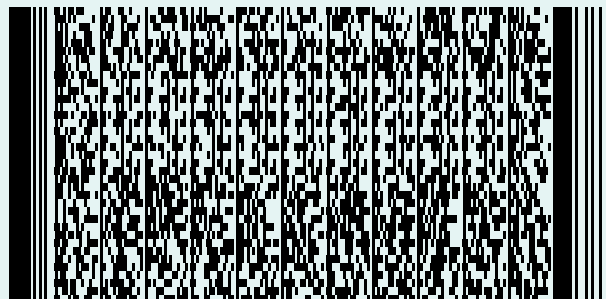
Are you applying for the GST/HST credit? Yes 1 No 2

Please answer the following question:

Did you own or hold foreign property at any time in 2010 with a total cost of more than CAN\$100,000? (see the "Foreign income" section in the guide for details) **266** Yes 1 No 2

If **yes**, attach a completed Form T1135.

If you had dealings with a non-resident trust or corporation in 2010, see the "Foreign income" section in the guide.



The guide contains valuable information to help you complete your return.

When you come to a line on the return that applies to you, look up the line number in the guide for more information.

As a Canadian resident, you have to report your income from all sources both inside and outside Canada.

Total income

Employment income (box 14 on all T4 slips)		101		
Commissions included on line 101 (box 42 on all T4 slips)	102			
Other employment income		104 +		
Old Age Security pension (box 18 on the T4A(OAS) slip)		113 +		
CPP or QPP benefits (box 20 on the T4A(P) slip)		114 +		
Disability benefits included on line 114 (box 16 on the T4A(P) slip)	152			
Other pensions or superannuation		115 +		
Elected split-pension amount (see the guide and attach Form T1032)		116 +		
Universal Child Care Benefit (UCCB) (see the guide)		117 +		
UCCB amount designated to a dependant	185			
Employment Insurance and other benefits (box 14 on the T4E slip)		119 +		
Taxable amount of dividends (eligible and other than eligible) from taxable Canadian corporations (see the guide and attach Schedule 4)		120 +		
Taxable amount of dividends other than eligible dividends, included on line 120, from taxable Canadian corporations	180			
Interest and other investment income (attach Schedule 4)		121 +		
Net partnership income: limited or non-active partners only (attach Schedule 4)		122 +		
Registered disability savings plan income (see the guide)		125 +		
Rental income	Gross 160		Net 126 +	
Taxable capital gains (attach Schedule 3)			127 +	
Support payments received	Total 156		Taxable amount 128 +	
RRSP income (from all T4RSP slips)			129 +	
Other income	Specify:		130 +	
Self-employment income (see lines 135 to 143 in the guide)				
Business income	Gross 162	56,350.00	Net 135 +	25,000.00
Professional income	Gross 164		Net 137 +	
Commission income	Gross 166		Net 139 +	
Farming income	Gross 168		Net 141 +	
Fishing income	Gross 170		Net 143 +	
Workers' compensation benefits (box 10 on the T5007 slip)	144			
Social assistance payments	145 +			
Net federal supplements (box 21 on the T4A(OAS) slip)	146 +			
Add lines 144, 145, and 146 (see line 250 in the guide).	=		▶ 147 +	
Add lines 101, 104 to 143, and 147.			This is your total income .	150 = 25,000.00

Attach your Schedule 1 (federal tax) and Form 428 (provincial or territorial tax) here. Also attach here any other schedules, information slips, forms, receipts, and documents that you need to include with your return.

Net income

Enter your total income from line 150.	150	25,000	00
Pension adjustment (box 52 on all T4 slips and box 034 on all T4A slips)	206		
Registered pension plan deduction (box 20 on all T4 slips and box 032 on all T4A slips)	207		
RRSP deduction (see Schedule 7, and attach receipts)	208	+	
Saskatchewan Pension Plan deduction (maximum \$600)	209	+	
Deduction for elected split-pension amount (see the guide, and attach Form T1032)	210	+	
Annual union, professional, or like dues (box 44 on all T4 slips, and receipts)	212	+	
Universal Child Care Benefit repayment (box 12 on all RC62 slips)	213	+	
Child care expenses (attach Form T778)	214	+	
Disability supports deduction	215	+	
Business investment loss	Gross 228	Allowable deduction	217
Moving expenses			219
Support payments made	Total 230	Allowable deduction	220
Carrying charges and interest expenses (attach Schedule 4)			221
Deduction for CPP or QPP contributions on self-employment and other earnings (attach Schedule 8)			222
Exploration and development expenses (attach Form T1229)			224
Other employment expenses			229
Clergy residence deduction			231
Other deductions Specify:			232
Add lines 207 to 224, 229, 231, and 232.			233 = 1,064.25
Line 150 minus line 233 (if negative, enter "0").		This is your net income before adjustments.	234 = 23,935.75
Social benefits repayment (if you reported income on line 113, 119, or 146, see line 235 in the guide). Use the federal worksheet to calculate your repayment.			235 =
Line 234 minus line 235 (if negative, enter "0"). If you have a spouse or common-law partner, see line 236 in the guide.		This is your net income.	236 = 23,935.75

Taxable income

Canadian Forces personnel and police deduction (box 43 on all T4 slips)	244		
Employee home relocation loan deduction (box 37 on all T4 slips)	248	+	
Security options deductions	249	+	
Other payments deduction (if you reported income on line 147, see line 250 in the guide)	250	+	
Limited partnership losses of other years	251	+	
Non-capital losses of other years	252	+	
Net capital losses of other years	253	+	
Capital gains deduction	254	+	
Northern residents deductions (attach Form T2222)	255	+	
Additional deductions Specify:	256	+	
Add lines 244 to 256.			257 =
Line 236 minus line 257 (if negative, enter "0").		This is your taxable income.	260 = 23,935.75

Use your taxable income to calculate your federal tax on Schedule 1 and your provincial or territorial tax on Form 428.

Refund or balance owing

Net federal tax: enter the amount from line 55 of Schedule 1 (attach Schedule 1, even if the result is "0")	420		1,873	42
CPP contributions payable on self-employment and other earnings (attach Schedule 8)	421 +		2,128	50
Employment Insurance premiums payable on self-employment and other eligible earnings (attach Schedule 13)	430 +			
Social benefits repayment (enter the amount from line 235)	422 +			
Provincial or territorial tax (attach Form 428, even if the result is "0")	428 +		604	65
Add lines 420, 421, 430, 422, and 428.		This is your total payable .	435 =	4,606.57 •

Total income tax deducted (see the guide)	437			
Refundable Quebec abatement	440 +			
CPP overpayment (enter your excess contributions)	448 +			
Employment Insurance overpayment (enter your excess contributions)	450 +			
Refundable medical expense supplement (use federal worksheet)	452 +			
Working Income Tax Benefit (WITB) (attach Schedule 6)	453 +			
Refund of investment tax credit (attach Form T2038(IND))	454 +			
Part XII.2 trust tax credit (box 38 on all T3 slips)	456 +			
Employee and partner GST/HST rebate (attach Form GST370)	457 +			
Tax paid by instalments	476 +			
Provincial or territorial credits (attach Form 479 if it applies)	479 +			
Add lines 437 to 479.		These are your total credits .	482 =	0.00

Line 435 minus line 482 This is your **refund** or **balance owing**. = 4,606.57

If the result is negative, you have a **refund**. If the result is positive, you have a **balance owing**.

Enter the amount below on whichever line applies.


Generally, we do not charge or refund a difference of \$2 or less.

Refund 484 • **Balance owing** (see line 485 in the guide) 485 4,606.57 •

Prepared without audit from information supplied by the taxpayer.

Amount enclosed 486 •

Attach to page 1 a **cheque** or **money order** payable to the Receiver General, or make your payment online (go to www.cra.gc.ca/mypayment). Your payment is due no later than April 30, 2011.

 **Direct deposit – Start or change** (see line 484 in the guide)

You do not have to complete this area every year. Do not complete it this year if your direct deposit information has not changed. **Income tax refund, GST/HST credit, WITB advance payments, and any other deemed overpayment of tax** – To start direct deposit or to change account information, complete lines 460, 461, and 462 below.

Notes: To deposit your **CCTB** payments (including certain related provincial or territorial payments) into the **same** account, also tick box 463. To deposit your **UCCB** payments into the **same** account, also tick box 491.

Branch number 460 <input type="text"/> (5 digits)	Institution number 461 <input type="text"/> (3 digits)	Account number 462 <input type="text"/> (maximum 12 digits)	CCTB 463 <input type="checkbox"/>	UCCB 491 <input type="checkbox"/>
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I certify that the information given on this return and in any documents attached is correct, complete, and fully discloses all my income. Sign here <input type="text"/> It is a serious offence to make a false return. Telephone <input type="text"/> - <input type="text"/> <input type="text"/> Date <input type="text"/>	490 For professional tax preparers only	Name: Roger Thomson
		Address: Professional Corp
		10824 125 ST
		EDMONTON AB T5M0L4
		Telephone: 780 452 7101

Do not use this area 487 488 •

T1 - 2010

Federal Tax

Schedule 1

Complete Step 1 to claim your federal non-refundable tax credits, Step 2 to calculate your net federal tax on taxable income and Step 3 to calculate your net federal tax.
You must attach a copy of this schedule to your return.

Step 1-Federal non-refundable tax credits (For details, read the related lines in the guide)

Basic personal amount	claim \$10,382	300	10,382.00	1
Age amount (born in 1945 or earlier)	(max. \$6,446)	301		2
Spouse or common-law partner amount				
Base Amount	10,382.00			
Minus: his or her net Income				
Spousal amount (maximum \$10,382)		303		3
Amount for an eligible dependant (maximum \$10,382)		305		4
Amount for children born in 1993 or later				
Number of children 366 x \$2,101		367		5
Amounts for infirm dependants age 18 or older (Schedule 5)		306		6
CPP or QPP contributions:				
through employment (boxes 16 /17, T4) (max. \$2,163.15)		308		• 7
on self-employment and other earnings (schedule 8)		310	1,064.25	•
Employment Insurance (box 18 & 55, T4) (max \$747.36)		312		• 9
...on self-employment and other eligible earnings (Sched. 13)		317		• 10
Canada employment amount (max. \$1,051)		363		11
Public transit amount		364		12
Children's fitness amount		365		13
Home buyer's amount		369		14
Adoption Expenses		313		15
Pension income amount (maximum \$2,000)		314		16
Caregiver amount (attach Schedule 5)		315		17
Disability amount(for self)		316		18
Disability amount transferred from a dependant		318		19
Interest paid on your student loans		319		20
Tuition, education and textbook amounts (attach Schedule 11)		323		21
Tuition, education , textbook amts. transferred from a child ..		324		22
Amounts transferred from your spouse (attach Schedule 2) .		326		23
Medical expenses for self, spouse or common -law partner and dependent children born in 1993 or later .	330			
Less 3% of line 236 (max \$2,024)			718.07	
Subtotal				(A)
Allowable amount of medical expenses for other dependants				
See guide at line 331 and attach Sch. 5 ..	331			(B)
Add lines (A) and (B)		332		24
Add lines 1 to 24		335	11,446.25	25
Multiply the amount on line 25 by 15 %		338	1,716.94	26
Donations and gifts (attach Schedule 9)		349		27
Add lines 26 and 27.				
Total federal non-refundable tax credits		350	1,716.94	28

continue on the next page

Schedule 1, page 2

Step 2-Federal tax on taxable income

Enter your taxable income from line 260 of your return 23,935.75 **29**

Use the amount on line 29 to determine which ONE of the following columns you have to complete.

If the amount on line 29 is ...	\$40,970 or less	between \$40,970 and \$81,941	between \$81,941 and \$127,021	more than \$126,264
Enter the amount from line 29	23,935.75			30
Base amount	0.00	40,970.00	81,941.00	127,021.00 31
Line 30 minus line 31	23,935.75	0.00	0.00	0.00 32
Rate	x 15 %	x 22%	x 26%	x 29% 33
Multiply line 32 by line 33	3,590.36			34
Tax on base amount	0.00	6,146.00	15,159.00	26,880.00 35
Add lines 34 and 35	3,590.36	0.00	0.00	0.00 36

Step 3- Net federal tax

Enter the amount from line 36 above		3,590.36	37
Federal tax on split income (from line 5 of Form T1206)	424		• 38
Add lines 37 and 38	404		3,590.36 39
Enter the amount from line 28 on the other side	350	1,716.94	40
Federal dividend tax credit:			
(See line 425 in the guide)	425		• 41
Overseas employment tax credit (attach Form T626)	426		42
Minimum tax carry-over (attach Form T691)	427		• 43
Add lines 38 to 41			1,716.94 44
Line 39 minus line 44, zero if negative		Basic federal tax .. 429	1,873.42 45

Federal foreign tax credit (attach T2209)	405	46
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Federal tax:

Line 45 minus line 46 (if negative, enter "0")	Federal tax 406 =	1,873.42 47
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Total federal political contributions

(attach receipts)	409		
Federal political contributions tax credit (see the guide)	410		• 48
Investment tax credit (attach Form T2038-IND)	412		• 49
Labour-sponsored funds tax credit			
Net Cost 413	Allowable credit 414		• 50
Add lines 48 to 50	416		51
Line 47 minus line 51 (if negative enter "0")			
(if you have an amount on line 38 above, see Form T1206)	417	1,873.42	52

Working Income Tax Benefit (WITB) advance payments received

(box 10 on the RC210 slip)	415	• 53
Additional tax on RESP accumulated income payments (attach Form T1172)	418	54
Net federal tax	Add lines 52 to 54	

Enter this amount on line 420 of your return	420	1,873.42 55
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Schedule 8

**CPP Contributions on
Self-Employment and Other Earnings**

Complete this schedule to determine the amount of your Canada Pension Plan (CPP) contributions if:

- you reported self-employment income on lines 135 to 143 of your return;
- you reported business or professional income from a partnership on line 122 of your return;
- you made an election on Form CPT20 to pay additional CPP contributions on other earnings.

Attach a copy of this schedule to your return. See line 222 in the guide for more information.

Pensionable net self-employment earnings (amounts from lines 122 and 135 to 143 of your return)	25,000.00	1
Employment earnings not shown on a T4 slip on which you elect to pay additional CPP contributions (attach Form CPT20)	373	2
Add lines 1 and 2, zero if negative	25,000.00	3
Enter amount from Box 26 (or if blank, box 14) on all T4 slips (this amount already includes the amount entered on line 11, of Form CPT20, if it applies)		4
Total pensionable earnings (add lines 3 and 4)	25,000.00	5
Basic exemption claim \$3,500	3,500.00	6
Earnings subject to contribution Line 5 minus line 6, zero if negative (maximum \$43,700)	21,500.00	7
Multiply the amount on line 7 by 9.9%	2,128.50	8
Contributions through employment (Box 16 & 17) x 2 =		9
CPP contributions payable on self-employment and other earnings Line 8 minus line 9 (if negative, enter "0"). Enter this amount on line 421.	2,128.50	10
Deduction and tax credit for CPP contributions on self-employment and other earnings Amount from line 10 x 50%	1,064.25	11
Enter amount from line 11 on line 222 of your return and on line 310 of Schedule 1.		

T1 - 2010

Donations and Gifts

Schedule 9

Attach a copy of this schedule to your return along with the official receipts that support your claim. Remember you may have charitable donations shown on your T4 and T4A slips. See line 349 in the guide for more information.

Total eligible amount of charitable donations and government gifts		1
Enter your net income from line 236 of your return	23,935.75 x 75%	17,951.81 2
Note: If the amount on line 1 is less than the amount on line 2, enter the amount from line 1 on line 340 below and continue completing the schedule from line 340.		
Gifts of depreciable property (from Chart 2 in the pamphlet P113, "Gifts and Income Tax")	337	3
Gifts of capital property (from Chart 1 in the pamphlet P113, "Gifts and Income Tax")	339	4
Add lines 3 and 4		
	x 25%	5
Total donations limit. Add lines 2 and 5.	=	17,951.81 6
(not to exceed the amount on line 236 of your return)		
Allowable charitable donations and government gifts The lesser of lines 1 and 6	340	
Eligible amount of cultural and ecological gifts (see line 349 in the guide)	342	
Add lines 340 and 342	344	
Credit on the first \$200 or less at 15%	345	346 7
Credit on the balance at 29%	347	348 8
Donations and gifts. Add lines 7 and 8. Enter this amount on line 349 of Schedule 1.		9

STATEMENT OF BUSINESS or PROFESSIONAL ACTIVITIES

Identification

Name: VISUAL ARTIST	SIN: 123456782	2
For the period from: 01 Jan 10 to: 31 Dec 10	Final year of business? <input type="checkbox"/>	
Name of business Visual Arts Alberta	Is this a second report for 2010? <input type="checkbox"/>	
Business address 10215 112 Street	Main product or service	
Postal Code T5K 1M7	Artist	
Name and address of person Roger Thomson	Industry Code: 711510	
or firm preparing this form Professional Corp 10824 125 ST	Partnership	
EDMONTON Alberta T5M0L4	Identification #	
Business Number	Tax Shelter #	
	Percentage of partnership: 100%	

Part 1-Business Income

Tick this box and complete this part if you have business income. Do not complete Parts 1 and 2 on the same form.

Sales, commissions or fees	56,350.00	A
Less: GST/HST and provincial sales tax (if included in sales)		
Returns, allowances and discounts		
Total of the above two lines		B
Business and commission Income reported on supplementaries		
Adjusted gross sales (line A minus line B)		
Enter this amount at line 8000 in Part 3, below	56,350.00	C

Part 2-Professional Income

Tick this box and complete this part if you have professional income. Do not complete Parts 1 and 2 on the same form.

Professional fees (includes work-in progress)		D
Less: GST and/or provincial sales tax (if included in fees above)		
Work-in-progress end of the year		
Total of the above two lines		E
Subtotal (line D minus line E) . . .		
Add: Work in progress at start of year		
Other Income		
Adjusted professional fees		F
Enter this amount at line 8000 in Part 3, below		

Part 3-Gross business or professional income

Adjusted gross sales (from line C in Part 1) or Adjusted professional fees (from line F in Part 2)		
Net sales, commissions or fees	8000	56,350.00 G
Reserves deducted last year	8290	
CCA Recapture on disposals		
Recapture resulting from disposition of eligible capital property		
Other Income	8230	H
Gross Income	8299	56,350.00

Enter this amount on the appropriate line of your income tax return:
 Business on line 162, Profession on line 164 and Commission on line 166.

Canada Revenue Agency

Statement of business activities

T2125 page 2

Part 4- Calculation of cost of goods sold and gross profit

Complete this part if you have business income and enter only the business part of the costs.

Gross business income from line 8299 in Part 3 on page 1			56,350.00	I
Opening inventory	8300			
Purchases during the year	8320			
Sub-contracts	8360			
Direct wage costs	8340			
Other costs	8450			
Total of above five lines				
Minus - Closing inventory	8500			
	Cost of goods sold		8518	J
	Gross profit (line I minus line J)		8519	56,350.00

Part 5- Net income (loss) before adjustments

Gross profit from line 8519 in Part 4 above or gross income from line 8299 in Part 3 on page 1. 56,350.00 K

Expenses (enter business part only)

Advertising, Promotion	8521	1,850.00		
Bad debts	8590			
Business tax, fees, licences, dues, memberships, and subscriptions	8760	900.00		
Delivery, freight and express	9275	1,200.00		
Fuel costs (except for motor vehicles)	9224			
Insurance	8690	750.00		
Interest	8710			
Maintenance and repairs	8960			
Management and administration fees	8871			
Meals and entertainment expenses (allowable portion only)	8523	600.00		
Motor vehicle expenses (excluding CCA)	9281	1,600.00		
Office expenses	8810	1,800.00		
Supplies	8811	10,500.00		
Legal, accounting, and other professional fees	8860	1,000.00		
Property taxes	9180			
Rent	8910			
Salaries, wages and benefits (including employer's contributions)	9060			
Travel	9200	3,000.00		
Telephone and utilities	9220	1,400.00		
CCA : Terminal Loss				
Other expenses	9270			
Total of the above lines		24,600.00		
Allowance on eligible capital property	9935			
Capital cost allowance	9936	3,750.00		
Total business expenses			9368	28,350.00 L
Net income (loss) before adjustments			9369	28,000.00
(line K minus line L)				

Part 6- Your net Income (loss)

Your share of the amount on line 9369 in Part 5 above		28,000.00	M	
Plus: GST/HST rebate for partners received in the year	9974		N	
Total (line M plus line N)				28,000.00 O
Less: Other amounts deductible from your share of net partnership income (loss)	9943		P	
Net income (loss) after adjustments (line M minus line N)				28,000.00 Q
Deduct Business use of home expenses (chart on the next page)	9945	3,000.00	R	
Your net income (loss) (line O minus line P)	9946			25,000.00

Enter this amount on the appropriate line of your income tax return. Business on line 135,
Professional on line 137, Commission on line 139.

Other amounts deductible from your share of net partnership income (loss)

Claim expenses you incurred that were not included in the partnership statement of income and expenses, and for which the partnership did not reimburse you.

Total (enter this amount on line 9943 in Part 6 on page 2)

Calculation of business use of home expenses

Heat			1,000.00
Electricity			1,000.00
Insurance			500.00
Maintenance			1,000.00
Mortgage interest			4,500.00
Property taxes			2,000.00
Other (specify)			
		Subtotal	10,000.00
Subtract: personal use portion	Percentage: 70%		7,000.00
		Subtotal	3,000.00
Add: amount carried forward from previous year			
		Subtotal	3,000.00 1
Subtract: Net income (loss) after adjustments (0, if negative)			28,000.00 2
Business use of home expenses available for carry-forward			
Allowable claim (lesser of amounts (1) and (2)) enter at line 9945			3,000.00

Details of other partners

Partner's name	Partner's surname	SIN	Share of Net Income	% Share
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Details of equity

Total business liabilities	9931
Drawings in 2010	9932
Capital contributions in 2010	9933

Type of business Commission business T4As or other business

Cumulative totals

	Business Income		Net excluding	Commission Income		Net excluding
	Gross	Net	losses	Gross	Net	losses
Business Income brought forward:						
Business Income carried forward:	56,350.00	25,000.00	25,000.00	0.00	0.00	0.00
				Gross	Net	Net excluding losses
Professional Income brought forward from previous page:						
Professional Income carried forward:				0.00	0.00	0.00

AREA A: Calculation of capital cost allowance (CCA)

Class	UCC at start of 2010	Additions in 2010	Proceeds of dispositions	UCC after col 3 & 4	Check if terminal loss	CCA Base	Rate %	Max allowed	Use Max	CCA claim in 2010 (9)*	UCC at Year-end (10)
(1)	(2)	(3)	(4)	(5)	loss	(7)	(8)			(9)*	(10)
10	10,000.00	5,000.00		15,000.00	<input type="checkbox"/>	12,500.00	30%	3,750.00	<input checked="" type="checkbox"/>		11,250.00
					<input type="checkbox"/>				<input type="checkbox"/>		
					<input type="checkbox"/>				<input type="checkbox"/>		
					<input type="checkbox"/>				<input type="checkbox"/>		
					<input type="checkbox"/>				<input type="checkbox"/>		
					<input type="checkbox"/>				<input type="checkbox"/>		

Total CCA declared on a separate CCA worksheet:

Total CCA claim for the year: 3,750.00

* If you want to claim CCA less than calculated by TaxTron enter the amount at the relevant row of column 9.

AREA B: Details of equipment additions in the year

Item	(1) Class	(2) Property details	(3) Total Cost	(4) Personal part	(5) Business part
1	10				
2					
3					
4					
5					

Total equipment additions in the year **9925**

AREA C: Details of building additions in the year

Item	(1) Class	(2) Property details	(3) Total Cost	(4) Personal part	(5) Business part
6					
7					

Total building additions in the year **9927**

AREA D: Details of equipment dispositions in the year *

Item	(1) Class	(2) Property details	(3) Proceeds	(4) Personal part	(5) Business part
1	10				
2					
3					
4					
5					

Total equipment dispositions in the year **9926**

AREA E: Details of building dispositions in the year *

Item	(1) Class	(2) Property details	(3) Total Cost	(4) Personal part	(5) Business part
6					
7					

Total building dispositions in the year **9928**

AREA F: Details of land additions and dispositions in the year

Total cost of all land additions in the year **9923**

Total proceeds from all land dispositions in the year **9924**

Note: You cannot claim CCA on land.

* See chapter 4 in the Business and Professional Income guide

WORKSHEET FOR CALCULATING 2011 INSTALMENT PAYMENTS**Calculating net tax owing by instalments**

Net federal tax (line 420)	1,873.42	1
Old Age Security (OAS) repayment (from line 422)		2
Provincial or territorial tax (line 428)	604.65	3
First Nations tax (line 432)		4
Total payable (add lines 1 to 4)		2,478.07 5
Total income tax deducted (line 437, or line 439 for Quebec residents) ...		6
Refundable abatements (line 440 plus line 441)		7
Refundable medical expense supplement (line 452)		8
Working income tax benefit (line 453)		9
Refund of investment tax credit (line 454)		10
Part XII.2 trust tax credit (line 456)		11
Provincial or territorial tax credits (line 479)		12
Total credits (add lines 6 to 12)		13
Net tax owing by instalments (line 5 minus line 13)	2,478.07	14

Note: Instalment payments are only due if the balance at line 14 exceeds \$2,000 (or \$1,200 for residents of Quebec). This limitation is applied at line 5 below.

Canada Pension Plan contributions payable by instalments

CPP contributions payable (line 421)	2,021.00	15
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Total amount payable by instalments

Add lines 14 and 15	4,499.07	16
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INSTALMENT AMOUNT DUE :

If you have to remit instalment payments every three months:

divide the amount on line 5 by 4

	1,124.77	17
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If your main source of income is from farming or fishing,
you have to remit only one instalment payment on December 31.

This amount is 2/3 of amount 5.

	2,999.38	18
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Note: If the amount on line 17 or 18 is greater than the amount on your instalment reminders and you pay only the amount on your reminders by the due date, you will not have to pay instalment interest or penalties.

**SELF-EMPLOYMENT
MOTOR VEHICLE EXPENSES**

T2125 TaxTron WS

	1	2	3
Make or Model of Vehicle	COROLA		
Vehicle purchase or lease date	01 Jan 05		
Lease	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Purchased	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Expenses Incurred

KM driven for business	4000		1
Total KM driven in year	10000		2
Fuel and oil	2,000.00		3
Maintenance and repairs	1,000.00		4
Registration, licenses and insurance	1,000.00		5
Interest			6
Leasing Cost (see below)			7
Other			9
			10
Total	4,000.00		11
Allowable Portion (Line 1/Line 2 X Line 11) ...	1,600.00		12
Less: Reimbursements			13
Add: Parking Expenses			14
Allowable motor vehicle expenses	1,600.00		15
Capital Cost Allowance			8
Allowable portion of CCA			16
For Quebec residents only			
Interest for a vehicle other than a Car			17
Allowable vehicle ex for Quebec residents			18

Interest expenses for Passenger vehicle

2001 and Later years	\$10.00		
1997 to 2000	\$ 8.33		
1991 to 1996	\$10.00		
Interest			
Daily interest allowance	10.00		
Number of days	365	0	0
Maximum Deduction			

Capital Cost Allowance

Eligible Cost Limit	Eligible Cost		
Year 2001 and later	\$30,000		
Year 2000	\$27,000		
1998 and 1999	\$26,000		
1997	\$25,000		
1991 to 1996	\$24,000		
CCA Class			
CCA Rate	30%	30%	30%
UCC beginning of year			
Cost before taxes			
GST&PST Paid			
GST/PST Rebate Claimed			
Proceeds of disposition (POD)			
Half-year reduction			
Base amount for CCA			
CCA			

Lease Expenses (Based on IT521R)

2001 and later years	\$30,000	\$800	
2000	\$27,000	\$700	
1998 and 1999	\$26,000	\$650	
1997	\$25,000	\$550	
1991 to 1996	\$24,000	\$650	
Date lease began			
Date lease terminated (if in 2010)			
Lease charges paid during the year			1
Payments deducted in prior years			2
Number of days since the lease began ..			3
Manufacturer's suggested price			4
Applicable tax rate at start of lease			
Applicable tax rate for this year			
List price limitation			
Maximum: Capital cost/85%			5
Greater of Line 4 and 5 x 85% plus taxes .			
Imputed interest on refundable deposits			A
Reimbursements			B
First Leasing Limit			
Second Leasing Limit			

Review these calculations and enter a correction as required.

Maximum allowable leasing expenses ...