



Tax Tips for Craft Artists

Tax season is such a stressful time of year. Just thinking about the minefield of tax jargon, GST, deductibles and capital asset depreciation makes me want to reach for the Advil. I was lucky to sit in on a recent Revenue Canada Tax Session, hosted by the EAC, making this tax season seem a little less scary. Here are some tips that I found most useful.

Am I self-employed?

When determining self-employment versus hobby activity you must evaluate your “expectation of profit”. If your craft activity results in profits or has a reasonable prospect of making a profit it is viewed by the CRA that you are carrying on a business and therefore most income is taxable and expenses that have been incurred to earn that income are deductible from that income. Some of the criteria that will be considered by Revenue Canada to determine if you have a reasonable expectation of profits include: amount of time devoted to artistic endeavor, extent to which work is presented to the public, amount of time devoted to promoting and marketing, etc. Self-employment income is reported on an accrual basis meaning that you will need to report income in the fiscal period that it is earned regardless of when you actually received payment and you will need to deduct expenses in the fiscal period they were incurred whether you paid them in that period or not.

Have you deducted all eligible expenses?

Some examples of expenses that are tax deductible are: cost of repairs to equipment, legal and accounting fees, union dues and professional memberships, an agent’s commission remuneration paid to an assistant, publicity expenses, etc. You are also able to deduct a portion of a home phone listed as a business phone, amortization of capital expenses such as equipment and costs to maintain that part of the artist’s residence used for professional purposes (this is typically determined by pro-rating the total costs incurred to maintain the residence over the percentage of the home area that is used to conduct business). Remember that you may be able to carry forward unused expenses to the next year.

Should I be registered for GST?

Once your Gross Revenue from self-employment exceeds \$30,000 in four consecutive calendar quarters (not just a fiscal year) or in a single quarter you must register for GST. If you have multiple business ventures (i.e. you sell a pottery line as well as teach classes) income from all these are added together to determine if your income exceeds \$30,000. Generally GST is filed with your Income Tax return (a December 31 fiscal year-end). Your GST return is due by June 15, however you still have to pay your net GST owing by April 30 to avoid penalties and interest. Once your net tax for a fiscal year exceeds \$3,000 you must pay in quarterly installments the next fiscal year to avoid penalties. The penalties for not filing on time and for not paying these instalments are very punitive. Knowing the basics of GST will help prevent you from paying fines. There are some grey areas when it comes to charging GST and GST credits but you can call the CRA offices to get confirmation, you can even ask for a written ruling about a question to include with your records. For information on GST get a copy of the



Alberta Craft Council

Culture in the Making

RC4022 General Information for GST/HST Registrants booklet at <http://www.craarc.gc.ca/E/pub/gp/rc4022/README.html>.

Are you keeping good records?

Keeping good records helps to prove when, who and how much income you received. When you earn income from many different types of work, good records help you identify the source of the income and may enable you to prove that some income is not from your business, or that it is not taxable. Having that piece of paper, even if it is written on a scrape and signed will remind you of expenses you can deduct when it is time to do your return. Good records will keep you better informed about the past and present financial position of your business and help you budget. Backing up your income and expenses with a paper trail is extremely beneficial if you were ever audited. Also, this information should be kept for 6 years to support your claims in case you are selected for review.

Do I need an accountant?

When you are self-employed hiring a Public Accounting Firm (PAF) can be beneficial to help with bookkeeping, tax returns, GST returns, statements and advice. There are many PAFs available but asking some questions will help you find the perfect fit. Explain what you do, size of your business, future goals and financial situation. Ask them if they have worked with artists before, if they are familiar with the industry or if they have the time to dedicate to learning about it. Also, fees can vary significantly based on the firm so make sure to ask how long the work is expected to take and obtain a fee quote to ensure that you are comfortable with the cost. The PAF can act as your trusted financial advisor and is a wealth of knowledge when it comes to specific tax or business questions. To find an accountant try looking at the Chartered Accountants of Alberta website (<http://www.albertacas.ca/ProtectingServingthePublic/FindACAFirm.aspx>) or the Canadian Bookkeepers Association website (<http://c-b-a.ca/member-services/member-directory/>).

The Income Tax Act for Visual Artists and Writers (IT-504R2), do you have it?

This eight page document contains invaluable information on income, inventory and expenses. I suggest getting your hands on this tax act to use as reference come tax season and for use in your business practice. <http://www.cra-arc.gc.ca/E/pub/tp/it504r2-consolid/README.html>

We all have to deal with taxes but keeping yourself up-to-date can help avoid any future problems. Just remember that the Canadian Revenue Agency can be called whenever you require clarification. Business enquiries and self-employed individuals can call 1-800-959-5525.

By Annette Aslund