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But My Sister's Boyfriend is a Mechanic and He Told Me I could write it off....

My calendar had the meeting booked as "New Client". Our receptionist came over to my desk, informed me the client had arrived so I walked over and proceeded to introduce myself.

"Hi I'm Kevin" I said extending my hand.

The client returned the handshake and introduced himself. "Hi, I'm Ed"

Ed and I settled into the boardroom and after the coffees arrived we got down to business.

"So I see from my meeting notes that you're a self employed, unincorporated consultant" I opened.

"Yeah, I got a buyout from my previous employer last year and now I basically do the same thing, for the same types of companies, for more money" smiled Ed.

"Pretty familiar story these days" I add with a laugh.

"Yeah except now" Ed said with a huge grin "Now I can write off everything"

I made a few notes and collected my thoughts before continuing.
"Well, there are a few rules..." I began when Ed jumped in.

"Oh, I know, my sister's boyfriend is a mechanic and he told me about all the write-offs"
He stated knowingly. "I lost money this year... so no worries"

He placed a box on the table. "Hmmm I thought, could be an 11 x 14 envelope box." I've become a connoisseur of the tax season box. The box contained, well... everything. The assembled mass of tangled and crumpled receipts seemed, at first glance anyway, to chronicle everything from the filing cabinet purchased at Staples to each and every fast food establishment in the east end, and 365 morning coffee receipts from Tim Horton's.

"So Ed" I began "What kind of consulting do you provide?" Ed proceeded to tell me all about his work. The more Ed told me, the more I began to dread explaining The Write Off to him. Ed, as it turned out, really was a consultant in the purest form. His clients presented him with particular problems, he analyzed the situation, and then produced reports. I glanced at his box of receipts and then broke the news.

"Basically, from what I see here, your job requires you to produce reports and travel from client to client" I began. "You have a certain portion of your automobile costs that you can expense; you have the cost of the required computer and office equipment, and the business-use portion of your home"

"But what about the thousands I spent on improving my home and my mortgage payments?" Ed retorted with disbelief "I was led to believe that all those could be written off"

"Ed" I stated seriously "We need to go over that whole concept"

"What concept?"



“The Write Offs, and why you don’t want me to work on your transmission” I explained. “You see, I know where the transmission on your car is and even though I don’t have any formal training, I’m pretty sure I could...”

“So you’re saying that maybe the mechanic isn’t the best source for tax advice”

“Yeah, that’s pretty much it” I smiled.

“Ok” Ed leaned back in his chair “Explain it to me”

“Basically what we need to cover is the definition of an expense” I began “An expense is considered to be deductible under the income tax act if it was incurred to earn revenue. That definition is pretty broad I know, there are also a lot of guide lines that Canada Customs and Revenue Agency publishes on its website”

“So you have to apply some judgment on what is reasonable?”

“Yes, you basically have to justify your expenses in light of the nature of your income. In your example I know that you issue reports, therefore it’s necessary to have all the associated office equipment and supplies to perform that task” I began “If you can show, that you require a certain expenditure to earn income, it’s generally deductible”

“So what are the exceptions?”

“There are several. You mentioned clothing for example, that’s simply not allowed under your circumstances” I explained “Also there are certain mixed use expenses, like your house, you live in it and you also work in it so CCRA requires that you apportion all your household operating costs on a percentage square foot basis”

“So you mean I can only claim the room I actually work in?” he began “The renovations and the mortgage payments are out?”

“Not exactly” I replied. “The renovations are a capital improvement to your home and as such are not deductible, the interest portion of your mortgage however is deductible in proportion to the square footage of your home office.”

“Ok”

“Other exceptions are meals you eat alone, club dues, golf fees and life insurance”

“Why can’t I deduct meals”?

“Meals alone are out, meals with a client are ok but then you can only deduct 50% of the meal cost, basically what your client’s meal cost”

Ed and I continued to discuss what an expense against his income earned is, and what is not, and when he was comfortable with the theory, we got into proper organization.

“Ed, the box thing has got to go” I smiled



"Well I was rushed Kevin, this is the first year I've done this and... well what do you suggest"

"It's really simple Ed" I began "File expenses by supplier or expense category. At the end of the year, or preferably quarterly, total your expenses and show the GST separately"

"Can I use a spreadsheet?"

"Absolutely, we have a few examples on our website of how to categorize expenses and revenue" I explained "Revenue is simple of course but you need to be careful and state your net income and the GST you collected separately"

I hooked up a notebook pc in the boardroom and proceeded to show Ed the wealth of information available on our website. We have guides on just about everything. When the meeting was complete Ed was armed with all the knowledge he needed to ensure that we, his accountants, could do the very best for him. Well almost all the knowledge...

"Ed"

"Yeah"

"Remember that bit you mentioned about a loss this year" I asked

"Yeah, you think I owe?"

I told him the number.

Ed is our most organized client now.

This account is fiction. The occurrences mentioned within are however quite commonplace. No disrespect was intended towards mechanics.

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