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Mixing business with pleasure - the pitfalls

Being self-employed has many benefits, one of which is that business owners get increased tax planning opportunities.

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Being self-employed has many benefits, one of which is that business owners get increased tax planning opportunities.

Self-employment is a great tax-shelter because of the many tax deductions available to entrepreneurs. CRA allows deductions for a multitude of expenses as long as the costs are reasonable and were incurred in order to generate income for the business.

CRA isn't going to take your word for it though, so recordkeeping is essential. One of the most common mistakes entrepreneurs make is commingling personal and business expenses.

What does commingling look like?

- Using one credit card for both personal and business expenses.
- Using one chequing account for both personal and business expenses.
- Moving money from personal accounts to business accounts and vice versa without adequate documentation or explanatory notes

The advantages of segregating business and personal finances

- Your accountant (or you) can easily prepare your tax return. Less time spent by the accountant means lower accounting fees.
- You won't break into a sweat if CRA decides to do a business expense audit.
- It is easier to assess the profitability of the business.

Separating your business and personal income and expenses will result in greater financial clarity, and fewer problems with CRA.