



Stay aware of your tax obligations

These are good times to be a subcontractor, and many smaller businesses have been doing very well financially. However, some of them have not been as successful about keeping on top of their tax obligations.

Subcontractors are treated differently under tax law than individuals. If you issue invoices to your business partners with GST/HST added, then you are in a subcontractor relationship. Employment status directly affects a person's entitlement to Employment Insurance (EI) benefits. It can also have an impact on how a worker is treated under other legislations such as the Canada Pension Plan, the Employment Insurance Act, and the Income Tax Act.

If you are a subcontractor, you are subject to the Contract Payment Reporting System (CPRS). The CPRS encourages compliance by requiring construction businesses to record payments made to subcontractors for construction services and to report these payments to the Canada Revenue Agency (CRA).

The main factor that CRA looks at is who exercises the control in the relationship. If you have been classified as a subcontractor, you are essentially a business. As a business you are responsible for collecting and paying taxes like GST and HST.

You have a few options on how to structure your business: you can be a sole proprietorship; partnership/co-ownership (if there is more than one person); or a corporation.

As a sole proprietor, you usually don't need a trade name since you can use your personal name for tax purposes. The incorporation route is much more complicated but recommended if you have substantial before-tax profits. Some clients will only hire corporations, with the objective of distancing themselves from workers' compensation and other liabilities. If this describes your typical client, incorporation may be the way to go.

CRA requires that every taxpayer in Canada keep all records, including both paper documents and electronically stored data. They must be kept in Canada or made available in Canada at its request. CRA retains copies of all issued T-slips including T4s, T4As and T5018s which are all relevant to the construction industry. (If you are missing any of these forms, you can call the general information line at (800) 959-8281 and have them mailed at no charge.)

You are also required to keep receipts for expenses. If you are missing expense receipts, CRA requires that you have source documentation from the issuer to validate your claim. They are not obligated to take secondary information such as bank statements, credit card receipts or debit slips unless that is the only record available—for example, a gasoline purchase.



The taxpayer is required to keep these documents on file for a period of up to six years from the date the return was filed. A taxpayer wishing to dispose of records early may request to have their records destroyed before the six-year period, but it is at the discretion of CRA.

When it comes time every year to file the return, it's best to have as much information as possible tallied beforehand. Smaller contractors may decide to hire a professional from outside the company instead of doing it themselves. Whether you do it yourself or use a professional, it is entirely your call.

There are several tax software packages and a variety of E-Services offered by CRA that may be of great help. If you decide to bring in a professional from outside your company, don't base your decision solely on the fee. Do they have experience handling your type of situation? Are they reliable and are you comfortable dealing with them? If they are good at what they do, you will recover the fee many times over.

With more than half of my clients in the skilled trades and the building industry, I see the same situations over and over. For example, clients now must file a T5018 (this form is used by a construction business to report construction subcontractor payments) with summaries on an annual basis to avoid stiff fines. This has always been the law, and as of 2008 CRA is getting tough about tracking down late filers—so you need to get your taxes in on time.

The construction industry is expected to boom for many years and it's a good time, financially, to be a subcontractor. Make sure you get the right advice about taxation. Many of my clients say that if they had secured the right advice years ago, it would have saved them a mountain of trouble and money.

I frequently deal with clients who are several years behind on their taxes. When I ask them why they waited so long, the common answer is "We had no idea how to get started!" ♦

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