## The Editor’s Cut - Episode 057 - “The Business of Freelance with Accountant Brian James Taylor”

Brian Taylor:

Ultimately, you're going to have to pay some income taxes. In the first year you start out, your taxes are all going to be due the following April 30th. And if you don't remember that, then you're going to come to April 30th you're going to have spent all your money on capital equipment or just life. So, I suggested to you, I believe that you should sort of set aside 25% - 30%. You're just a single freelancer. That probably would be sufficient to set aside enough money for taxes and you'd probably find you won't need it all. And that will allow you to buy the new computer, the new edit suite. Obviously, you may need that stuff anyways, but if you can try and set aside those kinds of funds that should probably do you in good stead.

Sarah Taylor:

Hello and welcome to the Editors Cut. I'm your host, Sarah Taylor. We would like to point out that the lands on which we have created this podcast and that many of you may be listening to us from are part of ancestral territory. It is important for all of us to deeply acknowledge that we are on ancestral territory that has long served as a place where indigenous peoples have lived, met, and interacted. We honor, respect, and recognize these nations that have never relinquished their rights or solvent authority over the lands and waters on which we stand today. We encourage you to reflect on the history of the land, the rich culture, the many contributions, and the concerns that impact indigenous individuals and communities. Land acknowledgements are the start to a deeper action.

Sarah Taylor:

I sat down and interviewed Brian James Taylor, a retired chartered accountant, who also happens to be my Dad. When I first started freelancing, my Dad was the go-to for anything tax related or finance related, and it made a huge difference in my business. So, I thought it would be great to share that wisdom that he shared with me with all of you. I hope you enjoy.

Speaker 3:

And action. This is the Editors Cut.

Speaker 4:

A CCE podcast.

Speaker 5:

Exploring-

Speaker 3:

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The art-

Speaker 4:

Of picture editing.

Sarah Taylor:

Welcome to the Editors Cut, Brian Taylor, also known as my Dad. Thank you for joining us today.

Brian Taylor:

Not a problem. Before we get started on the questions, Sarah, I just want to mention that nothing that we discussed today should be considered to be tax advice that you can rely on. Everybody's situation is different and unique. And if you've got specific questions or issues, you should be sitting down and discussing those with your tax advisor.

Sarah Taylor:

When I started freelancing, I had so many questions. And my Dad was like, so important in that process of figuring out, well, what am I supposed to do? And so I was asking him stuff all the time. So I thought that maybe I would ask Dad these questions now, because there's probably lots of other people out there that are in similar situations that I am. One of the first questions I have is I remember you telling me at every paycheck I got, that was a freelance check, because when I first started freelancing I was like working on the side, still had a full-time job. And you had told me that there's a certain percentage that we should always save or be mindful of, for when we are receiving this freelance money. So, what should we think about when we're first preparing with our first amounts of money that we're getting as a freelancer?

Brian Taylor:

Well, what I was telling you and telling anybody just starting out in business is that ultimately you're going to have to pay some income taxes. In the first year you start out, your taxes are all going to be due the following April 30th. And if you don't remember that, then you're going to come to April 30th, you're going to have spent all your money on capital additions, capital equipment or just life. And so, I suggested to you, I believe, that you should sort of set aside 25% - 30%. And I think that's probably going to be high initially until you really become full-time and have more staff, et cetera. But you're just a single freelancer. That probably would be sufficient to set aside enough money for taxes. And you'd probably find you won't need it all. And that will allow you to buy the new computer, the new edit suite. Obviously, you may need that stuff anyways, but if you can try and set aside those kinds of funds that should probably do you in good stead.

Sarah Taylor:

This might be a really basic question, but can you explain what it means to write something off? What does that actually mean?

Brian Taylor:

You have your income that you earn. You had to pay for things. You had to spend money to earn that money. So, maybe you had to do some advertising so, people knew that you were out and about and available for work. Maybe you paid somebody to design a webpage for you. So, if you have spent money in an attempt to earn income those generally you can deduct as an expense. So, when I say right off the cost of the advertising really you're deducting it. And there are a lot of different expenses you should look at. I always say that if you think it might relate to trying to earn your business income, then keep the receipt or hopefully you've got a system where you're able to record your expenses as you go along and your income so you're not... Like one client I had many, many years ago brought all his receipts, he was a farmer in a Kellogg's Corn Flakes box.

Sarah Taylor:

It's a system of some sort.

Brian Taylor:

Well, there was no system at all because... Anyways, it was awful. But fortunately, I didn't have to do it.

Sarah Taylor:

Yeah, no kidding.

Brian Taylor:

But let me run through some of the expenses that maybe you wouldn't think about. Meals and entertainment. The lunch you have today, not a deductible expense. But if you take a producer out to lunch to convince him or her that you're the editor that should be working on the particular job and you pay for it, then you can call that a legitimate business expense. In this case, meals and entertainment are only 50% deductible.

But you could do the same thing by taking a producer, or a potential client to some kind of a show, or you pay for them to go to a conference. But if you're paying, then you can get that as a deduction. You might have to buy some insurance for liability issues, or errors and emissions. That would be deductible. Interest on business loans. So, if you have to go to the bank because you're just starting and you have to buy your edit suite, you might have to borrow, that interest would be deductible. I assume you pay fees to belong to the Alberta and the Canadian editor associations?

Sarah Taylor:

Yeah.

Brian Taylor:

Deductible. Office supplies, legal and accounting fees. If you don't work in the office, rent, tenant insurance, utilities. Do you have to get your equipment repaired? That would be a deductible expense, or something you could write off. If you get big enough, then you have employees, obviously salaries and benefits. Do you outsource some of the work that you do? Do you get somebody to help you out? The contract payments you make to that person would be deductible.

I know you at one time traveled. You traveled to Calgary to do some work. Your expenses to go there, your travel costs to get there, plane, train, taxi, car, hotel costs, your meals while you're away from home would be deductible. Conferences, out town conferences you've gotten. I know you've had to go to conferences. You've gone to the awards ceremonies when you won your awards as Canada's Best Ever Editor, or maybe no, maybe not quite that. Okay, it was Alberta.

Sarah Taylor:

Thanks Dad.

Brian Taylor:

When you finish a product, and you can't drive it over yourself do you get a courier company to send it over? That cost would be deductible. Postage. Cell phone. Use your cell phone for work, maybe there's a percentage of the cell phone that's work related and you can claim 30% or 40 or 50, depending on how much you use the phone for.

Sarah Taylor:

Yeah. Well, some producers it's all the time because they text you, and they email you, and they call you [crosstalk 00:08:01].

Brian Taylor:

Well, so there you go. I mean, that's a business cost because you are using it, you know from... during the business hours, you're using the cell phone primarily for work. And I may have missed some things, but what I'm saying is, think…whenever you spend some money, think about; Is this related to my business? And then if it's a possibility it might then keep the receipt and make note of it and talk to your accountant if you're using somebody to finish off your books, your accounting file and your tax return at year end and see what he, or she says. You can't claim it if you didn't keep it.

Sarah Taylor:

Exactly. So you need to have those receipts. That's the key.

Brian Taylor:

Yeah. You need the receipts for at least two reasons. One, because you need to know the amount you paid and what it's for. And secondly, if Canada Revenue Agency does decide they want to do an audit, and they do audit periodically, then you need to be able to support what your expenses are.

Sarah Taylor:

Right. Yeah. So, you can't make up an arbitrary number, being like; "Oh, I went for lunch four times this year," or whatever. "And it kind of cost this much money."

Brian Taylor:

It's not a good idea.

Sarah Taylor:

Yeah. It's not ideal. Okay. Now what about gas and mileage? If you're driving to somebody else's office to do work, that sort of thing would also be something I could write off?

Brian Taylor:

Yes. So you're driving over instead of sending the courier company over or a taxi, what the government likes you to do is keep track of all of your car expenses. And so, that's your car insurance, your license plates, your oil and filter changes, any repairs, gas, and also keep track of your kilometers. And so, you keep track of your business trips. And so you then, so you say, "Okay, I did 10,000 kilometers this year and a thousand of it was on business trips. And so, I claim 10% of all my expenses." Now that's what you're supposed to do. If you don't use the car that often, and these days it's probably even less and less because-

Sarah Taylor:

Never.

Brian Taylor:

... of COVID, what you could do is, if you're taking some trips, like let's say you went down to Calgary for a one day conference or something, you could just keep track of the gas that you spent on that trip and claim that because that was a business trip.

Sarah Taylor:

Yeah.

Brian Taylor:

So that's not as good and you may not be getting as much of expenses. The other thing I forgot is you might have borrowed to buy the car. And so you've got interest expense you could deduct as well, and depreciation. So, but it's a lot of work.

Sarah Taylor:

Yes.

Brian Taylor:

Well, it's just you have to get into a system. And so, if you take an odometer reading on January 1 if you're at December year end and you take it on December 31st, that gives the total. And then what I would suggest you do is you just write down the business trip only. If you don't have a lot of business trips then you'd write down, "On April the 19th, I went 30 kilometers to and 30 kilometers back from my producer's place of business," named the producer, maybe even name the show you worked on and do it that way. But it is more work. So, it just depends on how much you're using the vehicle, as to whether it's worth your while.

Sarah Taylor:

Yeah, I know in the past I've used in the past, different apps to keep track and I've also heard of apps that can... they know when your car's moving and they just keep track of it on its own. But it is something you have to remember, and I've been notoriously bad for remembering. But to know that, yeah, if you've bought a car or you have a car loan it could really add up quick I'm guessing.

Brian Taylor:

Oh, definitely.

Sarah Taylor:

If you are driving all the time for work and even if you're not, but just that little extra, I'm sure, every little extra helps.

Brian Taylor:

Yeah. Now the one thing I should say is if you are working out of an office, and so you've rented an office somewhere, driving from home to that office is considered to be personal because that's where your work is. Just bear that in mind.

Sarah Taylor:

Yeah. But then I guess for most freelancers they work from home and then they will go to somebody's studio if they get contracted. So, that would still be considered business if they're going to somebody else's studio. Okay. Well, that's good.

Brian Taylor:

Yeah. Your place of work, your main place of work is your residential address. So anything related to work when you leave the home that would be considered business use.

Sarah Taylor:

So, now coming to home offices, how do we write off the expenses of our house that are like for work?

Brian Taylor:

Okay. So, you have an office in your house that is exclusive for your work. And so, I believe what you've done is you've determined the square footage of your office and the square footage of your house. And so, let's say that number is 8%. You can then deduct for your office, if you like, 8% of the heating costs, your home insurance, electricity, cleaning materials, which I don't imagine is much, property taxes, mortgage interest, and the government will let you claim depreciation, or tax lingo it's capital cost allowance. But I don't normally recommend that because if you're claiming capital cost allowance on a portion of your house, when you sell it then you'll have to pay tax on a portion of the house.

Sarah Taylor:

That could get complicated.

Brian Taylor:

Normally, principal residents, you don't have to pay tax when you sell it. You have to report it on your tax return but you don't have to pay tax on it normally.

Sarah Taylor:

That's good to know. When should somebody register for GST and PST as a freelancer sole proprietor person?

Brian Taylor:

The rule for GST is that when your income in the first year exceeds $30,000, you have to register. If you're going to be full-time as a freelancer, you're probably going to be over 30,000 anyways. So, what you probably should do is register when you start your business. That means that you will have to charge GST on your invoices, but you'll also then be able to claim any GST you've paid on your expenses. You will be able to recover that GST. So, if you have a $1000 invoice that you charge 5% GST on, and so that's $50, if you spent $10 on supplies that month, the GST was $10, then when you file your GST return, you would say; I collected $50, or I will be collecting when my producer pays me. I paid $10. So, I only have to send $40 to the government. Now it won't be, necessarily monthly. You might even be filing annually. I'm not sure whether... or quarter quarterly depending on your revenue source. PST, provincial sales tax, I'm sure you've registered for PST in Alberta since you don't have any.

Sarah Taylor:

Nope.

Brian Taylor:

So, other provinces do have provincial sales tax. So, you'd have to take a look at their rules and regulations to see if the work you're doing is something that you have to charge PST on. Provincial sales tax was not an area I dealt with or dealt in. So, I can't tell you which provinces require you to register for PST. But just be careful because you don't want to get caught not complying with the laws. So, if your work is something that is taxable for the province that you live in, then you should be registering and paying the provincial sales tax as required, and charging your clients.

Sarah Taylor:

Yeah. So what happens if you don't do that?

Brian Taylor:

Well, if you get caught, if there's an audit done and you haven't been collecting and charging and collecting GST then they can fine you. They can charge you interest, and penalties for the shortfall, and they can make you pay the GST that you should have paid.

Sarah Taylor:

Oh, wow. Yeah.

Brian Taylor:

So, generally not a good idea to not get involved in paying the tax, whether it's provincial, federal, GST. You should always file your tax returns. Now I would suggest you file them on time because if you don't there can be a late filing penalty. And why would you want to give more money to anybody because you just didn't get around to pulling together your accounting information and getting somebody to file a tax return for you?

Sarah Taylor:

Yeah. Yeah. And then if you do owe, then you'll pay interest on top of that as well I'm guessing, right?

Brian Taylor:

Yes. Yeah. And that actually leads to another issue. I don't know if that was a question you're going to ask, but your income tax. As I said before, your first year taxes are all due April 30th, because the government doesn't know that you're working as a freelancer. But once you've filed your first tax turn and if there is taxes payable, then the government's going to want you to pay installments. If you're an employee, your tax is taken off from your paycheck every period, every pay period. So they're very happy. They get their tax every month or every two weeks. But as a self-employed individual, there's nobody to take the tax off. So, they ask you to pay installments on March 15th, June 15th, September 15th, and December 15th. And if there's any more taxes owing they want you to pay it the following April 30th.

They will send you a notice. So, if you don't get a notice because you didn't have to pay installments they won't send it to you. But once you get the notice, for example, you get one in probably August for September and December. They'll send you a notice. They'll send you some slip you can take over to the bank if you don't pay it online, and you should, unless you know your income is going to be way lower in the current year maybe because COVID didn't let you work, unless you're in that situation, if your income is consistent or maybe growing every year, you should always pay what the government tells you. And if you do, they won't charge you interest for being late. But if you're late and you should have paid the taxes and your tax bill is higher next April then they will probably charge you installment interest too. And that right now is... I believe it's 5%.

Sarah Taylor:

Whew.

Brian Taylor:

So, it's more than what you probably would pay on overdraft in your bank or loan you could get. So, way better off to try and pay the installments as required.

Sarah Taylor:

Yeah. It's always something that I think I message you every year. I'm like, "Dad, do I have to pay this?" You're like, "Yes. Pay the installments."

Brian Taylor:

Yeah. Like I said, the issue is in a year when your income is expected to be down. It's a little tougher because as a freelancer you still don't know for sure what you're going to earn in September and November.

Sarah Taylor:

Exactly. Yeah.

Brian Taylor:

So, you're guessing. But you are allowed to estimate what your taxes will be in the current year and reduce your installments. But if you're wrong then there'll be some tax to pay... or some interest to pay.

Sarah Taylor:

And then if you pay the amount and you make less than you could get money back in the end, right?

Brian Taylor:

Well, if you've paid "too much", yes. You'll get your refund back when you file your tax return, usually in April.

Sarah Taylor:

Now I think the March 15th date is really tricky because I know for myself, I think I forget about that sometimes because I'm in the process of prepping all of my tax information that I forget to pay the March 15th tax installment. And then I think what also is kind of sometimes confusing is... So, maybe you can walk us through this again. So, I'm going to... I have to pay tax installments, March 15th, August 15th-

Brian Taylor:

March, June, September, and December. I have diarized in my calendar and diarized forever that I have installments to pay and I put it on March 13th or 14th just so I'm a day early. But I've got them all diarized. I don't know the amount that I'll pay next year, but I know that I have to pay it. So, if I don't have that installment notice from CRA in my hands, in my case, because it's sent to me electronically, my calendar reminds me.

Sarah Taylor:

Yeah. Okay. So, it's good to keep on track of that stuff.

Brian Taylor:

Yeah.

Sarah Taylor:

I know there's lots of places that we can donate our money to different charities and organizations. We can claim that in our taxes. But what if we're donating our time for projects, for nonprofits? Is there a way of getting any sort of recuperation in our taxes from that set kind of work?

Brian Taylor:

The short answer is no. And I'll tell you why. If you are donating your services, and let's say it's worth $1000. What you would normally do is you would invoice the charity a $1000 and then you'd say, "Oh, but I'm going to give that. I'm going to wipe out that invoice because I want your good cause and I want to donate my time." Well, in the accounting world or the tax world, what you should be doing is showing income of $1000, and then a write off of $1000, or a deduction of $1000, which nets to zero. So that's why the short answer is no. When a business person is donating his or her time that they charge people for it, it should be included income and as a deduction. So, basically it's a wash.

Sarah Taylor:

Right, because there's no money transferring.

Brian Taylor:

Correct.

Sarah Taylor:

Another big question that comes up often is when should somebody who's self-employed, or a sole proprietor decide to incorporate or should that even be something we think about? What are your stance on that from the accounting side of things?

Brian Taylor:

I told my clients, and I think I told you the same thing, and this first part's the legal part, but if you're in a business that is really risky legal wise, that there could be somebody that could be hurt on your premises, a construction company, for example, I guess if there's something you could do and if you really made a big mistake, it's going to cost somebody millions of dollars and they're going to sue you for the mistake you made, and you can't get enough insurance to cover that error and omission, the errors and omissions insurance, or liability insurance for somebody hurting themselves on your site, then you might want to consider incorporating. But talk to your lawyer about that or insurance broker. If you are going to make more money than you will possibly need in a normal year then you might want to incorporate. And I'll explain why in a minute.

And the other reason is if you have a lot of debt related to the business. So, you had to borrow like thousands and thousands of dollars, or tens of thousands of dollars, then you might want to incorporate. And the reason for that in Alberta, a small business, the first $500,000 is taxed at 11%.

Sarah Taylor:

Oh, that's a lot less.

Brian Taylor:

Whereas a person who makes 100 to 150 thousand dollars would be paying 38%. So, if you earn $10,000 and you pay 38% tax you've got $6,200 left to pay off your bank loan. If you have $10,000 and pay 11%, you've got $8,900 to pay off your bank loan. So, you can pay it off quicker if you like. And if you only need $100,000 or $50,000 of your income, net income, then if you can leave the other $100,000 in the company you pay 11% versus paying say 38%. So, in that case, it's a deferral because when you take the money out you'll have to take it out as a dividend and then you will pay tax.

Sarah Taylor:

Right. Yeah. Okay. That makes sense.

Brian Taylor:

So, if you have a company, you pay corporate tax and then you pay dividend tax when you take it out. If you earn it personally, you just pay your one level of tax.

Sarah Taylor:

But then you also pay yourself a salary if you're incorporated. So, then if I was incorporated and then I'd still have to do personal taxes and my corporate taxes. Correct?

Brian Taylor:

Yes, yes, yes. And you're right. If you're making $150,000 in your company and you only want $50,000, you could take a wage of 50,000, send in the tax and CPP, and leave the rest in to be taxed in the company. Now you're going to have to incorporate a company. That's probably going to cost you $1000 or so. You're going to pay an annual... I'll call it a registration fee to the government every year that could... and maybe $30-$400 bucks. You're going to pay an accountant to do the corporate accounting, and the corporate tax return. And then you'll pay probably that same accountant if you're doing that to prepare your personal tax return. So, there might be an additional cost of $1,500 to $2,000 dollars depending on how complicated things are and how much you do versus how much you have the accountant do. So, you want to make sure it's worthwhile.

Another thing you have to do is you have to remember this is now a separate entity. And so, you'll need a separate bank account. And you can't just take the money whenever you want without having to either declare a dividend, or pay a salary. Now you should probably have a separate bank account anyways. I always recommend that you keep your business separate from your personal bank. For one reason, it's easier to remember all your expenses because you look at the bank statement say, "Oh, look, I spent that $500 and I forgot about that in my accounting record." So, when you try and reconcile your bank, you'll see that you've missed an expense. That's a recommendation anyways.

Sarah Taylor:

The incorporation thing sounds like... For me personally, it sounds like a lot of work that I wouldn't really need to do. So, I'm glad that I've chosen not to.

Brian Taylor:

But if you had developed your business where you had three or four editors working for you. You were just out and about generating new business. And you might be making enough money off the other employees that you don't need it all.

Sarah Taylor:

That's true. Yeah. Yeah.

Brian Taylor:

So, everybody's situation is different.

Sarah Taylor:

For sure. Yeah.

Brian Taylor:

For a single freelance editor probably it may not be worthwhile.

Sarah Taylor:

Would you recommend that you do, like go to an actual accountant to do your taxes, or are these online tax software sites good?

Brian Taylor:

Well, it depends on how comfortable you are in doing financial work, how comfortable are you in keeping track of all your expenses and doing your own accounting. Once you've got the accounting done the tax return isn't all that complicated. It just shows up as net business income. But do you know what depreciation rate to claim on a computer, on... Yeah. No. So you may need... yes, you could do some research and you could look it up. It's easy to find things online these days. But what's your comfort level and frustration, anxiety? You may be able to find it eventually. It might take you 10 or 20 hours to do something that might take me an hour.

Sarah Taylor:

Exactly. Yeah.

Brian Taylor:

Or where would you rather spend your time? So, is it, can you make more money by spending that extra five hours or so working, or the anxiety and the extra hours to work on the accounting side?

Sarah Taylor:

For sure.

Brian Taylor:

So, a lot of people, that if it's not there bailiwick then they get somebody else to do that. That's why we have plumbers, because I don't know how to deal with plumbing.

Sarah Taylor:

I hear you. What do you think are the best practices that we should do throughout the year to ensure that the process is smooth when it comes to the tax time?

Brian Taylor:

Biggest thing, a couple things I guess, is keep track of your expenses. I mean, you can keep track of expenses yourself. You can do an Excel spreadsheet. There's probably software out there you can keep track of it as well. But if you are not so inclined, then set up a system with your accountant as to how that information gets to him or her and might be better to do it monthly, quarterly than waiting until you year end because then you've got that Kelloggs box of Kellogg's cereal box of receipts. We don't want to do that. Or a shoebox we used to call it.

The other thing is try and make sure you invoice on a regular basis. Well, first of all, you need the cash. So, that's one reason why you want to invoice as often as possible. But set up a system with your clients and whether it's monthly, bimonthly, maybe if it's a small enough job it's just when job's finished, but you need the cash. So ,you've got to pay expenses. So, try and keep that done on a regular basis too.

Sarah Taylor:

I know with my accountant I was able to... They did bookkeeping and accounting in one. I don't make my dad do my taxes anymore. He used to do them when I was young, but I've grown up and I have my own accountant. I'm sure he still would though if I asked him. But yes, so there are systems out there where you can find accountants that can offer that, and mine's just all online. And I'm sure there's other online programs that people use. So, it's definitely something that can be... not easy but for sure.

Brian Taylor:

Correct.

Sarah Taylor:

But still it's something you have to keep up on. And I still have trouble with that. One of my other questions is should we consider getting EI, or contributing to EI? So, that if anything goes wrong, we have some sort of help, I guess?

Brian Taylor:

Well, that is now an option. It wasn't always an option. Generally, self-employed individuals do not have to pay EI. But that means they don't get any of the EI benefits. So you don't get maternity leave and you don't get any kind of benefit if all of a sudden your income is gone. I think each person has to look at it separately and say what are the benefits? If you are a 45 year old, just starting in business and you are not going to have any more children, that means you haven't got a chance to get the maternity benefit. Then look ahead and say, "What are the chances that I might need to qualify to get some support if I work real well for four or five years and all of a sudden everything dries up?"

It's a call you have to make. I mean, the cost is right now, it's 1.58% on $54,200 maximum. So, the maximum this year is $856. So, that's your cost. So, look at what the benefit might be. And I don't have that information handy, but I don't know what the... For maternity leave it's a year, I believe.

Sarah Taylor:

Yeah. It's a year's money, cash wise, but you can spread it out to 18 months. But yeah, it's a-

Brian Taylor:

Yeah, but it's only a year of money.

Sarah Taylor:

Only a year. Yeah.

Brian Taylor:

Yeah. So, if you're younger and you might have two or three kids, you might look at it. But remember, once you've signed the form, or signed on to be part of EI, my understanding is you have to be pay EI for the rest of your business career. So, if you're 25 years old and you're going to work for another 30 years, that's 30 years times $850. And it changes. So, that's $24,00 or $25,000 so, over time. The benefit, if you need it, it might be worthwhile because when you need it that means things are tough.

Sarah Taylor:

Exactly. Yeah. This year shows us, right? It was a tough year. So, yeah. These are the moments when we're like, "Ooh." Yeah. So, it's good to think about that stuff. Now RSPs are something that I always invest in. So, that's a way to save us money on our taxes.

Brian Taylor:

Correct.

Sarah Taylor:

So, tell us a little bit about RSPs, why that's something that we should consider doing for our taxes. And then maybe after that, tell us if there's any other things that we should be considering investing in that maybe we don't know about.

Brian Taylor:

Well, the RSP was sort of first introduced to help people who wouldn't otherwise have a pension. So, if you're self-employed and you are your pension plan, this was a way to put money into an investment vehicle called an RRSP, a registered retirement savings plan. And while the money is sitting in that RRSP, it grows tax free. So, it grows quicker. When you take it out, then you pay tax. So, the concept was, let people do this every year, those they can set aside. Current rules are 18% of your earned income to a maximum... Sorry, I forgot to look that up. It's around 20... 25, $28,000, something like that. So, you can put that money into RRSP. You can do it through your bank. You can do it through a stock broker. You can do it through an online investment account. And as long as you invest in qualified investments, then that money just grows, and grows, and grows hopefully.

So, you get to deduct it at your marginal tax rate. So if you're at a 38% tax rate, then you save 38% of whatever you put in. So, if you put in $10,000, you save $3,800. When you take the money out when you retire, then you pay tax at whatever your marginal rate is. So, the ideal situation is you contribute when you're at a high tax bracket. And then when you retire, you have less income and you also have less financial needs. You don't need to spend as much money. Surprisingly, that does happen. Then maybe you're in a lower tax bracket. So, you've saved at 38 and maybe you only pay at 26. And also, you're not paying until 30 years from now. So, you're deferring the tax as well. So, it's generally a good idea.

The other option is a tax free savings account. And that is limited at the moment to $1600 dollars that you can put in annually, and it grows tax free as well, but you don't pay tax when you take it out. So, it's really tax free. But there are obviously lower limits as to what you can put in. So, if you're in a low to mid tax bracket and you have to look at which one do I do, probably suggest a tax free savings account, because you never have to pay tax on it. And the other reason is if you buy an RRSP possibility is, you might end up in a higher tax bracket when you cash in, and now you've deducted low and you've paid tax high. So, that's not as good an idea.

Now that's a general concept. Talk to your financial advisor about that. Nice thing about a tax free savings account, if you have an emergency and you need some money and let's say you've got $10,000 sitting in your tax free savings account, you can take that out. Don't pay any tax. Next year you can put it back in. So even though the limit for next year might be $1600 dollars, you can put in the $10,000 you took out in 2021. You can't do that with an RSP.

Sarah Taylor:

With an RSP you can take some money out if you buy your first house, but then you have to pay that back. Right?

Brian Taylor:

Correct.

Sarah Taylor:

But with a tax free savings account, you can just take it out. And if you don't end up putting that money back in you're not going to get penalized.

Brian Taylor:

No. Yeah. You don't ever have to put it back in. But if you've got investments or you have enough income that you can have investments, you are better to put it back in.

Sarah Taylor:

Yeah, for sure.

Brian Taylor:

The other thing for people who have younger children is a registered education savings plan. Those funds grow tax free and the government helps... they kick in cash as well. So, there's limits. You can put in up to $2,500 in a year and the government will match 20%. So, they'll top it up with $500. You can put $3000 in, but they'll only match the first $2,500. That money grows tax free. And when it comes out, as long as it's being used for education for your child, or children then the principal you put in, is returned tax free. But the earnings that come out are taxed in your child's hands. Traditionally they don't have much other income. So, they generally don't pay tax, but they do have to report it. And the financial institution that you dealt with for the registered education savings plan will give you a tax slip to show how much is taxable.

Sarah Taylor:

Are there any other tips that you would have that we haven't covered for making things easier on the minds of a freelancer?

Brian Taylor:

It can seem to be like a daunting experience, but if you ever in doubt ask somebody. Well, first I guess these days go online and see if you can find something on a government website or whatever that is a little more authoritarian than perhaps somebody, Joe's website, not picking on Joe. But yeah. I mean, most accounting tax financial advisors, they're willing to sit down and talk to you and might even sit down for 10, 15 minutes if it's a real quick thing and say; “no charge”. We're all in business to make money. So, don't expect it to be no charge, but sometimes I was willing to help people out because it didn't take much of my time, and I could see that it was important to them.

Sarah Taylor:

Yeah, yeah. Well, and you have that knowledge. It's just in your brain. So, if you have a dad that's an accountant, that's really helpful. He doesn't charge you.

Brian Taylor:

True.

Sarah Taylor:

Or does he? Anyway, thank you, Dad. This has been really helpful. And by the way, this is Brian James Taylor. He's a retired C.A. He's also my Dad, and it's been really great that he always shares his knowledge with me and that he was willing to share his knowledge with all of you. And I hope that it's been helpful.

Brian Taylor:

Thanks, Sarah.

Sarah Taylor:

Thank you so much for joining us.

Brian Taylor:

Bye.

Sarah Taylor:

Thank you so much for joining us today and a big thank you goes to my Dad, Brian James Taylor, for taking the time to chat with me and for being so supportive over my career. And a special thanks goes to Jane McCrae and Alison Dowler.. The main title sound design was created by Jane Tattersall. Additional ADR recording by Andrea Rush. Original music created by Chad Blain and Soundstray. This episode was mixed and mastered by Tony Bao.

Sarah Taylor:

The CCE has been supporting Indspire, an organization that provides funding and scholarships for indigenous post-secondary students. We have a permanent portal on our website at cceditors.ca, or you can donate directly to indspire.ca, I-N-D-S-P-I-R-E.ca. The CCE is taking steps to build a more equitable ecosystem within our industry. And we encourage our members to participate in any way they can. If you've enjoyed this podcast, please rate and review us on Apple podcasts and tell your friends to tune in. Till next time I'm your host, Sarah Taylor,

Speaker 4:

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