

Business Startup Guide

(for artists)

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1 Purpose of this document

This guide is meant mostly as a start-up guide, not as an Accounting course. It covers topics related to self-employed business owners, not employees. The distinction can get complicated. One big deciding factor is the intent of both parties, the wording of any contract between them, and the control each party has over the work being done or how it is done. I have not covered those rules here.

This document is intended as a starting point only, merely to introduce the topics you should be aware of, and to provide some basic business and accounting rules and best-practices.

It is specifically aimed at artists, who create and sell their original artwork, and are self-employed. It is not aimed at manufacturers who buy goods to use as raw materials, to create a finished, mass-produced product. An artist can create prints of their original artwork and sell them. However, there is a limit to how many. You cannot sell thousands and thousands. If you go over CRA's limit, then you become a “manufacturer”. The rules for manufacturers are different. I have not covered any of those topics. If you plan to do it, then check the limits and rules first.

I have written a twin document to this one called “*Entering Art Shows Guide*”.

You can refer to it for topics on:

- how to apply for entry into art shows
- how to exhibit at shows
- what to take to a show

2 Basics.

The biggest business (and accounting) rule! Whatever you do, you must do consistently. Whatever account you put an expense into must be consistent. If brushes are put into a "supplies" account, they shouldn't be put under a "tools" account later. All your accounting decisions must be consistent. You must be able to isolate your personal finances from the finances of the business.

3 Information resources on how to start a business

Obviously the internet is a wonderful resource, but make sure the information you look at applies to Canada.

My personal opinion. Do not pay anyone for financial or business advice. Certainly not before you have read and studied the “multitude” of business guides and content on the CRA website. They lay out all the rules in great detail, and all for free. They are also the Agency that you ultimately have to answer to, so you may as well understand the rules as they describe them to you.

CRA is more than happy to provide all the rules for free. See "*Appendix B. Canada Revenue Agency, Business Resources*" for the perfect place to start.

This document contains interpretations, helpful hints, ways to make your life easier, and some suggestions of what to avoid.

4 What's in a name

4.1 *Who am I?*

You can start your business as a sole proprietorship, and just use your own name, or you can choose a different name for the business.

First check the internet for your business name. You will need an online presence, and it is essentially mandatory that people can find your business online these days. Do extensive online searches on the name you want to use. Make sure there is no name or website the same, or very close (that could be confused with your desired name). Another business could challenge you if they think your name would confuse their clients. Especially if their name is registered or copyrighted. Next, do Google searches of the key words you think people will use to find you.

4.2 *Registering the name.*

You can register the name, or not. If it is your name then you “probably” don't have to, unless of course it matches a celebrity's name. If the name has no close equivalents on the internet you are probably safe.

5 How your clients will find you

5.1 Online

Once you have settled on your name you need to make your presence known online.

See "*Appendix D. A website, or other online presence*" for options on how to create an online presence (i.e. Website, numerous social media channels like Facebook, photo sharing sites, third party artist "community network" websites, etc.).

5.2 Business cards

You need something to give attendees that they can take away with them, to know how to contact you. The simplest and cheapest is business cards, and really only need to have your name, contact information, and maybe how to find your online presence.

They can be designed on your own computer with simple templates. You can buy card stock from places like Staples and print them on your own printer. They can be designed on a number of online services, like Staples or Vistaprint. They are very inexpensive (\$9 - \$20 for 250 or 500 cards).

5.3 Fliers, and advertising

There are numerous way to create fliers and advertising posters on your own computer, or through services like Staples and Vistaprint. At the very least, have business cards.

6 When did I start?

What is your startup date?

It is basically whenever you decide that you have started the business.

The easiest startup date for accounting purposes is to set your "fiscal" year to match the calendar year (Jan. 1, with a year-end of Dec. 31).

You have to be able to prove that you actually did something concrete (significant) in terms of starting the business.

This could include (but is not limited to) the following:

- Bought equipment, furniture, tools, supplies, to use specifically for the business
- Registered a business name
- Registered a website domain name
- Built a website,
- Built a business Facebook Page, or other social media channel for the business
- Designed and printed business fliers
- Purchased business insurance
- Created, renovated or redesigned some studio space in your house or elsewhere
- Entered an art show to sell artwork
- Obtained business cards
- Signed up for classes

7 What are valid business expenses/deductions?

This is one of the biggest questions. What is a valid (legal) business expense?

A business expense is any expense that you incur, or anything that you buy, that enables you to earn income.

7.1 Expenses.

The term "expense" refers to something you bought that you can claim as a deduction in the year you bought it.

Generally it refers to items that will likely be used up in that year or are "relatively" inexpensive. An "Expense" account is for items that are one-time, occasional, or for consumables. There is no exact limit, but most people, including lawyers say it is about \$200. Whatever limit you decide on has to be consistent, and reasonable based on your typical expense costs.

All expenses must be for items that are for exclusive use of the business, not for personal use. There are a few exceptions.

These do not include large purchases that you will own for years (like furniture or computers).

Here are some samples of things that you can "expense" (ie. Charge as an expense in a fiscal/calendar year).

This is not an exhaustive list.

7.1.1 Web (internet) fees.

- Internet fees.

These are required for business websites and email. CRA knows it is required for your business, but that since you have it you will also use it for personal use. My understanding is that this is acceptable multi-purpose use.

- Fees for website design or maintenance of your business website,
- Fees for a website domain name registration.

7.1.2 Education (courses, workshops, conferences).

These can also include the cost of business courses like accounting, business management, marketing, website design, etc.

Learning materials (books, magazines).

7.1.3 Supplies

Painting supplies like paints, varnishes, brushes, frames, etc.

7.1.4 Tools

These are tools of the trade (like brushes, palette knives, mat cutters etc.)

7.1.5 Bank fees

For accepting payments, business account fees, square, payd, paypal, bank stmts.

7.1.6 Office supplies

This is a big one.

You can "expense" all office supplies, like envelopes, stamps, pens, paper, computer paper and ink, the list goes on. The rule is that they must be for the exclusive use of the business, not your personal use. So you have to keep them all separate from your personal use supplies. This is not so easy for things like computer paper and ink. I buy stamps, envelopes, business card stock, etc., and keep them separate. Then I buy computer paper and ink, and expense one purchase, then not the next one. I will be able to prove that I purchased some of these without charging the business for them. Another option is to prorate their use.

7.1.7 Travel

You can charge all the expenses for operating your car, prorated to the percentage of mileage you used for the business. This includes gas and all maintenance. They say you have to keep a mileage log. You have to be able to prove the mileage usage.

I record my odometer reading on Jan. 1, then Dec. 31. I keep a spreadsheet of all purchases, that includes where I bought them. I have receipts of all show fees, or workshop fees. I have built up a spreadsheet that includes all distances to all places I have purchased things from, courses I have attended, or shows I have attended. I use Google maps to map the route from my house to each place and tell me the distance. I add up all the distances at the end of the year, and calculate the business use percentatge of my total mileage for the year. This is quite easy now that I have a complete spreadsheet of the distances. I only have to add a new entry if I go somewhere I have never been before.

7.1.8 Business tax, fees, licences, dues, memberships, and subscriptions

Under this "Business Fees" category I include:

- all membership fees for Art Associations
- all entry fees or hanging fees for shows, and jurying fees for entry to art shows

7.1.9 Legal, accounting, and other professional fees

You can deduct fees for services of things like lawyers, accountants, or income tax preparers.

7.1.10 Advertising

This is where I deduct expenses for:

- Domain name registration fees
- Website fees (like my "service provider's" email and virus scan services)
- Gallery fees for Art Association website galleries
- Virus software for my website

7.1.11 Meals

Be careful with this one.

It is rife with the potential for abuse, so I believe CRA watches it very closely.

I typically never charge anything here.

You can charge half of every meal that you pay for, if it was for business purposes. You claim half the cost, but cannot include the tip. That means you can entertain clients, and even go for dinner with your spouse. Officially you must discuss business. If you really want to do that then you should keep a record of it (basically a journal of the dinner and a description of what was discussed, ie. Meeting minutes). Meals and hotels for an out-of-town show can be claimed.

7.1.12 Home expenses

This can get complicated. *I have not gone into this section in great detail.*

You can claim a portion of all your house expenses. These CANNOT be used to create a business loss in any particular year. They can only be used to decrease any income tax owing. You can carry unused expenses to the next year if you don't need them.

You must have exclusive space dedicated to your business (like an office or a studio that is used ONLY for the business). Calculate the square footage of your "business" space, and prorate all your expenses based on the percentage of the total space of the house. Some experts have told me that CRA likes nice round numbers here (like 10% or 15%, as opposed to things like 8.45%).

You cannot claim a personal home phone line. It would have to be a dedicated business line, like you might use for a dedicated fax line.

Do not claim your mortgage payments, or you will complicate your house value when you sell it.

7.1.13 Salaries

You can pay family members to do work for the business. Check the rules carefully. Make them contractors (not salaried with benefits) and know if you pay them too much it could affect their income tax. They will have to report it as income. This is likely only worth it if they do a lot of work for you, have little income themselves, and/or you need deductions. Document what work they do, and what you paid them. Pay them by cheque so there is a paper trail. Maybe even write up a job description of what their duties will be. Business accounting is all about transparency and proof.

7.2 Capital cost allowance expenses (depreciation of assets)

Where it gets more complicated is with tools, furniture, and equipment, things that you will use for years. They have to be charged on a "capital cost allowance" basis (CCA), and be depreciated over time. You have to claim a portion of the cost each year over a period of years.

What makes it more complicated is that different assets fall into different "classes" and get depreciated at different percentages, depending on the type of asset.

Examples of these types of assets are \$500 easels, drawing tables, furniture, gazebos for outdoor shows, display cases, computer equipment, software, etc.

You have to keep track of when you bought them, how much you have depreciated (claimed as an expense) each year, and what value they still have left.

See "Appendix C, Canada Revenue Agency, CCA Rules" for details, and read them carefully.

7.2.1 Furniture

For things like desks, office chairs, easels, storage shelves. These fall into CCA class #8. These get depreciated at a rate of 20%/year.

7.2.2 Computer equipment

These fall into CCA class #50. These get depreciated at a rate of 55%/year.

I believe that CRA expects you to use a computer for business and personal use. They do not expect you to have a dedicated business computer, printer, etc.

7.2.3 Software

This falls into the CCA class #12. It gets depreciated at a rate of 100%.

I believe that CRA expects you to use software on a multi-use computer. They expect common software on a common computer. You can claim things like Operating System updates, virus scanner updates, and even Tax Preparer software. Some software is very specifically business related like accounting software, web design software, and even photo editing software.

8 Inventory valuations

I recommend that you don't put a value on inventory.

Manufacturers put values on all their raw materials for making their products. Artists are allowed to value their inventory at nil. This is 100% simpler. Just buy your paints and deduct them in the year you bought them. Don't try to figure out what each tube of paint cost you and how much you used in each painting. You will drive yourself nuts. It is not worth the aggravation (and it's unnecessary). You are allowed to value all your supplies as nil. Then you report the income on the sale, when you sell it, which could be years after you painted it (or never). Now you don't even have to calculate a cost-of-materials when figuring out what the painting cost to produce.

9 Have the business buy existing "personal" supplies?

Don't.

You can transfer ownership of everything that you own, into the business. I recommend that you don't, unless you really don't have much yet. All money and goods moving from your personal bank account or personal inventory, to your business accounts has to be documented. You would have to move personal money to the business (so it becomes "owner equity" within the business. Then get a valid, fair valuation of ALL the supplies, brushes, paints, vanishes, etc. Then you would have to document every item, and its value. Then you would use business money to buy them. If you ever close the business, the business will have to sell everything back to you. It's totally legal. However, it's likely not worth the effort, unless you expect to sell so much that you need absolutely every penny of business expenses, have enormous amounts of supplies and tools already, have a lot of patience, and mountains of free time on your hands.

10 Insurance

You should have insurance.

You need it to protect yourself from lawsuits. Your house insurance won't cover you to run a small business out of your house. Probably the simplest and cheapest option is to add a "business rider" onto your house policy. You will get liability and loss coverage.

Liability is for anyone who comes to your house to discuss business and might get injured (slip on ice, trip on stairs, etc). It will also cover you for damage you do outside of the house. If you set up a booth at a show, or a gazebo, and the wind blows it down onto someone else's items, you could get sued for the damage. I don't think most people realize this when they set up a gazebo tent beside me at a show and don't take measures to weigh it down or stake it into the ground. If they damage my paintings they could get sued (it's negligence, and it's preventable).

It will cover you for damage inside the house (accidental damage, fire, etc.). It will also cover things that you take away from your house, like your original artwork, supplies,

hardware, display shelving, that is in your car in transit to a show, left on display at a venue, or with you at a show.

11 Accounting software

You don't really need accounting software. A good set of Excel Spreadsheets will work fine. If you want to look at software, there are inexpensive packages like Quickbooks.

12 Business bank account

CRA wants you to maintain separate and isolated business financial dealings from your personal finances. This can get complicated. You will have to prove all financial dealings were business related.

The easiest way to do this is to:

- Not mix personal finances with business ones
- have a business bank account. It doesn't have to be a formal business account, just a separate one from your personal one.
- All business money, payments and cheques should flow through the business account
- There should be a paper-trail of what happened
- I actually have a separate credit card that I now use only for business purchases

13 Other accounts

13.1 Owner's Equity

This is the actual value that you have in the business. It is calculated by taking all asset values (including cash and inventory), adding any accounts receivable, and subtracting any accounts payable.

You will likely start with some owner's equity by transferring some personal money into your business account. Then you will buy what you need to start the business, and pay for it out of this business account. The initial deposit will be owner's equity.

13.2 Accounts Receivable

This is money that is owed to you, but that you have not received yet. The most likely way for artist small businesses to have these would be from layaways, deposits, or commission work that is partially paid.

13.3 Accounts payable

These are any outstanding payments that you owe to someone. Credit card or utility bills not yet paid, would be one example.

14 Year-end Financial Statements

At the end of the year you will have to file a set of financial statements. They are the "Balance Sheet", and "Income and Loss statement". There are many basic, simple samples to be found on the internet.

14.1 The Balance Sheet

A balance sheet is very much what it sounds like. There are lots of simple basic samples on the internet. In one column list inventory, cash, and accounts receivable. In the next column list outstanding bills. The difference is "owner's equity". This is basically how much money you have invested in the business and would get back if you sold everything and paid off all outstanding bills.

14.2 The Income and Loss Statement

List all income "earned" in the year (even if you haven't been paid yet). Losses could be things like paintings stolen or damaged, etc.

15 Income Tax Filing

You file a T2125 return. A good idea for naming your financial "accounts" is to use the categories that are on the T2125 itself. Then you can transfer your numbers directly to the category on the tax form.

They are on the form in this order.

Line 8521: Advertising

Line 8523: Meals and entertainment (allowable part only)

Line 8590: Bad debts

Line 8690: Insurance

Line 8710: Interest

Line 8760: Business tax, fees, licences, dues, memberships, and subscriptions

Line 8810: Office expenses

Line 8811: Supplies

Line 8860: Legal, accounting, and other professional fees

Line 8871: Management and administration fees

Line 8910: Rent

Line 8960: Maintenance and repairs

Line 9060: Salaries, wages, and benefits (including employer's contributions)

Line 9180: Property taxes

Line 9200: Travel (including transportation fees, accommodations, and allowable part of meals)

Line 9220: Telephone and utilities (only if it is a dedicated phone line for the business, like in a business building or studio or a dedicated fax line).

Line 9224: Fuel costs (except for motor vehicles)

Line 9275: Delivery, freight, and express

Line 9281: Motor vehicle expenses (not including CCA) (see Chart A on page 6)

Line 9935: Allowance on eligible capital property

Line 9936: Capital cost allowance (CCA) (from Area A on page 5)

Line 9270: Other expenses (specify)

You don't necessarily need all these accounts. However, if you use these categories (accounts) and you use a spreadsheet with them in this order, then it is very easy to transfer the numbers to your tax return.

House expenses are categorized like this on the tax form:

Part 8 - Calculation of business-use-of-home expenses

Heat

Electricity

Insurance

Maintenance (the safest is ONLY maintenance on your office/studio space)

Mortgage interest (I ignore these)

Property taxes (I ignore these)

Other expenses

16 Are you really (or still) a business?

You must be able to prove to CRA that you are a business, that you are running it as a business (and that it's not just a hobby). The general purpose of a business is to make a profit. CRA expects you to eventually make a profit.

17 Appendix A. Legal disclaimer.

I am not a business expert, or an accountant, nor do I know all the business rules or the tax rules. I have worked for CRA, but not in a capacity of the processing of tax returns, or as an auditor. I have done extensive research on starting a business before I started mine. I have only included what I know is legal and above-board (at the time of this writing).

18 Appendix B. Canada Revenue Agency, Business Resources

Their main website is: www.cra.gc.ca

- Reporting Business and Professional Income
 - (currently at: <http://www.cra-arc.gc.ca/E/pub/tg/t4002/README.html>)
- T2125 Statement of Business or Professional Activities
 - (currently at: <http://www.cra-arc.gc.ca/E/pbg/tf/t2125/README.html>)
- Guide T4002, Business and Professional income

19 Appendix C. Canada Revenue Agency, CCA Rules

CRA's guide on Capital Cost Allowance can be found here:

<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/slprtnr/rprtng/cptl/menu-eng.html>

Read the topics:

- How to calculate the deduction ...
- Basic information ...
- Classes of depreciable property
- Personal use of property

20 Appendix D. A website, or other online presence

20.1 Website

These days you can create a very simple and easy website, in a matter of days, and for free. As a starting point, all you really need is one page with a photo of a painting and some contact information. There are numerous online services that provide free websites, and very easy design tools to create them. If you can write a document in Microsoft Word, you can create a website.

I can assist with designing or building a basic website, and could do it for just a few dollars. I can even host it for you, and create a domain name. Domain names cost about \$20 per year, and give you the website name that you want.

20.2 Social Media

20.2.1 Facebook

Another free and easy option is to use Facebook. Facebook allows you to create pages that are not part of your personal profile page. You can create a Facebook business page. You can put that address on your business card.

20.2.2 Google+

This is Google's version of Facebook.

20.2.3 LinkedIn

This is another social media platform that you can create for free and use as a business profile page (presence). You can put that address on your business card.

20.2.4 Twitter

This is another social media platform that you can create for free and use as a business profile page (presence). It won't let you create photo galleries, but will let you post news items.

20.2.5 Pinterest

This is designed for pictures and images, but you can put anything up there.

20.2.6 Instagram and Flickr

These are photo sharing sites, to name a couple. I am sure there are others.

20.2.7 YouTube

You can easily create a slideshow of your work and post it as a video. You don't have to know how to make movies to use YouTube.

20.2.8 Others

I am not even going to try to list all the options available, but all the social media platforms are basically free. Tomorrow there will be a dozen newcomers in this realm.

20.3 Third Party Websites

There are numerous third party websites that you can join, for free where you can showcase your work.

Some are artist "community network" websites like:

- Fine Art America
- Artists In Canada
- Artweb
- Worldweb