TAXFILINGS
CANADA

FREE GUIDE FOR FREELANCERS & CONTRACTORS

# The Self-Employed Tax Book

You send the invoice, the client pays it in full, and nobody takes the tax off first — here is how to run that system calmly.

> Nobody withholds tax on your invoices. Your money arrives whole, spends easily — and part of it was never yours. The set-aside habit you build this month decides whether next April is a formality or a crisis.

| Five habits that make self-employed tax boring — which are already yours? | |
|---|---|
| 1 | **Open a second account.**<br>Move a slice of every payment somewhere you do not spend from, the day it lands. The self-employed tax calculator at taxfilings.ca/tools suggests a slice for your income and province. |
| 2 | **Photograph every receipt.**<br>The CRA can ask to see your records for six years — confirm the current rule at canada.ca — and thermal paper fades long before that. Ten seconds per receipt is the whole system. |
| 3 | **Keep a vehicle logbook.**<br>Date, destination, purpose, kilometres. Without it, a vehicle claim is a hope; with it, that claim is often one of your largest. |
| 4 | **Watch the $30,000 line.**<br>Cross it in revenue over four rolling quarters and GST/HST registration stops being optional. Confirm the current threshold at canada.ca, and glance at your trailing total each quarter. |
| 5 | **Learn your two dates.**<br>June 15 to file, April 30 to pay. They are not the same date, and the second one is the one that charges interest. |

Most numbers are missing from this guide on purpose: rates and limits move every year, and a stale figure is worse than none. The few that appear are structural. Confirm them at canada.ca, and test your own situation with the free calculators at taxfilings.ca/tools.

## 01 One form runs your whole business

Self-employment tax starts with form T2125, a schedule inside your ordinary personal return. It asks what came in and what it cost you to earn it — and only the difference, your profit, gets taxed.

### Money in

Every invoice, payout and work e-transfer counts from the first dollar, slip or no slip. If a platform or client paid you, assume the CRA already holds the same number.

### Money out

The costs of earning that income: supplies, software, advertising, and fair shares of home, phone and vehicle. Each line needs a record that could stand on its own.

**START HERE TONIGHT**

Open a separate account for business money, even as a sole proprietor. Once earnings and grocery money share one card, every tax question turns into an archaeology dig.

## 02 CPP: the invisible second half

An employee splits Canada Pension Plan contributions with their employer and never handles either piece. Working for yourself, you are both parties, so both halves come out of your profit — and they apply even in years when your income is too low to owe much income tax. This, not the tax itself, is what ambushes first-year freelancers.

**THE APRIL AMBUSH**

Saving only what an employee pay stub would suggest. Put your real numbers through the self-employed tax calculator at taxfilings.ca/tools — it counts both CPP halves — and correct your slice this month, not next spring.

## 03 Expenses that count — and survive a second look

- [ ] Home office: a fair share of rent or mortgage interest, utilities and internet, sized by the space you actually work in
- [ ] Vehicle: the business share of fuel, insurance, repairs and ownership costs — whatever share the logbook proves
- [ ] Phone and internet: the work portion, estimated honestly and applied consistently
- [ ] Supplies and materials: whatever gets used up doing the work
- [ ] Software and subscriptions: the tools the business runs on each month
- [ ] Advertising: ads, listings, the website, the cards you hand out
- [ ] Professional fees: accounting, legal, and memberships tied to earning
- [ ] Equipment: laptops and gear are usually spread over several years rather than claimed at once — ask before writing off the lot

**WHERE CLAIMS FALL APART**

Whole-bill claims: the entire phone, the entire car, the entire apartment. A defensible share with a record behind it beats a bold guess. Tonight, pick your three biggest expense estimates and write one line each on how you would defend them.

## 04 The $30,000 line: where GST/HST begins

Sales tax runs on its own track, separate from income tax. Once revenue over four rolling quarters passes the registration threshold — $30,000, though the current figure is worth checking at canada.ca — you must register, charge GST/HST and file its returns. The count never resets at your year-end; it rolls, quarter by quarter.

> SOMETIMES EARLY IS CHEAPER
>
> Registered businesses recover the GST/HST paid on their own costs as input tax credits, which is why some register before they must. The registration checker at taxfilings.ca/tools walks you through both sides of that call.

## 05 Instalments: next year's tax, paid as you go

After a strong year, the CRA may ask for tax quarterly instead of in one April lump. The usual trigger is owing more than $3,000 at filing time two years running — confirm the current trigger at canada.ca. When it happens, reminder letters spell out the amounts and the four dates.

> THE EXPENSIVE SHRUG
>
> Filing the reminder letters away unpaid. Each skipped instalment quietly accrues interest, as if it were a small overdue tax bill of its own. The day the first letter arrives, put all four dates in your phone.

## 06 Two deadlines that only look like one

Self-employment stretches your filing deadline to June 15, but any balance owing is still due April 30. The extension covers paperwork, never payment: interest begins in May on whatever remains unpaid, filed or not.

> ONE MOVE BEATS BOTH DATES
>
> Estimate the bill in March, pay it by April 30, and file once the paperwork is tidy. File late while owing and the late-filing penalty starts at five percent of the balance plus one percent per late month — the shape is stable, but check the current details at canada.ca.

## 07 Three beliefs that cost freelancers money

| MYTH | FACT |
|---|---|
| "It was just a little side money, so it is not really taxable." | Business income counts from the first dollar. The famous registration threshold is about sales tax, not about whether income is reportable — two different questions. |
| "No slip came in the mail, so the CRA has no idea." | Platforms, processors and clients report more of what they pay every year. Reconcile against your own records, not your mailbox. |
| "I will sort the receipts out at tax time." | April cannot reconstruct January. A half-hour monthly tidy maintains the records the CRA can request years later — and turns tax season into an afternoon. |

## 08 The seven-question reality check

Score one for every honest YES.

| | |
|---|---|
| 1. I move a slice of every client payment into a separate tax account. | YES / NO |
| 2. I could hand over a mileage logbook for my last work trip without blushing. | YES / NO |
| 3. I could find a business receipt from a few years back if the CRA asked. | YES / NO |
| 4. I know roughly where my four-quarter revenue sits against the GST/HST registration line. | YES / NO |
| 5. I know whether the CRA expects instalments from me this year. | YES / NO |
| 6. April 30 and June 15 are both in my calendar, with reminders. | YES / NO |
| 7. I have run this year's numbers through a self-employed tax calculator. | YES / NO |

**6–7 · Green**
Your system runs itself. Revisit your set-aside slice once a year and carry on.

**3–5 · Yellow**
Two or three habits are missing — usually the logbook and the set-aside. Start there this week.

**0–2 · Red**
Next April is currently a surprise. One evening of setup, starting with the second account, cancels it.

## 09 Your first-month plan

**Day 1**
Open the second account and move your first slice today, even a rough one. Precision can come later.

**Week 1**
Start the logbook and the receipt-photo habit: one line per trip, one photo per purchase.

**Week 2**
Run your real numbers through the self-employed tax calculator at taxfilings.ca/tools and set your true slice.

**Week 3–4**
Check rolling revenue against the registration threshold (current figure at canada.ca), then calendar April 30 and June 15.

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Editorial policy. Every guide is researched against primary sources — the Income Tax Act, CRA publications and CPA Canada materials — fact-checked by Udit Gupta, and updated when the rules change.

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