

Self-Employment Tax Information Package

The Canada Revenue Agency (CRA) requires anyone with self-employment income in Canada to file an annual income tax return.

The government uses the information provided on your income tax filing for the following:

- To determine your eligibility for federal and provincial/territorial tax credits and benefit programs, such as the GST/HST Credit, the Canada Child Benefit (CCB), and other social programs such as Employment Insurance (EI), Canada Workers Benefit (CWB), or the Ontario Trillium Benefit (OTB);
- To make Canada Pension Plan (CPP) contributions;
- To establish contribution room for investments like a Tax Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP)
- Issue a Notice of Assessment (NOA); often required to access other income-tested benefits and/or financial products.

Self-employed tax-filers should be aware of these two important tax forms, and may complete and submit them electronically, or by paper return:

T1 tax form

- Primary document used by all tax-filers to complete their annual income tax return.
- You must accurately record your total amount of income from all sources (general income) on Line 26000 of the T1 Tax Form.

T2125 tax form

- Allows you to record any expenses associated with your self-employment income.
- If you have more than one source of self-employment income, you must complete a separate T2125 form for each income source.
- Expenses may include:
 - expenses incurred for the purpose of earning income, any maintenance or depreciation costs on equipment, costs of supplies, cost of goods sold, or (half of) meals and entertainment associated for the purpose of earning income.

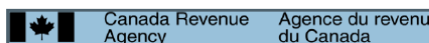
Documentation is required for all expenses claimed. It is important to keep any receipts or transaction records. The CRA may require you to provide them with proof of expenditure if you are ever audited.

The **T2125 Tax form** has several parts. Some parts will not apply to your specific self-employment situation, so it is important that you read the directions of each section carefully to understand whether you need to provide information or leave it blank.

Below, you will find samples of the various parts of the **T2125 tax form**. The Canada Revenue Agency may change their tax forms from time to time, so it is important that you make sure you are using the most current version before submitting. The most current version of this form can be found on the Canada Revenue Agency's website: [Canada Revenue Agency \(CRA\) - Canada.ca](https://www.cra.gc.ca)

Part 1- Statement of Business or Professional Activities

This section must be completed by anyone who is submitting a T2125.



Protected B when completed

Statement of Business or Professional Activities

- Use this form to calculate your self-employment business and professional income.
- For each business or profession, fill in a **separate** Form T2125.
- Fill in this form and send it with your income tax and benefit return.
- For more information on how to fill in this form, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.

Part 1 – Identification									
Your name						Your social insurance number			
Business name						Business number			
Business address						City		Prov./Terr.	Postal code
Fiscal period	Date (YYYYMMDD)		Date (YYYYMMDD)		Was this your last year of business?				
	From		to				<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Main product or service						Industry code (see Chapter 2 in Guide T4002)			
Accounting method (commission only)		<input type="checkbox"/> Cash	<input type="checkbox"/> Accrual	Tax shelter identification number		Partnership business number		Your percentage of the partnership	
								%	
Name and address of the person or firm preparing this form									

Part 2 -Internet Business Activities

You should complete this part if you earn income from a website, from having a web presence (social media influencer), or sell goods through your website.

Part 2 – Internet business activities	
If your web pages or websites generate business or professional income, fill in this part of the form.	
From how many Internet web pages and websites (including third-party platform websites) does your business earn income? Enter "0" if none.	
Provide up to five main web page or website addresses:	
http://	_____
http://	_____
http://	_____
http://	_____
http://	_____
Percentage of your gross income generated from the web pages and websites (if no gross income was generated from the Internet, enter "0") %	

Part 3 -

To complete part 3, you must understand whether you have earned Business or Professional income.

Business Income: Includes things like retail sales, manufacturing, and service based businesses that do not require a professional license. (for example: ride share drivers, peer to peer sales, gig economy activities).

Professional Income: Includes things earnings from professions that require a professional license, where practitioners must follow specific, regulatory requirements, and often have a governing body who oversees their practice. (for example: engineer, physician, accountant)

Part 3A – Business income

Gross sales, commissions or fees (include GST/HST collected or collectible)	_____	3A
GST/HST, provincial sales tax, returns, allowances, discounts, and GST/HST adjustments (included in amount 3A)	_____	3B
Subtotal: Amount 3A minus amount 3B	_____	3C
If you are using the quick method for GST/HST – Government assistance calculated as follows:		
GST/HST collected or collectible on sales, commissions and fees eligible for the quick method	_____	3D
GST/HST remitted: (sales, commissions and fees eligible for the quick method plus GST/HST collected or collectible) multiplied by the applicable quick method remittance rate	_____	3E
Subtotal: Amount 3D minus amount 3E	_____	3F
Adjusted gross sales: Amount 3C plus amount 3F (enter on line 8000 of Part 3C)	_____	3G

Part 3B – Professional income

Gross professional fees including work-in-progress (WIP) and GST/HST collected or collectible	_____	3H
GST/HST, provincial sales tax, returns, allowances, discounts, and GST/HST adjustments (included in amount 3H)	_____	3I
Subtotal: Amount 3H minus amount 3I	_____	3J
If you are using the quick method for GST/HST – Government assistance calculated as follows:		
GST/HST collected or collectible on professional fees eligible for the quick method	_____	3K
GST/HST remitted: (professional fees eligible for the quick method plus GST/HST collected or collectible) multiplied by the applicable quick method remittance rate	_____	3L
Subtotal: Amount 3K minus amount 3L	_____	3M
Adjusted professional fees: Amount 3J plus amount 3M (enter on line 8000 of Part 3C)	_____	3N

Part 3D – Cost of goods sold and gross profit

If you have business income, fill in this part. Enter only the business part of the costs.

Gross business income (line 8299 of Part 3C)				3P
Opening inventory (include raw materials, goods in process and finished goods)	8300		3Q	
Purchases during the year (net of returns, allowances and discounts)	8320		3R	
Direct wage costs	8340		3S	
Subcontracts	8360		3T	
Other costs	8450		3U	
Subtotal: Add amounts 3Q to 3U.			3V	
Closing inventory (include raw materials, goods in process and finished goods)	8500			
Cost of goods sold: Amount 3V minus line 8500	8518			
Gross profit (or loss): Amount 3P minus line 8518.			8519	

Part 3C – Gross business or professional income

Adjusted gross sales (amount 3G) or adjusted professional fees (amount 3N)	8000			
Reserves deducted last year	8290			
Other income (specify):*	8230			
Subtotal: Line 8290 plus line 8230				3O
Gross business or professional income: Line 8000 plus amount 3O			8299	

Report the gross business or professional income from line 8299 on the applicable line of your income tax and benefit return as indicated below:

- business income on line 13499
- professional income on line 13699
- commission income on line 13899

* You may have received assistance from COVID-related measures from the federal, provincial, or territorial governments. For more information on how to report COVID-related assistance, go to canada.ca/en/revenue-agency/services/wage-rent-subsidies/report-subsidy-tax-return.html.

For Parts 3D, 4 and 5, if GST/HST has been remitted or an input tax credit has been claimed, do not include GST/HST when you calculate the cost of goods sold, expenses or net income (loss). If you are using the quick method for GST/HST, include the GST/HST paid or payable when you calculate the cost of goods sold, expenses or net income (loss).

Part 4- Net Income (loss) before adjustments

This part should be completed by anyone who is submitting at T2125 form.

Part 4 – Net income (loss) before adjustments				4A
Gross business or professional income (line 8299 of Part 3C) or Gross profit (line 8519 of Part 3D)				
Expenses (enter only the business part)				
Advertising	8521		4B	
Meals and entertainment	8523		4C	
Bad debts	8590		4D	
Insurance	8690		4E	
Interest and bank charges	8710		4F	
Business taxes, licences and memberships	8760		4G	
Office expenses	8810		4H	
Office stationery and supplies	8811		4I	
Professional fees (includes legal and accounting fees)	8860		4J	
Management and administration fees	8871		4K	
Rent	8910		4L	
Repairs and maintenance	8960		4M	
Salaries, wages and benefits (including employer's contributions)	9060		4N	
Property taxes	9180		4O	
Travel expenses	9200		4P	
Utilities	9220		4Q	
Fuel costs (except for motor vehicles)	9224		4R	
Delivery, freight and express	9275		4S	
Motor vehicle expenses (not including CCA) (amount 16 of Chart A)	9281		4T	
Capital cost allowance (CCA). Enter amount ii of Area A minus any personal part and any CCA for business-use-of-home expenses	9936		4U	
Other expenses (specify):	9270		4V	
Total expenses: Total of amounts 4B to 4V				9368
Net income (loss) before adjustments: Amount 4A minus line 9368				9369

Part 5- Your net income (loss)

Part 5 should be filled in if you are reporting **business income**, including income from ride share driving, gig economy activities, online sales, or social media influencing. If you have **professional income**, you should leave Part 5 blank and instead fill in Part 3B.

Part 5 – Your net income (loss)	
Your share of line 9369 or the amount from your T5013 slip, Statement of Partnership Income	5A
Canadian journalism labour tax credit allocated to you in the year (box 236 of your T5013 slip)	5B
GST/HST rebate for partners received in the year	9974
Total: Amount 5A plus amount 5B plus line 9974	5C
Other amounts deductible from your share of net partnership income (loss) (amount 6F)	9943
Net income (loss) after adjustments: Amount 5C minus line 9943	5D
Business-use-of-home expenses (amount 7P)	9945
Your net income (loss): Amount 5D minus line 9945	9946
Report the net income amount from line 9946 on the applicable line of your income tax and benefit return as indicated below:	
<ul style="list-style-type: none">• business income on line 13500• professional income on line 13700• commission income on line 13900	
Note: Do not report a loss resulting from the disposition of a flipped property on your income tax and benefit return, but include the details on this form. Any loss resulting from the disposition of a flipped property is deemed to be nil. For more information, read Chapter 1 of Guide T4002.	

Part 6- Other amount deductible from your share of net partnership income (loss)

This part needs to be completed if you are a partner in a business with 5 or less partners.

Part 6 – Other amounts deductible from your share of net partnership income (loss)

Claim expenses you incurred that were not included in the partnership statement of income and expenses, and for which the partnership did not reimburse you. These claims must not be included in the claims already calculated for the partnership.

List details of expenses:

Expense amounts

		6A
		6B
		6C
		6D
		6E
Total other amounts deductible from your share of the net partnership income (loss): Add amounts 6A to 6E (enter this on line 9943 of Part 5).		6F

Part 7- Calculating business-use-of-home expenses

The part is used to calculate business-use-of-home expenses. If you work from home and want to deduct a portion of your home related expenses, it should be recorded here. The amount you can claim is based on the percentage of your home used for your business and is calculated based on square footage. For example, if your home office or workspace takes up 20% of your square footage, you can deduct 20% of your eligible expenses such as: rent, insurance, and maintenance.

Part 7 – Calculating business-use-of-home expenses	
Heat	7A
Electricity	7B
Insurance	7C
Maintenance	7D
Mortgage interest	7E
Property taxes	7F
Other expenses (specify):	7G
Subtotal: Add amounts 7A to 7G.	7H
Personal-use part of the business-use-of-home expenses	7I
Subtotal: Amount 7H minus amount 7I	7J
Capital cost allowance (business part only), which means amount ii of Area A minus any portion of capital cost allowance that is for personal use or entered on line 9936 of Part 4	7K
Amount carried forward from previous year	7L
Subtotal: Add amounts 7J to 7L.	7M
Net income (loss) after adjustments (amount 5D) (if negative, enter "0").	7N
Business-use-of-home expenses available to carry forward: Amount 7M minus amount 7N (if negative, enter "0")	7O
Allowable claim: Amount 7M or 7N above, whichever is less (enter your share of this amount on line 9945 of Part 5).	7P

Part 8-Details of other partners

This part needs to be completed only if you are a partner in a business with 5 or less partners.

Part 8 – Details of other partners				
Do not fill in this chart if you must file a partnership information return.				
Name of partner				
Address	Prov./Terr.	Postal code	Share of net income or (loss) \$	Percentage of partnership %
Name of partner				
Address	Prov./Terr.	Postal code	Share of net income or (loss) \$	Percentage of partnership %
Name of partner				
Address	Prov./Terr.	Postal code	Share of net income or (loss) \$	Percentage of partnership %
Name of partner				
Address	Prov./Terr.	Postal code	Share of net income or (loss) \$	Percentage of partnership %

Part 9

This section should be completed by anyone who is a sole proprietor or an individual who is part of a business partnership with 5 individuals or less.

Part 9 – Details of equity	
Total business liabilities	9931 _____
Drawings in the current year	9932 _____
Capital contributions in the current year	9933 _____

The following chart outlines legal definitions associated with each line of the **T2125 tax form**. It also provides some context to help understand which expenses or deductions fit into the context of your specific business. **This is for information only and is not to be considered legal advice.**

T2125 Tax Line	Legal Definition	General Description
Parts 3A, 3B, and 3C: Business & Professional Income	Gross sales, commissions or fees (include GST/HST collected or collectible), including work-in-progress.	Any general revenue or income made from your business or professional activities.
Part 3D: Cost of Goods Sold	Operating inventory (raw materials, goods in process, and finished goods), purchases during the year, direct wages, subcontracts, and any other costs.	The total of all <u>direct</u> costs a business incurs to produce or purchase the products it sells. This does not include marketing/sales or office overhead.
Part 4: Expenses	Expenses must meet the following criteria: <ul style="list-style-type: none"> - For the purpose of earning income - Reasonable amount in the circumstances¹ - Not on account of capital - Not personal or living expenses. 	An expense is a reasonable cost incurred for the sole purpose of gaining or producing income from a business. These expenses must generally be "current expenses," as opposed to "capital expenses" or "personal expenses," to be fully deductible in the year they are incurred. This

¹ In this context, "reasonable" means that a reasonable businessperson would have made that deduction in the circumstances.

	<p>This includes the following:</p> <ul style="list-style-type: none"> - advertising, - bad debts, - meals & entertainment (50% can be expensed; 80% for long-haul truck drivers), - insurance, - interest and bank charges, - business taxes, licenses, and memberships - office expenses (e.g. pens, pencil, paper clips, stationery, stamps, and other supplies) - rent (including the percentage of work-space-in-the-home), - (minor) repairs & maintenance, - salaries & wages - property taxes - travel expenses (transportation, hotel, meals – with 50% rule), - telephone & utilities, - fuel costs (not for motor vehicles) - delivery & freight, - motor vehicle expenses (not including depreciation), - capital cost allowances for depreciation. 	<p>includes any other day-to-day costs of running a business (e.g., rent, payroll, utilities). These cannot be “capital” expenses or “personal” in nature. All of the rules for business expenses can be found at this link. If you are tasked with determining whether an expense is a “current” or “capital” expenses, the following link will help you determine using these questions:</p> <ol style="list-style-type: none"> 1. Does the expense provide a lasting benefit? (If so, capital) 2. Does the expense maintain or improve the property? (If so, capital) 3. Is the expense for a part of a property or for a separate asset? (If so, capital)
Area A: Capital Cost Allowance (CCA) Claim	<p>Capital cost allowance (CCA) is a tax deduction that allows businesses to gradually write off the cost of depreciable assets like equipment or building over time to reduce their taxable income.</p> <p>First- or Half-Year Rule: In the first year a property is acquired, a special rule often limits your CCA claim to 50% of the normal allowance.</p>	<p>You cannot deduct the full cost of equipment additions in the year they are purchased; instead, the cost is deducted over several years using the CCA rules. A capital cost allowance is a tax deduction you can take over time to help offset the cost of buying assets for your business. Depreciation of equipment or other fixed investments that are not variable business expenses, such as long-term, capital assets,</p>

	<p>The following are some CCA classifications and their depreciation rates using what is called “the declining balance method”:</p> <ul style="list-style-type: none"> - Buildings: 4-10% - General-purpose equipment (e.g.) furniture, appliances, tools greater than \$500: 20% - New (>2007) computers: 55% - Passenger vehicle: 30% - Tools less than \$500: 100% - Machinery & Equipment: 30-50% <p>Musical instruments are general-purpose equipment with a CCA rate of 20%. Any other tools less than \$500 are depreciated at a CCA rate of 100% (no half-year rule).</p>	<p>including property (e.g. furniture, tools, vehicles, electronic equipment). Capital cost allowances are depreciation in capital investments, such as equipment, which can be written off over the lifetime of an expense that provides long-term benefit to offset taxable income. Any business expense that is not a “current” expense for the purpose of Part 4, but is considered (1) long-term, (2) for repair or improvement, (3) to property, is a “capital” expense for the purposes of Area A.</p>
Area B: Equipment additions	<p>This area the details of all equipment or other property you acquired or improved in the current tax year. Group them into the applicable classes of depreciable properties and put each class on a separate line. Equipment includes appliances (such as a washer and dryer), maintenance equipment (such as a lawn mower or a snow blower) and other property (such as furniture and some fixtures) you acquire to use in your rental operation. This also includes the cost of any major improvements or alterations made to existing equipment that enhance its usefulness, efficiency, or extend its useful life.</p>	<p>This includes any new “capital” equipment that has been acquired that is not a “current” expense.</p> <p>Half-Year Rule: In the year an asset is acquired and becomes "available for use," you can generally only claim depreciation on half of the net additions to that class.</p>

Common Expenses for Gig Economy Workers

Vehicle Expenses: The deductible amount is the percentage of total vehicle expenses that corresponds to the percentage of business use. For example: If you drive a total of 25,000 km in a year, and 20,000 km are for business (80%), you can deduct 80% of your total gas costs and other expenses. You can deduct the full amount of parking fees related to your business activities and supplementary business insurance for your motor vehicle or passenger vehicle.

Example. Murray's business has a December 31 year-end. He owns a truck that is not a passenger vehicle. He uses the truck to pick up supplies and equipment. Murray kept the following records for his 2024 fiscal period. He drove 30,000km in total, but 27,000 to earn business income. His expenses were as follows:

Gasoline and oil = \$3,500

Repairs and maintenance = \$500

Insurance = \$1,000

Interest (on loan to buy truck) = \$1,900

Licence and registration fees = \$100

Total expenses for the truck = **\$7,000**

Total deductible expenses: $(27,000\text{km} \div 30,000\text{km}) \times \$7,000 = \textbf{\$6,300}$

Meals and entertainment: Meals and entertainment for the purposes of business activities are expensed at 50% the cost or the reasonable cost of the meal or entertainment. Long-haul truck drivers can claim 80% of meal expenses incurred for business purposes.

Capital expenses under \$500: Any equipment or tools that cost less than \$500 are fully expensed as a capital expense in the same year they are purchased with no first- or half-year rule. This makes them more like “current” expenses than “capital” expenses.

Housing Expenses: The portion of your home that you use for business purposes can be deducted from your taxable income. The CRA calls this “work-space-in-the-home” expense. A reasonable portion of your home dedicated to your business can be deducted as a business expense. You can claim all the following expenses as a percentage of the reasonable portion that is related to your business: electricity, heat, water, utilities portion (electricity, heat, and water) of your condominium fees, home internet access fees, maintenance and minor repair costs, rent paid for a house or apartment where you live.

Frequently Asked Questions

Q. How do I calculate depreciation on my capital expenses, such as property & equipment?

A. The CRA uses the declining balance method. That means you write off a percentage of the asset each year until it declines to zero or you dispose of it by way of sale. The percentage of the asset that you decline each year is determined by the type of the asset given the CRA's many CCA classes for distinct types of capital assets. It is easiest done by way of example. Suppose you purchase a capital asset for \$5000.

Year 1 Write-off: $\$5000 \times \text{CCA Depreciation Rate} \div 2$ (for half-year rule in Year 1)

Year 2 Write-off: $(\$5000 - \text{Year 1 Write-off}) \times \text{CCA Depreciation Rate}$

Year 3 Write-off: $(\text{Year 2 Remaining Balance}) \times \text{CCA Depreciation Rate}$

Some assets do not require using the half-year rule because they depreciate so fast, such as tools and equipment under \$500 (e.g. medical/dental instruments, non-systems software), any zero-emissions vehicles or equipment, general-purpose electronic data processing equipment (computer hardware) and systems software acquired between 2009-2010, and any assets acquired and sold during the same year. These expenses should be recorded as a current expense and written off in the year they are purchased.

Hint: AI can be a helpful tool. You may wish to put a prompt into a Generative AI, which includes your jurisdiction (Canada) and ask it to produce the depreciation rate for that capital asset class, as defined by the CRA.
