Ontario Disability Support Program - Income Support Directives

5.4 Treatment of Self-Employment Income

Summary of Policy

An applicant or recipient who earns income from a business may be eligible for income support and increased business asset exemptions as approved by the Director. Earnings exemptions and deductions for child care and disability-related expenses are applied to the net monthly income from the operation of a business in order to determine the amount of income support payable to the recipient.

For each month that an ODSP recipient or eligible member of the benefit unit has a net positive income from the operation of a business, they are eligible for the $100 Work-Related Benefit.

Legislative Authority

Sections 12(3); 14(2)4; 28(1)7, 8, 9, 10, 11; 38 and 44 (1) 6.2 of the ODSP Regulation

Summary of Directive

Where an applicant or recipient is self-employed, allowable business expenses are deducted from the gross business income to calculate net income. The earnings exemptions, child care deductions and a deduction for disability-related expenses as appropriate, are then applied to the net income to determine chargeable income.

Business assets of up to $20,000 can be allowed if necessary for the operation of a business. The business asset limit of $20,000 is per benefit unit member, not per business. For example, if one person in the benefit unit operates more than one business, the asset limit for the benefit unit should still not exceed $20,000. However, if two members of the benefit unit each operate separate businesses, the total asset limit for the benefit unit would be $40,000. A greater amount can be allowed if approved by the Director.

Tools of the trade that are essential to the operation of a business are exempt from asset limitation rules.

Recipients and eligible members of the benefit unit who have monthly net positive business income are eligible for the work-related benefit of $100 each month they generate net positive business income.

The amount of monthly income support for self-employed recipients is calculated annually based on the projected net annual business income averaged over the year. Self-employed recipients must at a minimum, provide an annual report to the Director, which identifies business income, assets and expenses. Income can be reported on a monthly basis if the client requests this option.

Intent of Policy

To support self-employment as a means of increasing financial independence.

Application of Policy

To qualify as self-employed, an ODSP recipient will provide the most recent copy of **one** the following documents submitted by the recipient to the Canada Revenue Agency (CRA):

- T4A for commissioned sales (recipients must not have a T4 for the same activity)
- T2125 Statement of Business or Professional Activities
- T2042 Statement of Farming Activities
- T2121 Statement of Fishing Activities

Along with:

- Notice of Assessment or Reassessment (Form T451 or T491 respectively) from CRA. Staff will ensure that the gross income reported in one of the above listed documents reflects the gross income amount in the Notice of Assessment. This will confirm approval of “business” income.

Self-employed clients **who cannot provide the above tax documents** and who do not have a T4 for the same activity are required to provide **one** of the following documents:

- Independent Contractor Agreement
- Independent Sales Dealer Agreement
- Any other formal document/agreement indicating that the client is an independent contractor and/or not considered an employee of the business
- Proof of business name registration **along with** proof of business activity (e.g. business loan, proof of payment from customers, etc.)
- Proof of business activity (e.g. proof of payment from customers such as receipts, cancelled cheques/bank statements, etc.). **Note:** This requirement would apply to recipients who do not have a registered

business. Self-employed persons who operate under their own name to provide services, are not registered to collect the Goods and Services Tax (GST) or the Harmonized Sales Tax (HST), and who have no employees are not required to register their business.

Wherever possible, recipients will be required to submit a copy of his/her tax statement at year end to confirm the amount of self-employment income. ODSP staff may allow some flexibility around the timing of having the recipient submit a copy of their tax statement. For example, if the annual review takes place early in the calendar year or the person recently started a business, the requirement for a copy of the tax return may be waived until a reasonable time after the tax filing deadline.

There are some circumstances where ODSP may accept alternative forms of verification of business activity/income. Individuals with self-employment income below the basic personal exemption amount and no other source of income (other than social assistance), are not required by CRA to file a tax return if they have no tax owing. In this situation, receipts from customers indicating payment details of the services rendered e.g. dates, service description, costs, etc. may be accepted as income verification provided the recipient submits copies of their bank statements confirming the income received.

For the purposes of calculating ODSP income support, recipients who provide services for an agreed upon fee such as babysitting, lawn mowing, snow removal, etc. are generally considered self-employed unless it can be demonstrated there is a direct employer-employee relationship. The person involved in the above types of employment activity is receiving remuneration for provision of a service, which is consistent with the definition of self-employment.

Note: To demonstrate a direct employer-employee relationship, the recipient would need to provide verification such as a pay stub, T4 slip, etc. to confirm earnings. If the recipient is considered an "employee", the income received for babysitting, etc. is considered earned income and treated as per Directive 5.3 Deductions from Employment and Training Income.

Alternative forms of verification, such as a letter/note from the employer, may be acceptable so long as all appropriate information including employer name/address, wage/salary, mandatory deductions (if applicable), etc. is provided.

ODSP recipients who express an interest in starting their own businesses should be advised of ODSP Employment Supports if their disability presents a barrier to starting or maintaining the business. Recipients may be eligible for assistance from a community service provider to develop a business plan and other self-employment supports as required and appropriate.

Gross Business Income

Gross business income or revenue means the cash coming into the business and includes:

- sale of goods or services
- commissions and/or fees
- goods or services received in-kind, as a result of barter or exchange (cash value must be given and this is considered income)
- income from renting out the assets of the business
- sale of business assets
- interest earned on business assets (e.g., earned on bank account balances and prepaid expenses);
- cash owed to the business that is assigned to a third party
- any other business income.

Proceeds from business loans and the investment of personal assets into a business are not considered business income.

The Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) collected from customers on behalf of the Canada Revenue Agency are not considered business income. Recipients are required to submit confirmation from CRA that GST/HST collected has been remitted to them.

Funding under the federal Opportunities Fund for Persons with Disabilities for self-employment training programs and supports is not considered business income. In addition, payments received under the Opportunities Fund for Persons with Disabilities are exempt from being charged as income or assets if the payments are applied to costs incurred or to be incurred as a result of participation in an approved employment-related activity, such as starting a business, and are not intended to cover daily living expenses.

Approved Business Expenses

A "reasonableness" test must be applied to business expenses to ensure they meet the following criteria:

- necessary to the operation of the business;
- will maintain or increase the likelihood of earning income from the business; and,
- the item or service is purchased on a "best buy" basis (i.e., the cost is not unusually high or inflated)

Approved business expenses do **not** include the GST/HST paid on the cost of goods and services purchased. CRA can reimburse the GST/HST portion at any time during the year, as long as receipts are kept. The reimbursement is **not** considered income for purposes of ODSP income support.

Exception:

Small businesses, whether sole proprietorships, partnerships or corporations, whose taxable revenues (before expenses) from all business activities were $30,000 or less, in their last taxation year, are not required to register to collect GST/HST.

If a small business operator chooses not to register to collect GST/HST, they cannot charge their customers GST or HST and the GST/HST they pay on business purchases becomes a cost for which they cannot claim a refund. In these cases, where an ODSP recipient is not a GST/HST registrant, the GST/HST paid on goods and services purchased may be included as an approved business expense.

List of Approved Business Expenses

- **Standard Expense Deduction** ($100): ODSP recipients reporting income from self-employment are allowed a basic deduction of $100 per month to cover miscellaneous expenses related to operating the business. It is not necessary to report the specific expenditures and no receipts are required in order to claim the standard expense deduction.

Recipients must claim either the standard $100 per month expense deduction or actual business expenses, whichever is the greater amount. If actual expenses are claimed, specific expenditures must be reported and receipts will be required.

Note: ODSP recipients must generate at least $100 per month in self-employment income (or over $1200 per year, as net business income is calculated annually) in order to have a net positive monthly business income and qualify for the work-related benefit. For details regarding eligibility for the work-related benefit, see Directive 9.18 Work-Related Benefit.

- **Business/Office Supplies**: purchased for use in the business operation

- **Business/Office Equipment/Tools of the Trade**: including rental costs of business items and monthly payments on tools that are considered tools of the trade.

- **Repair and Maintenance of Required Office Equipment**: Such as fax machines, photocopiers, etc.

- **Bookkeeping and Legal Fees**: including the costs of incorporating a company, establishing business trademarks etc.

- **Advertising and Business Cards**: including the cost of flyers, brochures, business cards and any costs directly linked to advertising.

- **Licenses and Required Fees for Membership in a Trade**: including the costs of vendor licenses, building permits, and memberships in trade (e.g., plumbing, graphic artists), or commercial associations. Note: Club memberships for personal or recreational use, are not allowable expenses.

- **Delivery, Freight or Express Costs to Deliver or Receive Goods**: including the costs incurred to ship items for sale or any handling of goods to generate income for the business.

- **Bank Charges on Business Accounts:** including certifying cheques and service fees, but not bank charges related to "not sufficient funds" (NSF) cheques.

- **Mileage for Personal Vehicles Used in the Business**: as long as the travel is necessary for the business and the purpose of the travel is to generate income. A record of business travel must be maintained (i.e. a travel log). **Note:** Expenses incurred for travelling from home to the place of business are not deductible.

  - For passenger cars, light trucks and vans, business travel can be deducted at $0.40 per kilometre, or $0.41 per kilometre in the North and North East Regions.

  - No additional vehicle expenses are allowed when personal vehicles are used (e.g., parking, repairs and depreciation may not be deducted separately).

- **Expenses for Vehicles Used Exclusively in the Business**: the vehicle must be owned or leased, and operated by the person who is self-employed. A declaration confirming the vehicle's use is required (Exclusive Use of Vehicle Declaration form). If these conditions are not met the personal vehicle mileage rate will be applied. Approved expenses for vehicles that are exclusively used in the business include:

  - licence and registration fees;
  - fuel costs including gasoline, diesel and oil;
  - insurance;
  - leasing or loan repayments; and,
  - maintenance and repairs (including payments for car wash).

Recipients should submit a vehicle travel log **or** a statement confirming the vehicle odometer reading. The kilometre rates used for personal vehicles do not apply to business vehicles because fuel, maintenance, and insurance costs are already included as an approved business expense.

- **Rent, Mortgage (principal and interest), and Municipal Property Taxes on Property Used Only for the Business**: These payments are approved expenses. However, no portion of them may be deducted from business earnings where the business is operated out of the home since these costs are provided for under the ODSP shelter allowance.

- **Telephone/Internet Expenses for the Business**: If the business is operated in the home, only the difference between residential and commercial telephone rates can be deducted as a business expense. If the business is operated at a different address, the entire telephone expense may be deducted provided that the phone is registered in the business name and that it is used exclusively for business purposes.

- **Utility Costs for the Business**: If the business is operated in the home and the business results in increased hydro consumption, the increased cost can be deducted as a business expense. If the business is operated at a different address, the entire utility expense may be deducted. Utility costs include heating, water and electricity expenses.

- **Business Insurance**: Includes insurance for fire, theft and liability for the business premise. If the business is operated in the recipient's home, only the difference between home and business insurance is deductible.

- **In-Kind or Bartered Items**: Self-employed recipients can submit the cash value equivalent of a new bartered or in-kind item as a business expense

- **Subcontracting**: Subcontractor costs are an approved business expense (effective June 2016) and can be deducted when calculating net business income; however, employee wages are not an approved business expense (refer to "*List of Non-Approved Business Expenses*" below for treatment of employee wages).

  In the majority of cases, a subcontractor can be distinguished from an employee based on how payments made by the payor to the worker are considered by Canada Revenue Agency (CRA).

  If the business owner provides the worker with a T-4 income slip, deducts Canada Pension Plan contributions, Employment Insurance premiums, or income tax from the worker's pay, and pays the employer's portion of the contributions and premiums to CRA, then the worker is an employee.

If the worker reports the income he/she receives from the payor as business income to CRA, then the worker is self-employed and considered a subcontractor.

There must be a written contract indicating the nature of the work, the period of time the contract covers, the amount the contractor will be paid and how the payments will be made.

The recipient cannot hire a member of the benefit unit as a subcontractor.

- **Disability Accommodation Expenses:** In addition to the earnings deduction of $1000 for disability-related expenses, a recipient may be allowed to deduct payments made to an employee who is required due to disability-related needs and in order to operate the business. For example, a piano tuner with a visual impairment requires a driver to take him/her to various locations where they could tune a piano. In this instance, the salary paid to the driver would be deducted as a necessary business expense.

- **Business Loans:** The basic principle is that loan repayments, including principal and interest can be allowed as an approved expense. However, goods and services that are purchased with money received from business loans cannot be deducted as approved expenses as the loan repayments have already been approved as an expense.

  Items purchased with the money from the loan should be recorded on the Request for Approval Business Loan Expense form and should not be listed on the Business Income and Expenses Report form.

  The recipient must complete a Request for Approval Business Loan Expense form to obtain approval to allow repayments as a business expense. Income Support Specialists must review the request and grant approval if the loan is used for Business purposes. Loan repayments are recorded as an expense on the Business Income and Expenses Report form. These payments can be deducted every year until the loan is repaid.

  For example, a recipient receives a business loan of $5,000 in June. The $5,000 is exempt as income and asset. The recipient repays the loan at $350 per month. Once the approval is obtained to allow the loan repayment as a business expense, the $350 payments are recorded as an expense on the Business Income and Expenses Report form.

  In July, the recipient pays for equipment costing $3,500 and business supplies costing $1,500. The cost of the equipment and supplies is not recorded as an expense on the Business Income and Expenses Report since repayments of $350 are already being recorded as an approved expense. The cost of these items is recorded on the Request for Approval Business Loan Expense form.

- **Credit Card Charges and Interest**: Recipients may use a credit card to pay for approved business expenses. The credit card charges and interest may be allowed as an approved expense. Recipients should not use their personal credit card for business purchases as these may be difficult to verify and will not be allowed as a business expense.

- **Other Services Necessary for the Operation of the Business, Purchased on an Occasional or Intermittent Basis**: such as consulting services, clerical, accounting, courier services; communications/computer set-up, training and user support required for business operations.

- **Provincial Sales Tax (PST)**: PST paid on items purchased prior to July 1, 2010 for the business is an allowable business expense since it is not reimbursable. As of July 1, 2010, the PST has been replaced with the HST, and will no longer be an allowable business expense since the HST is reimbursable by CRA. The only exception to this is if the business is not registered to collect GST/HST (as noted on pages 4-5), in which case the HST paid on items purchased for the business will be an allowable business expense.

- **Income Tax Instalments:** can only be allowed as an expense when the business is required by CRA to make instalments on its yearly income tax contribution. This should be an exceptional case because the business revenue must be quite substantial for CRA to request instalment payments based on the previous year's earnings.

- **Reinvestment in the Business:** The basic principle is that a recipient can accumulate business income for re-investment in the business with approval from the Director. The amount put aside for reinvestment is an approved expense.

  However, where a recipient completes the reinvestment plan by purchasing a good or service, the recipient may not claim this purchase as a business expense because the reinvestment amount was already claimed as an approved expense.

  Prior approval to accumulate monies for reinvestment from business income must be obtained by completing the Request for Approval Business Reinvestment Expense form. A reinvestment request must include:

  - what the reinvestment will be used for (e.g., to purchase new equipment, repairs, supplies, etc.) and the total cost;

- the amount that will be accumulated each month (this amount will be recorded and deducted as a reinvestment expense);
- the approximate date when the monies will be acquired; and,
- the expected income that the reinvestment will generate.

When considering whether to approve the reinvestment plan, ODSP staff should determine whether the plan would:

- promote financial independence;
- increase the revenues of the business;
- allow the replacement of items that are worn out or outdated; and,
- allow recipients to produce goods/services more efficiently therefore increasing the likelihood of greater income.

Reinvestment plans should only be approved if the business is showing a continuous positive net business income.

Where the cost of a good or service purchased through an approved reinvestment plan exceeds the monies which have been set aside, the excess amount can be deducted as an expense on the Business Income and Expenses Report form. For example, where an item costs $1,200 and the recipient used $1,000 of reinvestment savings, the $200 is recorded on the Business Income and Expenses Report as an expense. The $1,000 was already recorded as an expense under reinvestment.

Monies set-aside for reinvestment, but not used in the business or withdrawn for personal use, become chargeable income.

Non-Approved Business Expenses

GST/HST paid to CRA – Further to page 4 of this Directive, GST/HST paid to CRA is not an approved business expense because it is collected on CRA's behalf and it is not an expense incurred by the recipient.

List of Non-Approved Business Expenses

- **Personal Draws or Owner's Withdrawals**: taken from the business are not allowed business expenses and are considered earned income.

- **Wages Paid to Members of the Benefit Unit or Other Employees**: including payroll expenses (e.g. income tax, EI, CPP, Workplace Safety and Insurance Benefits) are not approved as business expenses even if the recipient deems these expenses as necessary. Note: This does not include payment made to an individual who is hired due to the disability related needs of the recipient.

Payments made by a recipient to dependent children are not an approved business expense, but if paid to a dependent child are not charged as income to the benefit unit.

- **Business Losses**: Under ODSP, a business loss is equivalent to a net income of $0.00. Losses reported after the first year may not be carried forward (i.e. to offset business income in future periods).

- **Depreciation (also known as a capital cost allowance)**: on business assets and vehicles is not an approved expense.

- **Entertainment and Gifts**

- **Long Distance Travel expenses (bus, airline ticket etc.):** are generally not an approved business expense. However, where the recipient can demonstrate that he/she has earned income as a result of the travel, the recipient may deduct all or part of the travel expenses up to the amount of income earned from the trip.

  For example, a trip to Vancouver cost $475 and the revenue earned was $300. Therefore, $300 may be approved as an expense. The balance of $175 is considered a business loss and not deductible.
  Likewise, if the trip cost $500 and the revenue earned was $700, the $700 is considered business income and the $500 may be approved as an expense.

  Verification of the income earned must be submitted to approve the long distance travel expense.

  Approval for travel outside Ontario for more than 30 days must be obtained in advance of the trip.

- **Hotels and Meals**

- **Conventions, Conferences**: or similar events including travel, hotels and meals related to these events

Tools of the Trade

Tools of the Trade are manual instruments and technical devices used in a profession, occupation or trade. Tools of the trade are exempt from any asset limitation rules if they meet the following criteria:

- the tool is considered essential to the person's self-employment and,
- the tool is to be used at some time during a twelve-month period to generate income

Examples: A sewing machine, pressing iron and large cutting scissors used by a self-employed tailor are considered tools of the trade and are exempt as assets. A computer used by a graphic designer is considered a tool of the trade.

Items that do not meet the above criteria are considered personal or business assets and are subject to the applicable limitations.

There is no limit on the value of the tools of the trade retained by the recipient.

Where a recipient is making monthly payments on tools of the trade, the payments should be considered a legitimate business expense.

Business Vehicles which are necessary to the operation of a business and are used exclusively in a business (e.g., courier vehicles, delivery truck, tow truck, dump truck, catering truck, etc.), are considered tools of the trade. The vehicle must be owned or leased and operated by the person who is self-employed. A declaration confirming the vehicle use must be completed.

The value of a business vehicle is not included when determining the value of the business assets. There is no limit on the value of business vehicles. However, personal vehicles used in the business are considered personal assets.

Business Assets

This includes any other items necessary to the operation of the business and includes inventory, stocks, raw materials and cash in a business account. Recipients are allowed to accumulate up to $20,000 of business assets per business

The following criteria needs to be met in order to be considered a business asset:

- the item must be necessary to the operation of the business and,
- the business must be active and have sales activity during a twelve-month period

The recipient should provide a rationale outlining the need for the business asset(s) and how the asset(s) will benefit business activity. If it is determined that the business has not been active or has not had sales in the last twelve-month period, the assets are included as personal assets and are subject to the applicable limitation.

The value of the business asset is determined by the fair market value less outstanding loans. The “fair market value” means the highest dollar value that the asset can be sold for in an open market between a willing buyer and a willing seller dealing at arm's length (independently) with one another.

The amount remaining after any outstanding loan on the business asset is deducted from the fair market value, is the value of the business assets exemption. For example, if a recipient has assets with an original cost of $6,000 but owes $2,000 on a business loan, the business assets would be valued at $4,000. Where it is necessary to confirm the fair market value, the manufacturer, retailer or newspapers should be consulted.

Business assets that exceed $20,000 are not exempt unless the Director approves a greater amount.

Excess business assets will be considered personal assets and will be subject to the applicable limitation. If a recipient exceeds the maximum allowable asset level, the recipient will have a grace period of up to 6 months to reduce the assets to the allowable level. The recipient’s eligibility will be re-assessed once the grace period is due.

Where more than one person in the benefit unit has an interest in or operates the same business, the asset limit for the entire business will not exceed $20,000. If one person in the benefit unit has an interest in or operates more than one business, the business asset limit is $20,000 for all businesses combined. If each person in a benefit unit has a separate business, the business asset limit is $20,000 for each person. Business assets must be reviewed on an annual basis or when necessary (e.g., when a recipient indicates that he/she purchased new equipment).

Cash in a Business is generally defined as money and any instrument that banks accept for deposit and immediately credit to the depositor's account (i.e., cheques, money orders and bank drafts). For the purposes of self-employed recipients, cash also means the cash earned and saved from the business and kept in a business bank account that has not been approved for reinvestment. Cash is considered a business asset and cannot exceed $5,000 of the total business asset limit of $20,000.

Any money that exceeds the limit for cash in a business account is no longer exempt as a business asset and is treated as a personal asset and subject to the maximums as per the regulations.

Income Support Determination

The amount of income support provided to a self-employed recipient will be based on an estimate of the probable annual net income of the business.

For existing businesses, income is determined based on the previous year's net business income. The amount of monthly income support for self-employed recipients is calculated based on the net annual business income (divide net annual income by 12 months to assess net monthly income).

For a business which is in its first year, the net business income estimate may be set at $ 0 earnings if it is determined that a loss is the most likely outcome. Where a loss is reported, efforts should be made to determine how the loss was funded.

The recipient should be encouraged to contact the office if the amount of earnings is higher or lower than was initially estimated and where the amount needs to be adjusted to reflect business income more accurately.

Net annual income is gross business revenues less approved business expenditures reported on the Business Income and Expenses Report form. The earnings exemptions, child care and disability-related deductions are applied to the net annual income.

At the end of any given year, the annual financial report is used to determine the following:

- the amount of arrears/overpayments for the year just ended;
- the estimate of net earnings for the following year; and,
- the amount of income support to be granted.

A recipient, whose business consistently shows no positive net income year after year, should be referred to ODSP Employment Supports, if deemed appropriate and reasonable.

Seasonal Businesses

A seasonal business is one that operates during certain seasons or periods of the year and by nature may not be continuous or carried on throughout the year. Snow removal and landscaping are examples of seasonal businesses.

Business income from a seasonal business should be applied to those months in which the business is operating. Seasonal business income should not be averaged over the entire year.

Calculation of Arrears and Overpayments

Where a recipient has received less income support than he/she was entitled to, an arrears amount is paid. Where the recipient has received more income support than he/she was entitled to receive, an overpayment amount is calculated and deducted from the ongoing income support. The following examples illustrate when there are arrears and when there is an overpayment:

Example

- Applicant qualifies for ODSP effective January 1, 2005.
- Recipient commences a new business venture as of January 2, 2005.

A) No Arrears or Overpayment

- The ODSP office estimates that in the first year, the recipient's net annual business income will equal “0”.

- During 2005, the recipient collects full income support since it is unlikely the new business will show a profit in the first year of operation.

- At year-end, the recipient reports a net loss of $2,700. Net business income is reported as “0”. Revenue and expenses are verified by supporting documentation submitted to ODSP. Income Support staff should attempt to determine how the loss was or will be funded.

B) Arrears

- The ODSP office estimates that in the first year, the recipient’s business will show a marginal profit and that the net annual income will be approximately $4,200. Net business income is entered for the year 2006 at $350 per month ($4,200/12). Therefore, the recipient’s ODSP monthly net business income is input at $350 per month.

- At year-end, the recipient reports an actual net annual business income of $3,850, which is less than anticipated. Income Support staff reconciles the difference between the estimated net income ($4,200) and the actual verified net income for the year 2006 ($3,850). The recipient receives an ODSP cheque covering arrears owed.

C) Overpayment

- The ODSP office estimates that in the first year, the recipient’s business will show a marginal profit and that the net annual income will be approximately $3,000. Net business income is entered for the year 2006 at $300 per month ($3,000/12). Therefore, the recipient’s ODSP monthly net business income is input at $300 per month.

- At year-end, the recipient reports an actual net annual business income of

$4,200 which is more than anticipated. Income Support staff reconciles the difference between the estimated net income and the actual verified net income for the year 2006. An overpayment is calculated and the amount is deducted from the Income support amount payable for the next year.

Where, based on estimated business income, there is an overpayment of income support for the year just ended, the overpayment shall be deducted from income support in the following year.

Record Keeping, Required Forms, Annual Reporting

Record Keeping

To facilitate the monitoring of self-employment cases, a recipient who is self-employed should be informed of the record keeping requirements related to self-employment. These are:

All business records must be accurately kept and will be used to monitor the business activity, as required. These records include:

- original transaction receipts
- cash receipts journal
- cash expenses/payments journal
- bank account and cash received
- credit sales journal (to record accounts receivable); and,
- credit purchases journal (to record accounts payable).
- records of business assets in use and business liabilities (e.g., business loans)

These records will be used to compile annual reports. A recipient may be requested to produce any of the above records including bank statements at the point of annual review. Receipts should only be requested when the necessity of the expense is questionable or for additional verification. A recipient should be instructed to provide only the required forms outlined under Annual Reporting.

Inaccurate record keeping can result in business expenses not being allowed and/or a determination of ineligibility.

Required Forms

Recipients must be provided with the following forms and information to ensure policy guidelines are implemented effectively:

- Instructions for Client Record Keeping (Self-Employed Clients)

- Record Keeping Requirements (Forms 3039(E), 3040(F))
- Business Assets Review (Form 2794)
- Business Income and Expenses Report (Forms 3083 (E), 3084 (F))
- Instructions - Business Income and Expenses Report (Forms 3085 (E), 3086 (F)
- Request for Approval - Business Loan Expense (Form 2789)
- Request for Approval - Reinvestment Expense (Form 2790)
- Exclusive Use of Vehicle Declaration (Form 3021)

The Consent to Disclose and Verify Information form provides for disclosure when required to make a reasonable assessment of the business or obtain information.

Annual Reporting

A self-employed ODSP recipient can choose to report business income on an annual or monthly basis using the Business Income and Expenses Report. Other forms that must be submitted, if applicable are:

- Request for Approval - Reinvestment Expense (only where a reinvestment plan has been approved); and,
- Request for Approval - Business Loan Expense (only where a loan has been obtained for the business).
- Business Assets Review - This form is to be submitted once per year or as deemed necessary to verify business assets and tools of the trade. It should be used as a monitoring tool as the recipient reaches the asset limit.

Where deemed necessary, staff may request that recipients report income and expenses monthly.

Regardless of how a recipient chooses to report or have his/her net income calculated, verification and treatment of business income, assets and expenses apply in the same manner.

To facilitate verification, all business funds should be held in a single account or as few accounts as possible. If more than one account is held, the recipient must provide a business justification for each additional account.

ODSP recipients must use the cash accounting method of income recording for ODSP income and expense reporting purposes. Under this method, income is recorded when it is actually received and expenses are recorded when bills are paid. Hence, accounts receivable, post-dated cheques, credit sales, IOUs and promissory notes are not considered income in the month received until they are cashed, and accounts payable, bills, invoices, business supplies delivered before being paid for, are not considered business expenses until paid.

Employment and Training Start up Benefit and Child Care Expenses

Eligibility for the Employment and Training Start-Up Benefit (ESUB) and up front coverage of child- care expenses applies to a recipient starting his/her own business to help defray the expenses of starting a business.

Self-Employment Resources

A useful workbook and self-help guide for clients interested in pursuing self-employment is the publication "Exploring Self-employment Opportunities for People with Disabilities" developed by Social and Enterprise Development Innovations (SEDI) in partnership with the Government of Ontario. This publication contains self-assessment workbooks, a business plan guide, a practitioners guide on helping people with disability explore opportunities for self-employment, and a resource guide listing web sites of government programs, business development groups and disability organizations throughout Ontario.

For record-keeping purposes, applicants/recipients may want to use “Record Keeping Made Easy: Practical Bookkeeping and Budgeting System for your New Small Business”, published by the former Ministry of Enterprise, Opportunity and Innovation. Copies of the guide may be obtained from Publications Ontario, Government of Ontario Book Stores or by calling 1-800-668-9938 outside Toronto or (416) 326-5300 in Toronto.

Hyperlinks associated with this policy directive

Related Directives:

4.1 Definition and Treatment of Assets
4.5 Motor Vehicles
5.3 Deductions from Employment and Training Income
5.5 Child Care Deductions
5.6 Private Home Day Care Providers
5.7 Farm Income
5.10 Loans
5.14 Treatment of Canada Child Tax Benefit
9.1 Employment and Training Start Up Benefit (ESUB) and Up Front Child Care Costs
9.18 Work-Related Benefit