



Working as an Independent Contractor – Frequently Asked Questions

Q. Are there Benefits Available to Contractors?

Yes, here are two links to companies who offer benefit coverage to contractors.

<http://www.apconline.com> Association of Professional Computer Consultants

<http://www.pluscorp.com> HealthPlus Corporation

Q. Why am I not an employee of the agency when it is the agency that gives me a pay cheque and deducts CPP and EI?

You have entered into a contract relationship with THE AGENCY to provide your services to our client.

In that contract you have confirmed that your relationship was contractual and that you were not an employee of THE AGENCY.

Revenue Canada considers an individual (you) who is working through a Placement Agency (i.e. THE AGENCY) for a client to be insurable and pensionable.

For this reason THE AGENCY deducts CPP and EI premiums and pays the employer's portion

It should be noted that Revenue Canada does not consider you an employee.

The Tax act, which governs the deduction of tax, does not say that the individual is taxable and therefore THE AGENCY does not deduct tax.

Please refer to Revenue Canada's booklet "Employer's Guide to Payroll Deductions" (Booklet T4001E), where it specifically discusses Placement & Employment Agencies in Chapter 6.

To view online, please visit <http://www.cra-arc.gc.ca/E/pub/tg/t4001/> scroll down to Chapter 6, page 34 and review "Placement and Employment Agencies Workers", Section "B".

**Q. Why does my T4 indicate that I am a Code 11?**

Beginning with the 1998 T4, the phrase “self-employed” is no longer shown and instead Box 29 labeled Employment Code will contain a value of 11 indicating that the individual is self employed working through a placement agency.

Q. Why don't you deduct tax?

The Tax act does not require a Placement Agency to deduct tax when an individual is working through a placement agency for a client corporation.

Refer to the answer for question 1 above and Revenue Canada's booklet “Employer's Guide to Payroll Deductions” (Booklet T4001E), where it specifically discusses Placement & Employment Agencies in Chapter 6.

To view online, please visit <http://www.cra-arc.gc.ca/E/pub/tg/t4001/> scroll down to Chapter 6, page 34 and review “Placement and Employment Agencies Workers”, Section “B”.

Q. How do I know if I am self-employed?

You should refer to Revenue Canada booklet RC4110(E) “Employee or Self Employed” for their rules.

To view online, visit <http://www.ccra-adrc.gc.ca/E/pub/tg/rc4110/>

The contract between yourself and THE AGENCY which details the assignment at the client goes to lengths to clarify that you are an independent contractor providing your services. Specifically there is a declaration in the third “whereas” on page one as well as items 5 and 8, which clarifies the fact that you are self-employed.

Q. What expenses can I deduct if I am not incorporated?

A significant benefit of being self-employed is the fact that you can take deductions against your income for expenses earned in support of your efforts to earn that income.

Deductible expenses are generally the same for both incorporated and un-incorporated businesses. To ensure that you realize the benefits available, we would recommend that you obtain professional help.

We would further recommend that you consult with a tax advisor to determine if incorporating versus operating as a proprietorship is the best structure for the provision of your services (refer to THE AGENCY'S fact sheet on “Should I Incorporate?”)

Refer to Revenue Canada's “Employment Expenses” booklet #T4044 (E) for further information.

To view this online, <http://www.cra-arc.gc.ca/E/pub/tg/t4044/>

**Q. Can you provide a T2200 for my expenses?**

Where the incurring of expenses is a condition of employment, the employer provides a T2200 for the employee to provide to Revenue Canada with his/her tax return in support of claims for expenses.

If you are providing your services as an independent contractor, then you are not in an employee relationship with either your agency or your client.

Q. Why was I not issued a T4A?

A T4A is prepared when a self employed individual's income exceeds \$500 and no invoice for services has been provided.

T4As are used to report special payments (i.e. pension) that are not applicable to you

THE AGENCY is a placement agency and is therefore required to issue T4's

Revenue Canada's guidelines direct placement agencies to report income paid to individuals on a T4 and to specify the employment type code as 11 indicating Placement Agency.

Q. Where can I obtain further information from CRA?

Contact Canada Revenue Agency by:

General Inquiries: 1-800-959-8281

Order forms: 1-800-959-2221

Internet: <http://www.cra-adrc.gc.ca/menu-e.html> for viewing and downloading most forms

Q. Can I work with more than one Recruiter?

Yes, it is encouraged. Recruiters are assigned to roles and not to candidates. Whomever is listed as the recruiter on the role you are interested in is the person to contact or who will contact you.

Q. Incorporation, Partnership, or Sole Proprietorship? What is right for me?

Disclaimer: When making any decision on matters of tax, expenses, accounting or legal structures, it is highly recommended that you seek the guidance and assistance of trained experienced professionals. This document is only meant as an introduction and overview. Chartered Accounts for IT Professionals (<http://www.ca4it.com>) can help you with Professional advice and services.



Overview

Once you have decided to leave the world of conventional employment and enter the world of contract services, a fundamental question is: How should I structure myself for the provision of services. In Canada you have the choice of three alternate structures which are Proprietorship, Partnership and Incorporation.

The following is a high level review of these alternatives intended to provide a general frame of reference. Without question one should consult with a Lawyer, Accountant or professional financial advisor to obtain professional guidance on what is a very important decision.

Proprietorship (as an Individual)

Year-end: Calendar (December 31)

Income splitting: Not possible

Set up costs: Nominal provincial registration cost

Strengths

This is essentially the default structure.

- This alternate is best suited for persons earning a low income and lacking a partner.
 - The set up cost is reasonably low if you choose to use a name other than your own name.
 - Essentially you are equating yourself as an individual with your proprietorships name.
 - You will be both insurable and
 - You will have CPP and EI premiums deducted
 - Should you work thorough a placement agency it will be obligated to contribute the employer portion of these premiums
 - If you work directly for a client company, it will be obligated to contribute the employer portions of these premiums - You will be eligible to collect EI if you are unemployed.
 - By means of this registration you will be able to open a bank account in your proprietorship's name.
- Weaknesses - There is unlimited liability to yourself personally
- There are no mechanisms for income splitting or tax deferral
 - Your will pay tax at the personal rate on all income earned in the 12 calendar months.



Partnership

Year-end: Calendar (December 31)

Income splitting: To a limited extent

Set up costs: Nominal provincial registration cost

Strengths

This is essentially the same as a proprietorship except that:

- Your liability will be shared with your partner
- You are not required to contribute CPP/EI premiums due to the fact that a minimum of two persons make up the partnership.
- The set up cost is reasonably low if you choose to use a name other than your own name.
- Essentially you are equating yourself and your partner with your partnership's name.
- By means of this registration you will be able to open a bank account in your partnership's name.

Weaknesses

- There is unlimited liability to yourself and your partner
- The mechanisms for income splitting or tax deferral are limited
- All income earned in the 12 calendar months must be declared as income by either yourself or your partner



Incorporation

Year-end: Chosen by yourself

Income Splitting: Yes

Set up costs: Legal fees plus Provincial registration fees

Strengths

- Incorporation involved the creation of a new legal entity, your incorporation
- You will become an employee of the incorporation
- Your personal liability will be limited
- You are not eligible to participate in the CPP and EI programs if you as an employee of the incorporation own more than a set percentage of the share.
- The set up cost varies according to the help that you obtain to set up the incorporation:
- If you do it yourself the sole cost are the provincial fees plus the cost of books, stamps, etc.
- If you use a paralegal or accountant there will be a professional fee
- If you use a lawyer the professional fee will be the same or slightly higher.
- By means of this incorporation you will be able to open a bank account in your corporation's name.
- There are mechanisms for income splitting, tax deferral, etc.

Weaknesses

- There is the cost of setting up the corporation
- The annual filings are somewhat more difficult so professional assistance may be required at an annual cost for these services.