

Are you your own boss?

By Florence Hui, CGA

According to Statistics Canada, the number of self-employed persons has grown about 4.1 percent per year since 1990. What have made this trend attractive to so many Canadians?

The employers

The benefits for the employers to hire self-employed persons rather than to retain employees are mainly financial. It is less costly. They save payments on the employer portion of Employment Insurance (EI) and Canada Pension Plan (CPP) costs. They are under no obligation to deduct EI for self-employed persons and are therefore not required to pay for the employer portion of the EI. They do not need to deduct CPP from payments and pass on the employer's portion of CPP costs to the self-employed person. They also do not need to include the self-employed person in company benefit program nor offer a severance package when the services are no longer needed. The company may also be able to save office space and other office expenses.

Self-employed persons

The benefits to work as a contract worker rather than an employee include both financial and non-financial issues. Many are choosing the entrepreneur path because of the perceived independence, freedom of control and flexibility it provides. Nowadays, more and more people want flexibility to balance their work and non-work life.

The financial benefits include being able to take advantage of a more favorable tax status. The self-employed person can deduct related business expenses to reduce business income. If the self-employed person decides to incorporate the business, the corporation may be qualified for the lower corporate tax rate available for qualified small business.

Canada Revenue Agency (CRA)'s position

It may seem like a win-win situation but one major issue is whether an individual is, in fact, an employee or a self-employed person. When disputes occur, CRA may want to step in to make a ruling.

To help make fair decisions, CRA has set out four tests summarized as follows:

- (a) **Control test:** an employer has less control over an independent worker in that the employer usually may request what is to be done but not how and when.
- (b) **Integration test:** an independent worker may provide work that is only necessary to the business but not an integral part of the company.
- (c) **Specified result test:** an independent worker is usually hired to do a very specific job and not in a continuing relationship to perform variety of tasks.
- (d) **Economic reality test:** an independent worker could make money or lose money in providing his/her service.

To avoid going to CRA for rulings, independent workers and employers should try to make their business relationship absolutely clear.

What does this mean to you?

Let us consider the situation of a Dr. TCM practitioner who sees patients at a local Chinese pharmacy store. The most unarguable situation where the Dr. TCM is not an employee to the store is that he/she pays rent to the store and keeps the income received from patients. In other situations, Dr. TCM may want to ask him/herself the following questions to determine whether he/she is a self-employed person or an employee:

Questions	Self-employed	Employee
Do you commit to a set number of working hours?	No	Yes
Do you work on your own without supervision?	Yes	No
Do you use your own equipment and supplies?	Yes	No
Does the store supply you working space?	No	Yes
Do you provide services to more than one company/store at a time?	Yes	No
Do you receive income from the patients?	Yes	No
Do you receive flat or predetermined fees from the store?	No	Yes

The above questions are only general guidelines; you should consult with your accountant to discuss your specific situation.