

# SELF-EMPLOYMENT: NAVIGATING YOUR FINANCES

## What is self-employment?

Self-employment means that you work for yourself rather than working for an employer. You are in business on your own account and are responsible for the success or failure of the business. You generate income from directly serving your client base, and therefore do not receive a permanent consistent salary or wage from an employer.

## Is it right for me?

Self-employment has distinct advantages and drawbacks that should be considered. Let's take a closer look at these...

### Advantages:

- Independence and control - you are your own boss, meaning you get to decide when, where and how to work to get the job done.
- Financial rewards for efforts - when you consistently do good work, your business can become very profitable.

### Drawbacks:

- Less security - it's your responsibility to source your own jobs, which may mean that there are times that you do not have steady income.
- Fewer free benefits - you will have to pay your own vacation time, sick time, benefits, and retirement plans.
- Responsible for income tax contributions - you are responsible for doing your own paperwork and paying your taxes on time.

Every person and situation is unique. It's up to you to decide if self-employment is the right fit for you. This resource will help you as you're getting started.

# Setting up your business in 5 simple steps

## STEP 1: Define Your Business

- Through market research, identify a consumer need or identify a gap in existing services that you can profit from.
- Determine what will make your business unique – what will separate your product or service from the competition to attract a distinct target customer?

## STEP 2: Know the Rules

- Determine if there are licenses or permits needed to operate your business and what additional responsibilities you may have if you hire staff.
- Decide what legal form your business will take – sole proprietorship, partnership or corporation – and learn what specific tax and financial record-keeping requirements are involved. Plan to discuss advantages and drawbacks of each with both a lawyer and Chartered Professional Accountant (CPA).

## STEP 3: Develop a Business Plan

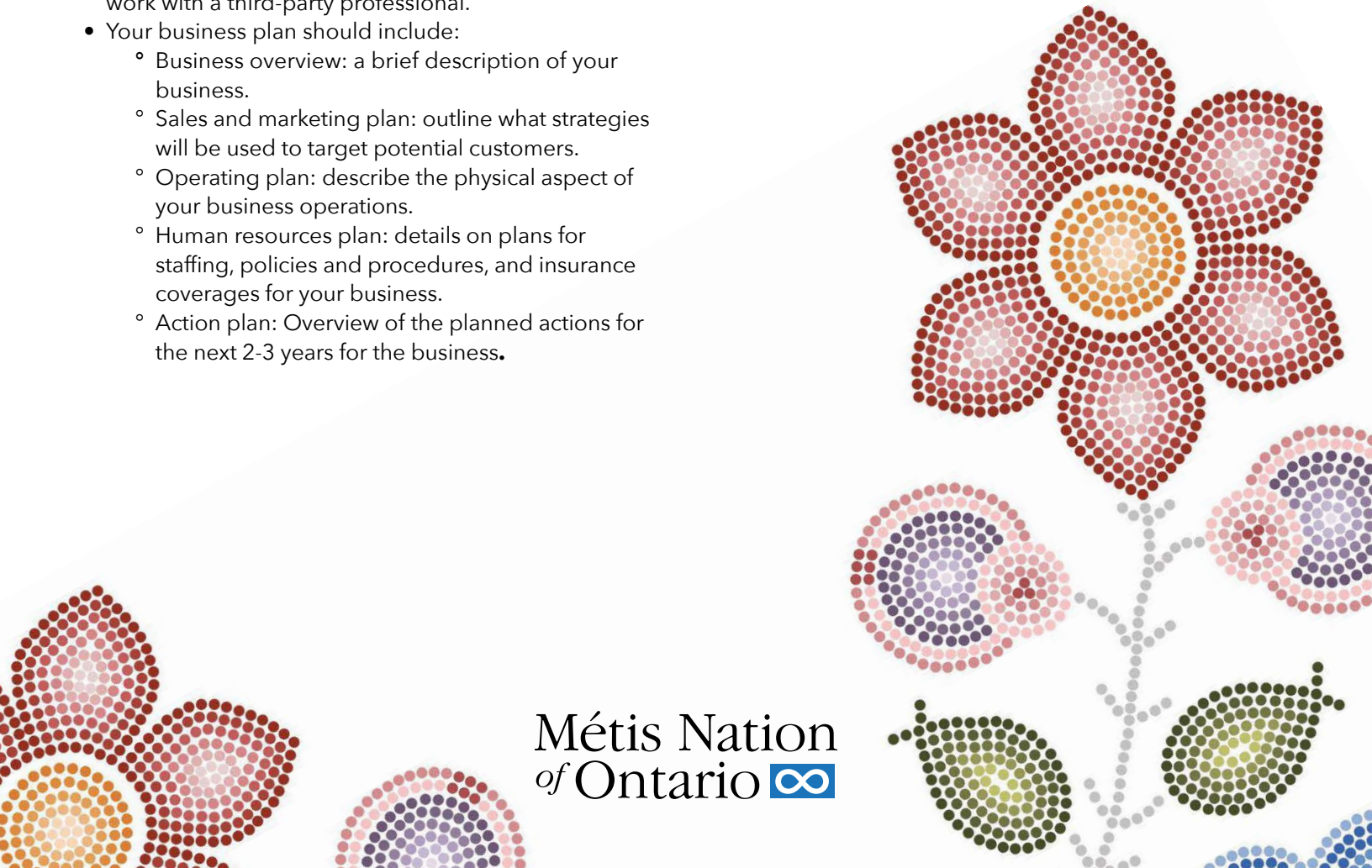
- Once you have planned what you want your business to look like, you'll need to develop a business plan. You can do this on your own, but it may be helpful to work with a third-party professional.
- Your business plan should include:
  - Business overview: a brief description of your business.
  - Sales and marketing plan: outline what strategies will be used to target potential customers.
  - Operating plan: describe the physical aspect of your business operations.
  - Human resources plan: details on plans for staffing, policies and procedures, and insurance coverages for your business.
  - Action plan: Overview of the planned actions for the next 2-3 years for the business.

## STEP 4: Plan Your Finances

- All businesses have costs during the start-up phase before they can operate and become profitable. Some examples include business licensing, insurance, inventory or supplies, promotional materials, or website design. These costs can be covered through personal savings, funders, or business loans.
- Plan to have a minimum of 6 months of business costs available to cover this start up period, but keep in mind that success may come slowly.

## STEP 5: Check Your Progress

- Revisit your business plan every three months for at least the first year and ask yourself:
  - Am I on track to meet my goals?
  - What's going well?
  - What barriers have I faced? How did I overcome these?
  - What can I expect in the next 3 months?
- Adjust your goals to align with your progress and the environment that you're in. Celebrate the victories you've had so far and grow from the lessons you've learned along the way.



## Separation is key when it comes to finances in self-employment

Whether you're just starting out or looking to restructure your business finances, creating separation between personal and business accounts is key. Here's why:

### 1. Legal protection of assets

If a client or customer of yours ever brings legal action against you and the court is not able to differentiate between personal and business finances, you may be held personally liable for business debts. If your personal and business finances are combined, you aren't offered the same business protection. This means that a creditor could go after your personal assets, such as savings, investments, or even your home.

### 2. Taxes

The Canada Revenue Agency (CRA) allows you to deduct business expenses such as office supplies or advertising costs, but if those are made from a personal account, it will be harder for your accountant to verify them, or for the CRA to validate them in the event you are audited.

**Tip:** with the help of a Chartered Professional Accountant (CPA), you can maximize the profitability of your business and ensure that you're following the rules set by the CRA for paying taxes in self-employment. You can verify the registration of your accountant by visiting the [CPA Ontario Member, Firm, and Licensee Directories](#) webpage.

### 3. Bookkeeping

While it may be a pain to set up a separate business account at first, by having a dedicated account for all business-related transactions, it becomes easier to track those expenses and follow-up on outstanding incomes.

### 4. Financing

When you apply for a loan of any sort (including business loans, auto loans, and mortgages), you need to prove your ability to repay the loan. When your personal and business finances are combined, it can be more difficult to prove the steadiness of your income. By separating your accounts, you can prove the success of your business more clearly, improving your chances of approval.

### 5. Peace of mind

Having a clear picture of your business's financial picture can bring you peace of mind. When your finances are kept separate, your bookkeeping is clean, and you have a better idea of where you stand.



## Planning for long-term stability

Since income in self-employment lacks the stability of traditional employment, it's important to plan how you will manage your finances through both the high and low-income periods. Here's some tips to help you gain some long-term stability:

### 1. Maintain a budget and iron out uneven income

Many expenses are unchanged month-to-month, like housing costs and utility bills, but you're likely to have months with much more and months with much less income. Create a budget to determine how much income you'll need on a monthly basis to cover your expenses, then work towards putting money aside during the higher-income periods to make up for the times when you have less income.

### 2. Create an emergency fund

Income in self-employment is never guaranteed. To prepare for the unexpected, it's suggested that you have enough savings set aside to account for at least 6-months' worth of living expenses.

### 3. Create regularity in your income

Since income in self-employment is variable and doesn't offer the same benefits in retirement as traditional employment, consider investing in financial products that offer a secondary source of income while you're working and can act as retirement savings. Examples of such financial products would be mutual funds or dividend stocks.

### 4. Protect yourself and your loved ones

There are a variety of insurances to consider as a self-employed individual

- i. Personal health, disability, and life insurance
- ii. Insurance for your business equipment and building
- iii. Employment Insurance (EI) if desired

### 5. Planning for retirement and old age

- Discuss the best savings plan for your situation with your CPA or a trusted financial professional.
- Starting saving for retirement early, even if contributions are small to start, allows you to maximize on compound interest offered by many registered savings tools, such as Tax-Free Savings Accounts (TFSA) and Registered Retirement Savings Plans (RRSP).



## Available Supports

Whether you're in the beginning stages of planning for self-employment or you're already self-employed and looking for ways to improve your business, there are organizations and professionals available to help you reach your goals.

### Métis Voyageur Development Fund

Provides preferential financing and business development support that, together, can help you build your Ontario Métis owned and controlled business.

### Ministry of Economic Development

Supports job creation, innovation and economic growth for Ontarians by delivering a range of programs, services, and tools to help businesses innovate and compete in today's fast-changing global economy.

### Community Futures Network Ontario

This non-profit offers free business counseling, flexible and repayable loans for new and existing small and medium sized businesses, strategic planning on local projects and community economic development in rural areas.

### Chartered Professional Accountants (CPA)

Filing taxes as a self-employed individual can be more complicated than you'd expect. If you're self-employed, working with a CPA long before tax season can help you prepare your files and finances. The CPA website has many resources available that are related to accounting and tax filing in self-employment.

### Local agencies and associations (plus on-line resources):

There are numerous community agencies, business associations, and on-line resources that provide information and tools for people starting and operating a small business. Start by doing an internet search, then consider visiting your local library or community centre to find more information.

**Questions?** Contact the Housing Program's Team at [housingprograms@metisnation.org](mailto:housingprograms@metisnation.org)

Disclaimer: All materials and information available within the Métis Nation of Ontario Financial Literacy Program are for general informational purposes and not intended to provide specific advice or recommendations for any individual or for any financial product. Information provided through this program does not constitute financial, accounting or legal advice. It is recommended that you seek independent professional advice before making financial decisions regarding credit, investments, or savings plans.

