

ADD-BACKS AND DEPRECIATION SELF-EMPLOYED PERSONS

APPENDIX "A"

When reviewing a labour contractor's tax return, for the purposes of establishing average earnings, Board officers should consider the nature of the labour contractor's industry and determine the reasonableness of the business expenses. The following is a list of the most frequent business expenses and guidelines with respect to the treatment of those expenses:

Income Splitting – Wages that the labour contractor declares to Canada Customs and Revenue Agency ("CCRA") as being paid to and earned by a spouse or child, are considered earnings of the spouse or child. This business expense is not added back to the labour contractor's net business income.

Home Office Expenses (mortgage, heat, light, etc.) - While these items are tax deductible, they are not necessarily a true reflection of actual costs of operating the business. Furthermore, many home office expenses would be incurred regardless of the business venture. Therefore, these amounts may be added to the labour contractor's net business income.

Meals and Entertainment – Meal expenses deducted from the labour contractor's gross business income, for which the labour contractor has not been reimbursed, may be added back to the labour contractor's net income where it can be shown that these expenses were not incurred in order for the business to earn income. For example, long-haul truck drivers may deduct the cost of meals while travelling away from home.

Normal Business Expenses (advertising, legal, accounting, inventory, materials, wages paid to employees, etc.) - These actual expenses are necessary in order for the business to generate its gross income. Therefore, they should not be added back to the labour contractor's net business income.

Depreciation/Amortization - Where the labour contractor depreciates a piece of revenue-generating equipment, which is necessary for the operation of the business, the depreciation figure declared on the individual tax return should be adjusted according to the method outlined in Chapter 9 of RSCM Vol. II.

Vehicle Operating Expenses (insurance, fuel and maintenance) - Vehicle expenses declared to CCRA as expenses necessary for the operation of the business should not be added back to the labour contractor's net business income.

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Extraordinary or Unusual Business Adjustments - Previous years' business losses carried forward, the disposition/acquisition of capital assets, or other extraordinary items should be considered when setting the long-term wage rate on a claim. These items are not normal business occurrences and therefore may distort the real income of the business and the labour contractor's yearly earnings. An example would be extraordinary income due to the sale of a large asset. As a result, adjustments to the net income may be necessary in order to obtain a more accurate reflection of earnings.