



# SEX **WORKERS'** TAX TOOLKIT

[PACE Society](#) compiled this document in response to the number of sex workers looking for support in this area but who don't feel safe due to criminalization and stigma around their work. We hope that you find this tax resource useful, particularly if you are filing last year's taxes in order to receive the [Canada Emergency Response Benefit](#) (CERB).

## CAN SEX **WORKERS'** FILE THEIR TAXES?

Of course they can. Under law, everyone needs to disclose their worldwide income regardless of whether the work is legal or illegal. If it makes you feel better, the Canada Revenue Agency (CRA) even has a tax code for escorts ([812900](#)). The CRA doesn't care what you do for a living; they just want you to report the income earned from doing it. Thanks to privacy laws, your info can't be accessed or shared by outsiders (i.e., police, border agents).

Why should you file your taxes? First, you are obligated under law. If you don't report your income, you run the risk of being charged with tax evasion, which could result in fines and possible jail time. Besides that, there are many benefits to filing your taxes. If you want to buy a home or apply for a loan, you will need to have an Income Tax Summary, which you will receive each year after you file your taxes.

There are many government programs that are only available to people who file a tax return. Depending on how much you earn, you may actually get money back through both federal and provincial tax benefit programs. Check out what is available in your [area](#).

If you pay your taxes, you will be contributing to the [Canada Pension Plan \(CPP\)](#), which is a great thing. CPP provides contributors and their families with partial replacement earnings in the event of retirement, disability, or death. So, basically, the money you pay in, you get back when you need it most.



## WHAT FORMS DO I USE?

You report your world-wide total income on the T1 general income tax return. For self-employed folks, you will also have to record your business income on the [T2125](#) form (Statement of Business or Professional Activities), which is part of the T1 return. Make sure you are using the forms for the year you are applying, most forms have an option to select previous years when back filing. The CRA has put together a helpful guide for sole proprietorships and we encourage you to read this before completing and filing your taxes. Download the resource guide [T4002](#).

## WHAT IS AN INDUSTRY CODE?

For record-keeping purposes, the CRA tracks the industries and professions that people are in. On the T2125 form, you will be asked to input an Industry code. See form T4002 Appendix A for the full list of codes. We mentioned earlier that there is a code for escorts. Escorts fall under the Entertainment & Recreation Industry, and the tax code for escorts is 812900. It's also the same number that party planners, personal shoppers, and psychics use when filing their taxes. If you don't identify as an escort, other codes might better capture the labour you do. For example, 621600 is for home health care services, 812100 for personal care services, and 541619 for consultants.

The T2125 form will also ask you for a business number (BN). It's okay if you don't have one. As a sole proprietor, you can work under your own name and do not have to register a business. But, if you make over \$30,000 annually, you automatically have to register for a business number. Learn more about business numbers and how you can register.

## HOW DO I FILE?

There are many ways to file your taxes.

- Download the forms & grab an erasable pen
- Purchase or use a free tax software to help you file online, like [Turbo Tax](#) or [UFile](#)
- Visit an H&R Block
- Pay an accountant (contact [support@pace-society.org](mailto:support@pace-society.org) for SW friendly accountants!)
- [First United](#) assists with basic taxes for people on PWD or IA
- Check out the [Community Volunteer Income Tax Program](#)

\*\*Note some community tax clinics will be great, others may stigmatize or try & rescue you

## TAX DEDUCTIONS

One of the perks of running your own business is that you can take advantage of a much larger pool of tax deductions. A tax deduction is a result of a tax deductible expense or exemption that reduces your taxable income. Your business expenses (i.e., safer sex supplies) are a tax deduction. Another example of a tax deduction is a charitable donation. If you give \$1,000 to a charity like PACE Society, it qualifies as a tax-deductible gift. This means that you can deduct the \$1,000 from your adjusted gross income, and the lower amount becomes the amount on which your income tax is calculated. Put another way, tax deductibles reduce the income that the amount of taxes you pay is based upon. Your business expenses are, therefore, tax deductibles.

In general, you can deduct any reasonable current expense you have paid or will have to pay to earn business income. It's also important to note that, on average, small businesses lose money in the first two years of operation because of the upfront costs and time to establish a market base. If this is your first year filing as a sole proprietor, your expenses might realistically be higher than your revenues in the first and or 2nd year.



## **EXPENSES INCLUDE:**

- Advertising expenses (e.g., website, print advertisements)
- Business start-up costs (renovations to accommodate the dungeon)
- Business taxes, fees, licences, dues, memberships and subscriptions
- Moving costs (a move for work, over 500km away, can be written off)
- Transportation (e.g., fuel costs, taxi, car-to-go, rentals, insurance)
- Health (e.g., insurance)
- Legal accounting and other professional fees
- Meals and entertainment (shouldn't be more than 10% of total expenses)
- Work space, rent, hotel bills \*\*\* See clarification around rent below
- Supplies (e.g., lingerie, lube, condoms, disinfectants, sheets, towels, dungeon supplies)
- Telephone & utilities
- Business Travel
- Other expenses

\*\* If you rent a space solely for work you can claim 100% of this as an expense. However, if you work from home that doesn't mean you can claim 100% of your rent. The portion of the rent that you can claim as a business expense is based on the square footage of your space, but for a quick and dirty answer, you are realistically looking at being able to claim 25% of your rent as a business expense if you work from home.

## **BITCOIN & CRYPTOCURRENCY**

If you accept bitcoin, you will now also need to report your capital gains or losses. Treat bitcoin as a stock. When you transfer it into something else or sell it, there is a capital gain or loss associated with this transaction and you will need to report on this year-to-year. Remember, capital losses are carried over indefinitely to work against any capital gains. For more assistance with reporting check out this resource by Turbo Tax.

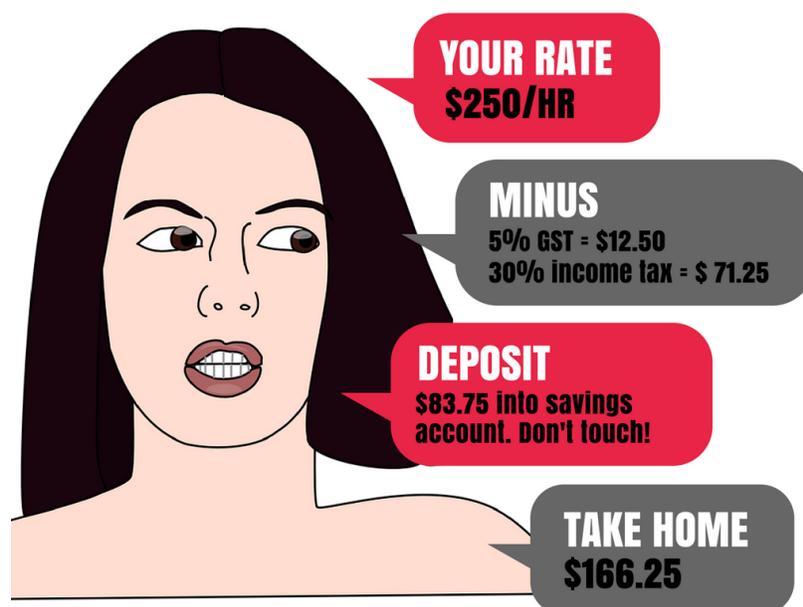
## TAX CREDITS

Tax credits provide a dollar-for-dollar reduction of your income tax liability (i.e., the amount of taxes you owe). This means that a \$1,000 tax credit saves you \$1,000 in taxes owed. Think of tax credits as coupons that can be applied to reduce the amount you owe the government. For example, if you file your taxes and end up owing \$2500, a \$1000 tax credit will reduce your bill to \$1500.

There are both federal and provincial/territorial tax credits and it's up to you or your accountant to identify which ones you are eligible for. Find out what tax credits are available in your province or territory.

## GST/PST

If you earn more than \$30,000 annually (gross – not after your deductions), you are legally required to register as a GST tax collector. You can register for a GST number and get one almost instantly, it's that easy. You only need to register for a PST number if you are directly selling goods ( i.e., panties, videos) with a profit exceeding \$10,000. If you are selling your goods to a company (i.e a clip site) the clip site pays the PST and you don't have to worry about it. Each province will have a different process to register for a PST number. Once you have your GST/PST number, you are legally required to collect taxes based on where you live. This means 5% of your income isn't actually your income, it is taxes that you have to collect. Factor this in when you choose how much to charge. For example, if you're an escort and your hourly rate is \$250, 5% of that (\$12.50) goes toward GST, which reduces your take home to \$237.50/hour.



## KEEP RECORDS

Keeping records means it will be easier to file your taxes and also make informed decisions about your business going forward. For example, when you track your earnings over time, you can establish useful trends that you can capitalize on.

It is highly unlikely you will be audited but, if you are, you will need a paper trail to justify your expenses and revenues. The best way to do this is to:

- Document your revenues and expenses in a book, app or accounting software. Try this free app by Mint.or Intuit.
- Keep an agenda and record of dates worked on a calendar
- Issue receipts for services provided, even if it just ends up being a copy that you keep
- Document your expenses & keep those receipts
- Record your mileage
- Some people find e-transfer a convenient way to accept payment as well as track revenues

***Report all earnings from clients on line D as "Gross professional fees", and if you have any work-related expenses which you can document with receipts, you can report those in Part 5 of that form and they deduct from your income . You'll need to provide this on the first page of the T2125. After completing this form, you copy the relevant numbers onto lines 164 and 137 of your T1 form.***

## PLAN AHEAD

When you work for an employer, your tax contributions are automatically taken off and spread out across pay cheques, you receive an annual T4. But, when you are a sole proprietor collecting your own income, it is your responsibility to set aside a portion of your income (30%) for taxes, which is paid as a lump sum at the end of every year. Remember CPP is a good tax, and you get it back after you turn 65.

Don't be worried about owing taxes at the end of the year by sticking to this following plan. Open up two bank accounts. Automatically transfer 25-30% of your income that you deposit into your business account into a savings account. Now, don't touch it until after you file your taxes and get your assessment.

## **AS A SOLE PROPRIETOR YOU HAVE MORE TIME TO FILE YOUR TAXES**

Self-employed people have until June 15th to file their income tax. This applies to common-law partners too, so, if your partner is self-employed, you also have until June 15th to file.

[\\*Due to the COVID-19 pandemic](#), tax filing dates for individuals have been extended, however for self-employed sole proprietors it has NOT been extended (remains June 15th). The payment due date for self-employed sole proprietors who owe money has been extended to September 1st.

## **CANADA EMERGENCY RESPONSE BENEFIT (CERB) AND TAXES**

The Canada Emergency Response Benefit (CERB) is temporary income support for people who have stopped working because of COVID-19. The CERB provides \$500 a week for up to 16 weeks. The benefit will be available to sex workers provided they meet the following eligibility criteria:

- Residing in Canada, who are at least 15 years old;
- Stopped working because of COVID-19 and have not voluntarily quit their job or are eligible for EI regular or sickness benefits;
- Had income of at least \$5,000 in 2019 or in the 12 months prior to the date of their application; and
- Are or expect to be without employment or self-employment income for at least 14 consecutive days in the initial four-week period. For subsequent benefit periods, they expect to have no employment or self-employment income.

You must have proof that you made at least \$5,000 in 2019, therefore it is recommended you do your taxes for at least that year. To apply for CERB, please [visit the website](#).

## **EXAMPLE OF COMPLETED T2125 FORM FOR SEX WORKERS**

The next pages illustrate an example of what a completed T2125 form should look like. Use this as a reference for completing your taxes.