



Reconciliation of 2018 Business Income for Tax Purposes

General information

Use this form if you:

- are self-employed business person, including a self-employed commission salesperson, professional, a farmer, or a fisher
- started your business in 2017 or 2018 and are electing to use the **alternative method** to have a fiscal period that does not end on December 31, effective for the first fiscal period of your business
- have already elected to have a fiscal period that does not end on December 31 and are calculating your additional business income. This is mandatory if you have made this election. Fill in all applicable information in Part 1 on page 4
- are cancelling your previous election, and are now going to use a fiscal period which ends on December 31; fill in all applicable information in Part 2 on page 6
- are calculating your business or professional income to report on your 2018 T1 tax return

Who can elect to use the alternative method

The alternative method is only available, on a per business basis, for businesses carried on in Canada by individuals or partnerships of which all the partners are individuals.

Please note that if you are a goods and service tax/harmonized sales tax (GST/HST) registrant, your choice of the fiscal period end for income tax purposes may affect your GST/HST reporting periods, filing, and balance due dates.

You **cannot** use the alternative method if:

- you are in partnerships that are partners in other partnerships
- you are an individual who is a partner in a partnership that includes a professional corporation as a partner
- the expenditures made in the course of carrying on the business are primarily the cost or capital cost of tax-shelter investments
- you have already elected to use the alternative method and then cancelled the election

How to fill in this form:

To file an election, you have to fill in Part 1 of the form and send it with your income tax and benefit return (T1 tax return). You can cancel your election and return to a fiscal period ending on December 31 at any time by filling in Part 2 of the form and sending it with your income tax and benefit returns (T1 tax return) in the year that you are making the request.

You must fill in this form and send it with your T1 tax return to calculate your additional business income for as long as your fiscal period does not end on December 31.

If you need to calculate an additional business income for a separate business, fill in another Form T1139 for each one.

Filing and balance due dates related to this form

Generally, as an individual you have until April 30, 2019, to file your 2018 T1 tax return. However, if you have self-employed income, you have until June 15, 2019, to file your 2018 T1 tax return. In both cases, any tax owing must be paid by April 30, 2019.

To have a fiscal period that does not end on December 31, you have to send this form with your T1 tax return as follows.

If you started your business in:

- 2017 and your first fiscal period ended in 2018, but you **did not** fill in this form nor reported business income in 2017, you **must** fill in the form and send it with your 2018 T1 tax return
- 2018, your first fiscal period ends in 2019, and you decide to report your business income in your 2018 T1 tax return, fill in this form to request an election for your 2018 T1 tax return
- 2018, your first fiscal period ends in 2019, and you will report a business income for the first time in 2019, fill in this form to request an election for your 2019 T1 tax return

Please note that if the due date for filing a return falls on a Saturday, a Sunday, or a public holiday recognized by the CRA, we consider the return to be filed on time if it is sent to us on the next open business day. If the due date for making a payment falls on a Saturday, a Sunday, or a public holiday recognized by the CRA, we consider the payment to be made on time if we receive it on the next open business day.

Do not
write on
this page

Part 1 – Detailed information**Amount A**

If you have more than one fiscal period that does not end on December 31 for the same business, amount A is the total of the net income (loss) of these fiscal periods. For example, if you had a regular fiscal period ending on May 31, 2018, and then ceased to do business and retired on July 31, 2018, then you would have a second fiscal period ending July 31, 2018.

You can find the net income (loss) amount you need to enter at amount A from your income and expenses statement for the fiscal period ending in 2018. If you started your business in 2018, leave this field blank. Your net income (loss) is the amount found on line 9946 on the following forms:

- T2125, Statement of Business or Professional Activities
- T2121, Statement of Fishing Activities
- T2042, Statement of Farming Activities
- T1163, Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals
- T1164, Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations
- T1273, Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals
- T1274, Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations

If you are a partner in a partnership

A partner who has authority to act for a partnership can make the request to have a fiscal period that does not end on December 31. In this case, all partners in the partnership **must** fill in a copy of this form and send it with their income tax and benefit return (T1 tax return) to provide details of their net business income (loss) share.

Enter at amount A your share of the partnership's net business or professional income (loss) for the fiscal period ending in 2018. If you have deductible expenses from your share of the net partnership business income (loss), subtract these amounts before entering your share.

If you received a T5013 slip, Statement of Partnership Income, and you did not make adjustments to the amount in box 116, 120, or 122, enter the amount at amount A for the fiscal period ending in 2018. However, if you made adjustments to the amount in box 116, 120, or 122, enter the amount from line 9946 on the form that applies to your type of business income. See "Amount A" above for a list of the forms.

Examples to calculate the additional business income (amounts B and C)**Amount B - Your business started before 2018**

Karim owns a roofing business with a fiscal period from April 1 to March 31. Karim's net income from the business for the fiscal period ending on March 31, 2018, is \$45,000. He enters his net income of \$45,000 at amount A of his Form T1139. The business does not have income from the disposition of property. Karim will complete the first formula in Part 1B as follows to calculate amount B since his fiscal period ends in 2018:

$$\left(\begin{array}{l} 45,000 \\ \text{(amount A)} \end{array} - \begin{array}{l} 0 \text{ (since he has no income from} \\ \text{disposition of property)} \end{array} \right) \times \frac{275 \text{ (the number of days in 2018 that are} \\ \text{after his fiscal period ending in 2018, so} \\ \text{from April 1, 2018, to December 31, 2018)}}{365 \text{ (the number of days in the fiscal} \\ \text{period ending in 2018)}} = \underline{\hspace{2cm}} \text{ B}$$

Amount C - Your business started in 2018

Karim started a roofing business with a fiscal period that started on April 1, 2018, and ends on March 31, 2019. Karim's estimated net income from the business for the fiscal period ending on March 31, 2019, is \$45,000. The business does not have income from the disposition of property. Karim will complete the second formula in Part 1B as follows to calculate amount C since his first fiscal period ends in 2019 and he decided to declare part of his business income on his 2018 T1 General:

$$\left(\begin{array}{l} 45,000 \\ \text{(estimated net} \\ \text{income for the} \\ \text{fiscal period} \\ \text{ending in 2019)} \end{array} - \begin{array}{l} 0 \text{ (since he has no income from} \\ \text{disposition of property)} \end{array} \right) \times \frac{275 \text{ (the number of days of his fiscal} \\ \text{period that are in 2018, so} \\ \text{from April 1, 2018, to December 31, 2018)}}{365 \text{ (the number of days in the fiscal} \\ \text{period ending in 2019)}} = \underline{\hspace{2cm}} \text{ C}$$

Death of a partner or proprietor

In the case of the death of a partner or proprietor, there are timing issues to consider when reporting income and completing the final T1 tax return.

If the partner or proprietor died after the end of the business fiscal period, his legal representative can choose to fill in an optional T1 General. This means the representative will fill in two sets of returns and two T1139 forms for the 2018 year:

- A final T1 tax return and Form T1139 to report the business income for the regular fiscal period plus all other income
- An optional T1 tax return and Form T1139 to report the business income from the short fiscal period, that is immediately after the end of the regular fiscal period to the death of the partner or proprietor.

Final T1 tax return, plus this form, for the regular fiscal period

In this case, the final T1 tax return includes the business income from the regular fiscal period and all other income. The legal representative fills in the financial statements and this form. Fill in the form for the regular fiscal period as follows:

- At amount A, enter the net income (loss) for the regular fiscal period ending in 2018
- At amount D, enter the 2018 additional business income calculated using the following formula:

$$\left(\begin{array}{l} \text{Amount A} \\ \text{The lesser of the total amount} \\ \text{included in amount A that is} \\ \text{considered to be a taxable capital} \\ \text{gain for the purpose of the capital} \\ \text{gains deduction and the total capital} \\ \text{gains deduction deducted for 2018.} \end{array} \right) \times \frac{\begin{array}{l} \text{The number of days the business is} \\ \text{carried on after the end of the 2018 fiscal} \\ \text{period, up to and including the date of} \\ \text{death.} \end{array}}{\begin{array}{l} \text{The number of days the business is} \\ \text{carried on that are in the regular fiscal} \\ \text{period ending in 2018.} \end{array}} = \underline{\hspace{2cm}} \text{ D}$$

Optional T1 tax return, plus this form, for the short fiscal period

The optional T1 tax return includes the business income for the short fiscal period. The legal representative fills in the financial statements and Form T1139 for the time from the end of the regular fiscal period until the date of death. Fill in the form for the short fiscal period as follows:

- At amount A, enter the net income (loss) from the end of the regular fiscal period until the date of death
- At amount F, enter the additional business income from amount D of this form for the final T1 tax return

For more information about filing returns for deceased persons, see Guide T4011, Preparing Returns for Deceased Persons.

Part 2 – Detailed information**Amounts H and I**

You can find the net income (loss) amount you need to enter at amount H from your income and expenses statement for the fiscal period ending before December 31, 2018, and at amount I from your income and expenses statement for the fiscal period ending on December 31, 2018. You need a separate income and expense statement for each fiscal period. Please see "Additional information for amount I" below. Your net income (loss) is the amount found on line 9946 on the following forms:

- T2125, Statement of Business or Professional Activities
- T2121, Statement of Fishing Activities
- T2042, Statement of Farming Activities
- T1163, Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals
- T1164, Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations
- T1273, Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals
- T1274, Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations

If you are a partner in a partnership

A partner who has authority to act for a partnership can make the request to return to a fiscal period that ends on December 31. In this case, all partners in the partnership **must** fill in a copy of this form and send it with their income tax and benefit return (T1 tax return) to provide details of their net business income (loss) share.

Amount H

Enter at amount H your share of the partnership's net business or professional income (loss) for the first fiscal period ending in 2018. If you have deductible expenses from your share of the net partnership business income (loss), subtract these amounts before entering your share.

If you received a T5013 slip, Statement of Partnership Income, and you did not make adjustments to the amount in box 116, 120, or 122, enter the amount at amount H for the first fiscal period ending in 2018. However, if you made adjustments to the amount in box 116, 120, or 122, enter the amount from line 9946 on the form that applies to your type of business income. See "Amounts H and I" above for a list of the forms.

Amount I

Enter at amount I your share of the partnership's net business or professional income (loss) of your fiscal period ending December 31, 2018. For example, if your first 2018 fiscal period ended on June 30, 2018, enter at amount I the net income (loss) for the period of July 1, 2018, to December 31, 2018. You must prepare a separate income and expense statement for this period.

If you have deductible expenses that relate to this income that you did not deduct at amount H, subtract them before entering your share of the net partnership income (loss).

If you received a T5013 slip and you did not make adjustments to the amount in box 116, 120, or 122, enter this amount at amount I for the fiscal period ending on December 31, 2018. However, if you made adjustments to the amount in box 116, 120, or 122, enter the amount from line 9946 on the form that applies to your type of business income. See "Amounts H and I" above for a list of the forms. Please see "Additional information for amount I" below.

Additional information for amount I

Generally, you calculate the income and expenses of your fiscal period ending on December 31, 2018, the same way as your first fiscal period ending in 2018. You have to consider the following items:

- **Reserves:** Add any reserves you deducted in your fiscal period ending in 2018.
- **Opening inventory and closing inventory:** The opening inventory is the amount of the closing inventory of your fiscal period ending in 2018. Similarly, the closing inventory as of December 31, 2018, will be the opening inventory for your 2019 fiscal period.
- **Work-in-progress (WIP):** The WIP at the beginning of your fiscal period is the amount of the WIP at the end of your fiscal period ending in 2018. However, if you have a tax year that begins after March 21, 2017, you can no longer elect to exclude amounts for WIP. If you elected to use billed-basis accounting for the last tax year that started before March 22, 2017, the new transitional rules allow you to include your WIP into income progressively. Generally, for the first tax year that starts after March 21, 2017, you must include 20% of the lesser of the cost and the fair market value of WIP. The inclusion rate increases to 40% in the second tax year that starts after March 21, 2017, 60% in the third year, 80% in the fourth year, and 100% in the fifth and all subsequent tax years. For more information, see Guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income.
- **Business-use-of-home expenses:** You can claim any deductible business-use-of-home expenses you could not use in the previous fiscal period ending in 2018. Similarly, you can carry forward to your 2019 fiscal period any deductible business-use-of-home expenses you could not use in your fiscal period ending on December 31, 2018.
- **Capital cost allowance (CCA):** The undepreciated capital cost (UCC) of the depreciable property at the start of your fiscal period is the UCC at the end of the first fiscal period ending in 2018. Similarly, the UCC at the end of your fiscal period ending on December 31, 2018, is the UCC at the start of your 2019 fiscal period.
For your fiscal period ending on December 31, 2018, you have to prorate your maximum claim for CCA based on the number of days in that fiscal period. For example, if your fiscal period ending on December 31, 2018, is 214 days, and you would normally calculate your maximum CCA to be \$3,500 for a full year, the maximum amount of CCA you can claim is \$2,052, that is to say $\$3,500 \times 214 \div 365$.

For more information on the items above, see guide T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income. For more information on CCA, see the Income Tax Folio S3-F4-C1, General Discussion of Capital Cost Allowance, and the guide that applies to your type of business income:

- T4002, Self-employed Business, Professional, Commission, Farming, and Fishing Income
- RC4408, Farming Income and the AgriStability and AgriInvest Programs Harmonized Guide
- RC4060, Farming Income and the AgriStability and AgriInvest Programs Guide

Example to fill in amounts H and I

Karim filed an election when he started his roofing business to have a fiscal period from April 1 to March 31. In 2018, he decides to cancel his election in order to have his fiscal period end on December 31 for 2018 and later years. This means that Karim will have two fiscal periods in 2018, the first fiscal period from April 1, 2017, to March 31, 2018, and a short fiscal period from April 1, 2018, to December 31, 2018. Karim's net income from the business is \$45,000 for the first fiscal period and \$30,000 for the short fiscal period. He enters \$45,000 at amount H and \$30,000 at amount I.

