

# **EARNINGS AND ODSP ENTITLEMENT**

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There are some important points that need to be made before the details of earnings, exemptions and deductions are reviewed in this paper.

First, anybody who is receiving ODSP or who is a member of the Benefit Unit of somebody else who is receiving ODSP is allowed to work. Working in itself does not disentitle anybody to ODSP Benefits. People can choose to work by finding work on their own or by applying through the Employment Supports Program to obtain goods and services necessary to help you overcome barriers to returning to work or starting a small business. There is nowhere in ODSP legislation that dictates that if somebody is working on a regular basis, that they are no longer deemed to be considered 'a person with a disability' under the Act (Ontario Disability Support Program Act, S.O. 1997).

Second, if you are collecting ODSP as a single person, you are treated differently than if you are collecting ODSP and have dependents, whether this be only a spouse or same sex partner and/or children.

Third, earnings treatment is different for people who are working in regular employment versus those who are starting or operating a small business.

## **REGULAR EMPLOYMENT (Single)**

In general, if you find a part-time job, you must report the income for the time period between the 16<sup>th</sup> day of the prior month to the 15<sup>th</sup> day of the current month on or before the 22<sup>nd</sup> day of the current month. This means if you are reporting in the month of September 2005, you take any earnings you received from August 16<sup>th</sup> through and until September 15<sup>th</sup>, 2005, and provide the Earnings Training and Income Report to the ODSP Office on or before September 22<sup>nd</sup>, 2005.

The reason this was changed was to more closely connect one's earnings to the time period for which deductions will take place. One complaint that is often heard is that somebody will have a good Christmas earnings, then start to feel the deductions at the end of January, when employment earnings starts to go down and there is less money available. With this new system, the deductions are more immediate, such as the report submitted at the 22<sup>nd</sup> day of September 2005, will lead to deductions at the end of September 2005, as opposed to October 2005.

Earnings deductions are always based upon the NET income you receive, not the GROSS income. The GROSS income is the total amount of money that you earn before taxes and other deductions are taken off. Your NET income is what you receive after all the taxes and other deductions are taken off. This is what you actually get to put into your pocket after you get paid.

Only after this NET amount of earnings is calculated do any deductions by ODSP apply. ODSP will apply its deductions formula only on the NET income. That means if you are single, you are entitled to \$160 per month of NET earnings before any deductions take place. This is the flat rate exemption, meaning that \$160 applies no matter what – that money is free and clear for you. If you earn more than \$160 in NET earnings, then the balance of your earnings (after the \$160) is subject to what the government calls the

variable rate exemption. At the present time, you get to keep 25% of your NET earnings above the \$160 per month.

To make it simple, let's say you earned \$1,000 during the reporting period of August 16<sup>th</sup>, 2005 and September 15<sup>th</sup>, 2005. Out of the \$1,000, let's say your employer takes \$200 off for a combination of income tax, Employment Insurance, CPP payments and other legal deductions. This leaves you with \$800 per month in NET earnings.

Let us say you receive the maximum of \$959 per month from ODSP (to keep it simple, we are leaving all special diet and transportation allowances out of it). At the end of August, you get \$959 assuming you did not have any earnings over and above \$160 during the previous reporting period.

At the end of September, however, \$800 is subject to the STEP (Supports to Employment Program) formula that evolved from the 1980's.

Total Net Earnings:	\$800.00
Minus \$160 exempt	\$160.00
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Balance over exempt	\$640.00
$\$640.00 \times 75\% =$	\$480.00 (to be deducted)
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Total Balance Left	\$160.00
YOUR CHEQUE TOTAL	\$959.00
Minus 75% deduction	\$480.00
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Total Cheque Amount	\$479.00

You get to keep \$320.00 out of your \$800.00 earnings. Your total income for that period, including your earnings and adjusted ODSP cheque is \$1,279.00.

If you are receiving a special diet supplement or transportation assistance, this amount gets added to your total cheque and see the example below with regards to the same NET income.

Maximum ODSP Basic	\$959.00
Maximum Special Diet	\$250.00
Transportation Money	\$ 75.00

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Total Monthly Cheque \$1,284.00

NET Earnings -	\$800.00 (reported September ETIR)
Basic Exemption	\$160.00

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Balance Earnings \$640.00

Deduction -  $\$640 \times 75\% = \$480$

ADJUSTED ODSP CHEQUE – September 30, 2005

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Total Entitlement = \$1,284.00  
Minus Earnings = \$ 480.00

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Total Cheque Left = \$ 804.00

Your total income for that period is \$1,604.00 (cheque plus net earnings).

There is also a provision where you can deduct up to \$140.00 per month in 'disability-related costs'. These costs must be documented and they must be tied to your employment and not covered through any other source (such as Employment Supports or Opportunities Fund).

Such a cost would include specialized transportation, such as Wheel-Trans or communication devices that you need in order to do your job. If this applies to you, add up to \$140 per month to your \$160 per month basic exemption. With the above example, it would look like this:

Total Entitlement = \$1,284.00

NET EARNINGS = \$ 800.00  
Minus \$160 Basic  
Minus \$140 Disability \$ 300.00

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Total Earnings subject  
To STEP \$ 500.00  
\$500 X 75% = \$375.00 (for deductions)

Total Cheque = \$1,284.00  
Minus deduction \$ 375.00

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Cheque Total \$ 909.00

Total income during reporting period is \$1,744.00.

## **REGULAR EMPLOYMENT (Family)**

Families, including couples without children, are permitted a basic flat exemption of \$235.00 per month before deductions.

Families with daycare age children are entitled to claim up to \$390.00 per month for unlicensed daycare for a child, and up to the actual cost of daycare for a licensed centre. Upfront costs can be rendered to the parent if needed.

So if a child is placed in licensed daycare and the parent has to pay for it, they are permitted to deduct the full cost of the daycare. For example, if the STEP deductions without the daycare end up to be \$650 per month from the cheque, but you pay \$600 for a licensed day care provider, this \$600 is credited to you so that only \$50 will be deducted from your cheque.

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## SELF-EMPLOYMENT

If one is self-employed, they need to be speaking to the Income Support Specialist in charge of the Self-Employed recipients. Most ODSP offices have at least one Specialist that works with Self-Employed and handles their earnings calculations.

The reason you need to do this is to register yourself as being legitimately self-employed with ODSP so that you can take advantage of the self-employed system of deductions and differential asset treatments. Once you are deemed to be self-employed, you report monthly – preferably by the 7<sup>th</sup> of each month, although you could probably wait until the 22<sup>nd</sup> of the following month to report earnings for the prior month.

As a self-employed recipient you are required to keep a basic set of books. You need to know what you bring in and what you put out each month, as well as mileage if you are using a personal vehicle to deal with your business.

The asset limit for businesses is about \$20,000 (provided that the assets and cash balances included within this \$20,000) are used exclusively for the operations of the business. If two people in your benefit unit both operate separate businesses, such as if the husband operates a landscaping business and the wife operates a word processing service, each spouse is entitled to a separate \$20,000 asset limit. If both spouses operate the same business, such as both of them operating a chip wagon, then they are limited by the single \$20,000 asset limit for that one business.

Business income is defined as: sales of goods and services, commissions and/or fees, goods or services received in kind (such as in a barter exchange – where you might provide some pet sitting work for a friend who has a computer business and she can fix your PC for a relatively similar amount of money), income from renting business assets (e.g. computers, cars, etc.), sale of business assets, interest earned on business accounts and investments, cash owed to the business that is assigned to the third party and other income.

Business loans and investment of personal assets for business use are not income for the business.

If the business is registered for GST, any GST paid to you by customers is NOT considered income. You must prove that any GST collected is submitted to Revenue Canada (when this takes place, this is not an expense). Opportunities Fund and other government support funding for the business is also NOT income.

### **What is an approved business expense?**

There is some flexibility permitted in this category as long as you can show that: (a) the item or service is necessary for the operation of the business; (b) will maintain or increase the likelihood of earning money in the business; and (c) the item is purchased on a 'best buy' basis. For example, you are not looking for a Cadillac model of a computer if all you need it for is keeping books and checking email.

GST paid on any goods or services is NOT an approved business expense. If you collect GST, you do not count it as income, nor do you count any GST that you pay as an expense. This is one area many people get confused in. Be clear here, as your file can be audited or you may be over-claiming your income (if you are including the totals including your GST).

Various expenses can include: business/office supplies, business/office equipment, repair and maintenance of existing equipment, bookkeeping and legal fees, advertisement and business cards, licenses or membership fees (must be directly connected to your business or to a commercial association), delivery or shipping costs, bank charges on your business account, mileage for personal vehicle use (such as trips to see clients or to purchase supplies), rent or mortgage for business office or shop, utilities paid for business office or shop, telephone expenses (e.g. if operating from your home phone, any features you use exclusively for the business are business expenses but not the home phone itself unless you have a separate business line), in-kind or bartered items you provide to others, subcontractors (will get into this later), disability related expenses (including anything above \$140 given to regular employees – will get into this later), repayment of business loans (e.g. VISA cards, lines of credit – all used for business related items only). There may be additional or special expenses associated with a particular business and they need to be reviewed with the Income Support Specialist responsible for business owner recipients.

## **Sub-Contractors**

This is short-term paid workers to complete a specific task, possibly in a specialized area. These must be drafted in contract form so it is clear that the person is not an employee of yours, but a temporary or periodic worker who will work as needed. For example, a bookkeeper can help a client set up a financial system and they can have a contract computer expert assist in the installation of the appropriate software. Or it can be disability-related - If your business is landscaping, but you do not have the skills or physical ability to lift more than a certain amount of weight, you can retain somebody for particular jobs where lifting is required. The same would apply to climbing a ladder; for instance, if you required somebody to clean the eaves of a home and your disability prevents you from climbing a ladder.

## **Loans for Big Items**

Regular business expenses can generally go on a credit card or line of credit, as long as they are shown when required. However, say if you need to purchase a new computer system that you need to borrow \$4,000 for. You should write up a request for Approved Reinvestment and submit it to your Business Income Support Specialist who will review it and your income to ensure this is a positive contribution to your business. You also need to show how you intend to repay the loan. They just need this recorded, esp. for large items.

## **Hints**

Keep a separate bank account. Also if you use credit cards, use one card for personal expenses and the other for business expenses. This prevents you from being left open to question if these expenses are ever reviewed.

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## **Reinvestment Requests are assessed on the following basis:**

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if it will increase the earnings of the business

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if it will increase financial independence or decrease costs;

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if it replaces items that are worn out or outdated; and

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if it will allow the recipient to operate their businesses more efficiently, thus enable them to earn more money

## **Expenses that are NOT approved:**

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GST remittances

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Personal Draws from the Business

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Wages paid to Employees, including one's own family members

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Business losses;

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Depreciation costs;

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Entertainment expenses;

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Long distance travel (unless the recipient can show this trip would help them earn more money);

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Hotels and meals; and

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Conventions or conferences

Tools of the Trade are not a business asset. A Tool of the Trade is something that is used regularly in the business over the 12-month period and is essential to maintain one's self-employment.

This can include a computer for a graphic designer, a sewing machine and pressing iron for a tailor, easels and instruments for a painter, law books for the legal practitioner, etc. There is NO limit to the value of Tools of the Trade for a self-employed ODSP recipient.

Business vehicles are vehicles that are used exclusively for the business and are exempt from the mileage restrictions and all costs and expenses associated with the vehicle can be declared. Odometer readings should be submitted regularly along with mileage for each trip the vehicle is used for.

## **Business Earnings**

To calculate business earnings, it is more complex than it is for Employment. The EITRS forms are not used for business earnings. There are specific forms used for business income reporting. The business owner can choose to report monthly, quarterly or annually, depending on the type of business and cash flow anticipated within its first year.

What happens in a business is that the business owner states his or her total earnings for the month (excluding GST as it is not income). This may be \$2,000, for example.

In your expense section of the charts you are given, you include the total amount of payments to approved business expenses (excluding GST). For example, your business paid \$200 in income tax, \$200 to an accountant, \$200 in travel, \$100 for materials and supplies, \$100 to repair a computer, \$75 in insurance, \$75 to a subcontractor, and \$50 in postage and delivery expenses. This gives you a total of \$1,000 in business expenses, leaving your business with a NET income of \$1,000.00

Let us assume you have the \$1,284.00 per month in ODSP (\$959 basic maximum, \$250 in special diet and \$75 in medical travel as you have to go out of town several times to see doctors each month).

Your NET income is \$1,000.00

You are single, so you keep \$160.00 of the total, leaving you with \$840 left. You also have legitimate disability related expenses, which are at \$140, leaving you with \$700 to calculate subject to deductions.

You have \$700 left that ODSP can apply its formula for deductions.

$\$700 \times 75\% = \$525.00$

Total ODSP Cheque =	\$1,284.00	
Deductions	\$	525.00
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Adjusted Cheque	\$	759.00

Together with your cheque and earnings, you net a total of \$1,759.00.

\* There are many issues about self-employment that are presently under challenge. Primarily, it is the prohibition on hiring of regular employees; however, the directive does permit subcontractors and persons to assist you as a result of a disability. These things are much broadly defined by the courts, but are only steering their way there as this is written.

If you have any questions regarding your own situation, do not hesitate to write me at [browne2002ca@yahoo.com](mailto:browne2002ca@yahoo.com).

**Angela L. Browne ©2005**

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