HOGG SHAIN & SCHECK
Professional Corporation, CPAs
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BUSINESS TAX RECORDS

How Long Do I Need to Keep My Business Tax Records For?

6 YEARS

Are electronic records okay?

YES

What You Need To Keep

- Sales invoices
- Purchase receipts, contracts
- Guarantees
- Work Orders
- Delivery Slips
- Emails
- Bank deposit slips, cancelled cheques
- Cash register slips, credit card receipts; purchase orders
- General correspondence in support of the transaction

Are There Any Exceptions To The 6-Year Rule?

	When?
If you file your income tax return late	Six years from the day you filed the return
If you filed an objection or appeal	The day the objection/appeal is resolved, date for further filing appeal has passed or the 6-year record keeping period has passed
If your non-incorporated business or organization ends	Six years from the end of the tax year the business ended
If a corporation is dissolved	Two years after the date of dissolution
If a new corporation is created	Six years from the end of the taxation year the corporation was competed
If you are the legal representative of a deceased taxpayer or trust	After you get a clearance certificate to distribute property under your control

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Hogg, Shain & Scheck Whitepaper

Record Keeping for Tax Purposes

It's a question the accountants at Toronto firm Hogg, Shain & Scheck are frequently asked: What do I need to know about record keeping for tax purposes? Since we get a large volume of questions about this topic, we've compiled a downloadable whitepaper that answers many of our most asked questions, including:

- How long you need to keep tax records
- Exactly what records you need to keep
- The policy on scanned or electronic records
- When you can destroy old records
- Dangers of keeping incomplete records

How Long Do Tax Records Need to be Kept in Canada

It's a simple question, but one you've probably heard different answers for. As a business owner, how long do you have to keep your tax records? Is there a statute of limitation of how far back the Canada Revenue Agency (CRA) can go to audit you?

Well, here's the answer, straight from the source. According to the CRA, "if you file your return on time, keep your records for a minimum of six years after the end of the taxation year to which they relate."

The records that you are required to keep are referred to by the CRA as supporting documents and we'll outline below exactly what this includes.

What Records You Need to Keep

- Sales invoices
- Purchase receipts
- Contracts
- Guarantees
- Bank deposit slips, cancelled cheques
- Cash register slips, credit card receipts
- Purchase orders
- Work orders
- Delivery slips
- Emails
- General correspondence in support of the transaction

We would especially like to highlight that the CRA does not generally accept credit card statements as adequate supporting documentation. Whenever possible, always retain an itemized receipt of the purchase. For example, during a business trip you should keep all itemized restaurant and gas receipts that may be claimed as business expenses.

Exceptions to the 6-Year Rule

When You Must Keep Records More Than 6 Years:

- When you file late
  The 6-year rule for information keeping records depends on the specific taxation year of those records & the time the tax return is filed. The 6 years starts from the time the tax return is filed if that return is filed late. For example, a corporation with a Dec. 31, 2016 taxation year would have a T2 filing deadline of June 30, 2017. If the T2 is filed on or before June 30, 2017, the six-year period will run from Jan. 1, 2017 to Dec. 31, 2022. If, however, the T2 is filed on July 15, 2017 (i.e.: 15 days late), that six-year period will run until July 15, 2023.

- When the expense will be used for future income tax deductions
  The 6-year retention period policy also doesn't apply to information that is needed for calculating an income tax amount in the future. For example, an individual acquired a rental property in 2006 for $250,000 and in 2009 had to replace the roof for $50,000, resulting in an adjusted cost base of $300,000. If they sell the property in 2017 for $500,000, the capital gain should be $200,000 ($500,000 less $300,000 cost base). However, if the taxpayer did not retain the invoice for the roof replacement, irrespective of the fact that invoice is more than 6 years old, the CRA would be able to deny the $50,000 cost base adjustment.

  To extend the example, if the taxpayer DID have the roof replacement invoice, the 6-year retention period for that invoice would commence at the end of the 2017 taxation year.

- If you may be audited by Ontario's Ministry of Finance
  Although corporate tax audits from the Ontario Ministry of Finance do not happen often, the Ministry's document retention policy is 7 years, as opposed to the CRA's 6 years. This policy covers the following Acts that are under the jurisdiction of the Ministry of Finance:

Corporations Tax Act
Community Small Business Investment Funds Act
Electricity Act (specific provisions)
Employer Health Tax Act
Estate Administration Tax Act, 1998
Fuel Tax Act
Gasoline Tax Act
Income Tax Act (Ontario)
Land Transfer Tax Act
Mining Tax Act
Provincial Land Tax Act
Race Tracks Tax Act
Retail Sales Tax Act
Tobacco Tax Act

When you May Keep Records Less Than 6 Years:

As a business owner, you might discover that your company's tax records can take up an enormous amount of room. Also, you may want to destroy your old records for security or other purposes. As with most guidelines, there are exceptions that can be made to the rule about how long you are required to keep your tax records. Individuals and business owners can send in an application to receive written permission from the CRA to destroy records ahead of the 6-year period.

The CRA states that "You may destroy your books of account and records at an earlier time than outlined above if you receive written permission from the CRA. If you destroy paper or electronic records without the express permission of the CRA, you may be subject to prosecution."

You or an authorized representative can get permission by:

- Completing Form T137, Request for Destruction of Books and Records. Go to www.cra.gc.ca/forms to obtain a copy of Form T137
- Applying in writing to your tax services office

If you don't want to destroy your tax records, there is another option which is becoming increasingly popular for business owners – keeping electronic records.

The CRA's Requirements for Electronic Records

In the increasingly paperless world in which we live, many of the people who come to Hogg, Shain & Scheck for tax services want to know what types of electronic records are accepted by the Canada Revenue Agency (CRA).

The CRA is very reasonable and does allow electronic records since they recognize that the world is shifting to digital record keeping. The following types of electronic records are permitted, if they meet the same standards and criteria as paper ones:

- Books, records, and supporting documents produced and retained in paper format
- Books, records, and supporting documents produced on paper, and subsequently converted to and stored in an electronically accessible and readable format
- Electronic records and supporting documents produced and retained in an electronically accessible and readable format.

Your records need to:

- Be reliable and complete
- Provide you with the correct information you need to assist you in fulfilling your tax obligations and to calculate the credits you are entitled to
- Be substantiated by supporting documents to verify the information contained in the records

You also need to include other documents, such as appointment books, logbooks, income tax and GST/HST returns, scientific research and experimental development (SR&ED) vouchers and records, and certain accountant's working papers, that assist in determining your obligations and entitlements.

Also, your electronic records need to be:

- In an accessible format: The CRA can process electronic records on most industry standard file formats such as PDFs, Word documents, Excel spreadsheets, etc.
- In an electronically readable format: If requested by CRA officials, you must be able to decrypt or unlock password-protected records

Consequences of Keeping Incomplete Tax Records

Over the years, we've seen all levels of tax record-keeping from our clients—to the very diligent, to the wildly incomplete.

It is important to keep your tax records as organized and accessible as possible. Having this information at your fingertips is essential to properly gauging how your company is performing or growing—and yes, if you get audited, the CRA will need them.

There are penalties for having incomplete tax records. According to the CRA:

“Every person who fails to provide any information or document as required under Part IX of the Act or under a regulation made under this Part is liable to a penalty of $100 for each failure, unless the Minister waives the penalty, or, in the case of a failure to provide information in respect of another person, a reasonable effort was made by the person to obtain the information.”

At the same time, there are even more harsh penalties for falsified documents.

“Every person who knowingly or under circumstances amounting to gross negligence makes or is a party to the making of a false statement or omission in a return or other document made with respect to a reporting period or transaction is liable to a penalty equal to the greater of $250 and 25% of the amount by which any tax amount owing is reduced or rebate is increased because of the false statement or omission.”

So be sure to keep complete records at all times, dating back at least 6 years.

This includes:

- Sales invoices
- Purchase receipts, contracts
- Guarantees
- Bank deposit slips, cancelled cheques
- Cash register slips, credit card receipts, purchase orders
- Work orders and delivery slips
- Emails and general correspondence in support of the transaction

Have Questions About Record Keeping?

If you have any questions about keeping complete records and avoiding penalties when it comes to tax time, please contact one of our tax accountants in Toronto at Hogg, Shain & Scheck. We’re an accounting firm that offers professional accounting services in Toronto and we’re experts in creating financial strategies that enable our clients to thrive. Visit us online at www.hss-ca.com or reach us at 416-499-3100.