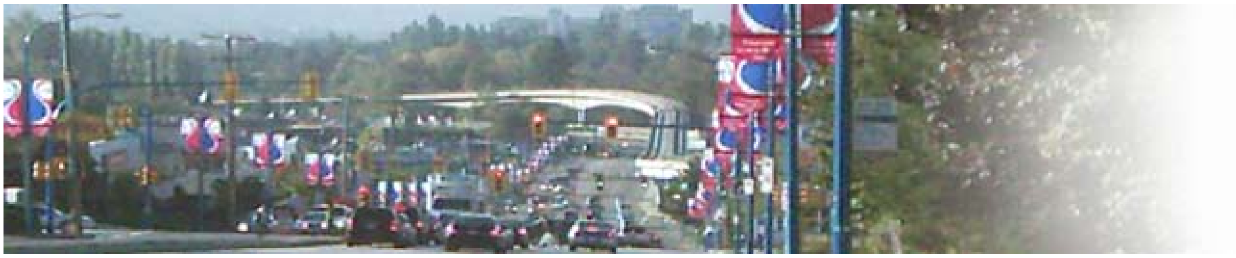

Munro & Company CGA

Understanding TAX Record Retention

Why Record Retention is Important

Your records are used in determining your tax liabilities and you must be able to support your claims in the event of an audit. The onus of proof is on the taxpayer and unsupported claims may be denied.

You are also required by law to keep your records in a complete and organized manner. The Income Tax Act, Canada Pension Plan, Employment Insurance Act and the Excise Tax Act all require this.

Who Must Keep Records **

- Persons* required to file an income tax or GST return
- Persons* required to pay or collect taxes or other amounts (PST, GST, payroll deductions, etc)
- Persons* carrying on business
- Not for profit organizations, registered charities, registered Canadian amateur athletic associations

What Must Be Kept

You must keep all records and supporting documentation whether they are in paper or electronic format.

Records summarize accounting and financial information in an organized way. They include** financial statements, tax records, ledgers, journals, log books, appointment books, spreadsheets and accountants' working papers.

Supporting documents (or source documents) represent proof of transactions and support the information in the records. They include** bank statements, deposit slips, cancelled cheques, sales invoices and work orders, cash register tapes, purchase orders and receipts, credit card receipts and statements, contracts, guarantees, email and general correspondence.

Tax Tip. Credit card statements and cancelled cheques are not sufficient proof to support your claims; you must keep the receipts as well.

How Long Must They Be Kept

As a general rule (see special situations), you must keep all records and supporting documents for a minimum period of six years from the **end** of the last tax year to which they relate. The tax year is the calendar year for most individuals (the fiscal year for corporations).

Special situations generally require that you keep your records longer than the normal six-year period and include**

- Late filed income tax returns. Must be kept a minimum of six years from the date the return is filed
- Certain documents. Must be kept much longer; an example would be receipts for long-life assets (such as equipment or buildings)
- Business cessation. Six years from the end of the tax year in which the business ceased to exist
- Notices of Objection. Until the notice of objection (or appeal) is disposed of and the later of
  - the time for filing any further appeals has passed
  - the six-year period

How Must They be Kept

Records must be complete and reliable. Backups must be in a restorable format that will ensure readability. Persons carrying on more than one business must keep separate records for each business.

Where Must They Be Kept

Your records must be kept at your place of business or at your residence in Canada, unless you are given permission to maintain them at a specific location outside Canada.

When Destroying Records Early

You must obtain special permission from Canada Revenue Agency (CRA) to destroy records early. Apply in writing to the Tax Services Office in your area. If you destroy records early and without express permission of CRA, you may be subject to prosecution.

Keep in mind that other government authorities may need access to your records; you will need permission from these authorities as well.

* Persons are defined as individuals, corporations, and trusts
** This is not an exhaustive list.