

Record Keeping

Electronic Record Keeping

1. All business records in an electronically readable format must be retained by taxpayers.
2. Electronically readable format means information supported by a system capable of producing an accessible and useable copy

Retention of records

1. Keep business records for a minimum of six years from the end of the latest year to which they relate
2. Persons who keep records in an electronic format retain them in an electronically readable format for the prescribed period even when hard copy is available

Location of records

1. Records must be kept at the person's place of business or residence in Canada and must, upon request, be made available to officers of the Canada Revenue Agency (CRA) for audit purposes at all reasonable times. Records kept outside Canada and accessed electronically from Canada are not considered to be records in Canada. However, where records are maintained electronically in a location outside of Canada, the CRA may accept a copy of the records, provided these are made available in Canada in an electronically readable and useable format for CRA.
2. All retained records must be clearly labeled and stored in a secure environment in Canada. Authorization to maintain records elsewhere may be granted, subject to such terms and conditions as the Minister may specify in writing. The authorization may be obtained by writing to your nearest CRA tax services office.
3. Normally a backup of the electronic records are stored at a site other than the business location for security and precautionary purposes. CRA encourages this business practice and recommends that these back-up copies be maintained at a location within Canada.
4. Businesses that operate via the internet and are hosted on a server located outside of Canada should be cognizant of their responsibility to maintain their records within Canada.

Record Keeping

1. Persons using electronic business systems must ensure that sufficient detail is captured and produced so that the proper determination and verification of income and tax administered by CRA can occur.
2. Records that are retained by copying or backing up the data needs to be backed up on tape or other suitable medium to avoid accidental loss.
3. It is taxpayer's responsibility to ensure that current or prior period data files have been archived or backed up properly
4. When back up, make sure it can be restored in a format that will be accessible and useable by the CRA and proper software are available to restore the backed up files

Lost, damaged or incomplete records

1. Taxpayer must ensure the proper back-up records are maintained at all times and if any electronic records required to be maintained are lost, destroyed or damaged, the taxpayers must report this situation to the CRA and recreate the files within a reasonable period of time.
2. If a person fails to maintain adequate books and records, it may result in prosecution by the CRA. In addition to any penalty otherwise payable, a taxpayer is liable to a fine of not less than \$1,000, or both the fine and imprisonment.

Paper record

1. All books and records that originate in paper format must be kept except where an acceptable imaging or microfilming program is in place.
2. If imaging is used, a logbook is kept showing the date of the imaging, the signatures of the persons authorizing and performing the imaging, a description of the records imaged and whether source documents are destroyed or disposed of after imaging and the date it was destroyed or disposed of.
3. The imaging software maintains an index to permit the immediate location of any record
4. Paper source documents that have been imaged in accordance with the latest national standard of Canada may be disposed of and their images kept as permanent records

Retention periods

1. Regular – six years from the end of the last tax year to which they related (7 years in general)
2. Corporation - two years from the date of dissolution
3. Non-incorporated business – six years from the end of the tax year in which the business ceased
4. For duplicate donation receipts other than receipts for donations of property which are to be held for a period of not less than ten years, two years from the end of the calendar year in which the donations were made
5. For other records for charities, two years from the date the registration is revoked
6. For documentation related to long-term transactions, such as records supporting the acquisition and capital cost of investments and other capital property held by a person, should be maintained until the day that is six years from the end of the last tax year in which such a transaction could enter into any calculation for income tax purposes.

Books and Records Tip Sheet

- Automobile
 - A logbook should be maintained which contains a record of total distance driven, a breakdown between business and personal use and destinations, and the purpose of each trip. Original receipts for fuel, repairs and other expenses should be maintained. Ensure that expenses out of your general sales area either show business affiliation or have the personal use portion of the vehicle calculated accordingly.
- Entertainment & Promotion
 - Receipts indicating the date, amount, location, time, and items purchased. In addition, keep a record of the full name and address of the person(s) entertained, their business association to you, the purpose of the entertainment, and items discussed. Keep in mind that gifts of food, beverage and entertainment are subject to the same 50% restriction as meals.

- Travel
 - Keep receipts indicating the date, amount, location, time, and items purchased. In addition, keep a record of the full name and address of the person(s) entertained, their business association to you, the purpose of the entertainment, and items discussed.
 - A detailed daily itinerary outlining each day's activities and the purpose of the trip. Conventions should be supported with an agenda or schedule of events.

- Capital Property
 - A permanent record and receipts should be maintained for acquisitions and dispositions of capital and/or depreciable property to verify the date the property was acquired, date disposed, cost of the property, and proceeds of disposition. Receipts should also be maintained for any additions to the purchase price and any costs incurred upon disposition.

- Interest
 - Original loan documentation and agreements which state the date, total amount and purpose of each loan and verification of the amount of interest paid each year. In addition, receipts and/or documentation should be maintained which verifies what the proceeds of the loan(s) was (were) used for. Similar records and information should be maintained for any increases to the principle amount outstanding.

- Food
 - Keep actual receipts for food expenses; keep an accurate record of food purchased for business purposes. Personal consumption should be identified. In addition, keep records indicating the receipt, name of guest, duration of stay, type of accommodation (e.g. meals provided or not, type and number of meals), amount charged, date, etc... Reconciliation between the food and income records should be maintained to substantiate the food expenses as business expenses.

- Income Records and Banking Information
 - Keep accurate income records, which should be reconciled with bank deposits. In addition, keep precise records of all barter transactions. Proper revenue records include deposit slips with details of items deposited and cancelled Cheques. Proper records help identify the source of the income. Unless you keep proper records, you may not be able to prove that some income is not from your business, or that it is not taxable.

- Supporting Documentation
 - Receipts and invoices should be kept in date order, separated by specific categories, and summarized. They should be easily reconcilable with your statement of income and expenses. If you are registered for GST you may find summarizing the expenses by date, category and filing frequency useful. This may a simple way in which to verify the input tax credits and revenues for GST accounting and filing.