Canada Revenue Agency
Agence du revenu du Canada

Guide for Canadian Small Businesses

RC4070(E) Rev. 08

Canada

The success of small businesses is an essential part of Canada's economic growth. At the Canada Revenue Agency (CRA), our goal is to provide all the support we can. We work closely with small businesses to improve services, reduce paperwork burden and the cost and time of compliance, and maintain confidence in Canada's tax system.

If you have a visual impairment, you can get our publications and your personalized correspondence in braille, large print, or etext (CD or diskette), or on audio cassette or MP3. For details, visit our Web site at **www.cra.gc.ca/alternate** or call **1-800-959-2221**.

Point. Click. It's that quick!

That's all it takes to get tax information when you need it. Visit **www.cra.gc.ca** today and find out how easy managing your taxes can be.

The Canada Revenue Agency (CRA) wants to decrease the demand for paper. The accessibility of the Internet continues to increase. In the future, we encourage you to view this guide on our Web site at **www.cra.gc.ca/E/pub/tg/RC4070**, and print the parts you need.

This guide uses plain language to explain the most common situations. We regularly revise our publications to take into account changes in the law.

La version française de cette publication est intitulée *Guide pour les petites entreprises canadiennes*.

Table of contents

How this guide can help you

Are you starting a new small business in Canada? Are you operating one already? Then this guide is for you. It will introduce you to the Canada Revenue Agency (CRA) programs you need to know about, and give an overview of your obligations and entitlements under the laws that we administer.

Many activities of a small business are subject to different forms of taxation. This guide will help you with each of these, and will explain how to plan for taxes, keep records, and make and report payments.

It will also explain the different kinds of business structures, GST/HST, excise taxes and excise duties and products export charge, payroll deductions, income tax reporting and payment, how to prepare for and handle an audit, objections and appeals and electronic services.

Taxes can sometimes be difficult and complex. In such cases, we will refer you to more detailed publications—all free of charge.

If you are not familiar with some of the terms used in this guide, refer to the Glossary of Terms which starts on page 56.

Internet access

You can get copies of the guides and forms mentioned in this publication by visiting our Web site at **www.cra.gc.ca/forms** or by calling our Forms line at **1-800-959-2221**.

A list of frequently used Web sites is included in this guide for additional information.

If, after reading this guide, you need more information about businesses or professional activities, call our Business Enquiries line at **1-800-959-5525**.

For more general information on starting a business, see the Government of Canada Web site *Business Start-Up Assistant* at **www.canadabusiness.ca** where you will find information from the federal, provincial, and territorial governments, as well as many other sources.

About the CRA

The CRA is the federal government agency responsible for administering tax laws for the Government of Canada and for most provinces and territories, administering tariffs, and delivering various social and economical benefit and incentive programs through the tax system.

We collect federal, provincial, and territorial individual income taxes (except in Quebec).

We also administer and collect goods and services tax/harmonized sales tax (GST/HST) (except in Quebec), the Air Travellers Security Charge, the Softwood Lumber Products Export Charge, Canada Pension Plan contributions, Employment Insurance premiums, excise duties on alcohol and tobacco products, excise taxes on gasoline and fuel-inefficient vehicles, and a tax on insurance premiums (other than marine).

We also administer federal, provincial, and territorial corporate income taxes for all provinces except Alberta, Ontario, and Quebec. As of January 1, 2009, we will also administer corporate income taxes for Ontario.

The CRA also administers Canada's international tax agreements with other countries. We therefore have a key role in helping Canadian business and industry compete in world markets by ensuring they have a fair environment in which to trade.

We are committed to helping small businesses in Canada. We recognize that, as entrepreneurs, you are very busy making your business profitable. You may not always have the time, expertise, or inclination to do it all yourself. In some circumstances, you probably consult with professionals, such as lawyers, accountants, or customs brokers, to help you with your business. While these individuals are professionals and will help you, you are the one who is ultimately responsible for the actions of your business. You need to stay informed so that you can work in partnership with the professionals you hire and with the CRA.

The legislative authority for these responsibilities are identified in the:

- *Income Tax Act* (Canada);
- *Income Tax Act* (provincial and territorial);
- *Excise Tax Act*;
- *Excise Act*;
- *Excise Act, 2001*;
- *Air Travellers Security Charge Act*;
- *Softwood Lumber Products Export Charge Act, 2006*.

Although we administer the tax laws that Parliament has passed, the Department of Finance Canada plans the Government of Canada's fiscal and tax policy.

When the Minister of Finance introduces a new budget, it includes proposed amendments to existing legislation. The Department of Finance Canada then issues budget documents to explain the reasons behind the changes to the legislation. The amendments become law after Parliament debates, approves, and gives them Royal Assent.

Chapter 1: Setting up your business

For income tax purposes, a business is an activity that you intend to carry on for profit and there is evidence to support that intention. A business includes:

- a profession;
- a calling;
- a trade;
- a manufacture;
- an undertaking of any kind; and
- an adventure or concern in the nature of trade (for more details, see Interpretation Bulletin IT-459, *Adventure or Concern in the Nature of Trade*).

There are three types of business structure: sole proprietorship, partnership, and corporation.

The type of structure you choose has a significant effect on the way you report your income, the type of returns you complete each year, and many other matters. One of your most important concerns will be your liability for business debts.

Sole proprietorship

A sole proprietorship is an unincorporated business that is owned by one person. It is the simplest kind of business structure.

The owner of a sole proprietorship has sole responsibility for making decisions, receives all the profits, claims all losses, and does not have separate legal status from the business.

If you are a sole proprietor, you pay personal income tax on all revenue generated by your business. You also assume all the risks of the business. The risks extend even to your personal property and assets.

As a sole proprietor, you have to register for the goods and services tax/harmonized sales tax (GST/HST) if your worldwide annual taxable revenues are more than $30,000.

If you operate more than one business and you have legal ownership of each, it is your responsibility to register them for GST/HST. One registration will cover all of your businesses.

It is easy to set up a sole proprietorship. Simply operate as an individual or as a registered, unincorporated business. If you operate as an individual, just bill your customers or clients in your own name. If you operate under a registered business name, bill your clients and customers in the business's name. If your business has a name other than your own, you will need a separate bank account to process cheques payable to your business.

How does a sole proprietor pay taxes?

A sole proprietor pays taxes by reporting income (or loss) on a personal income tax and benefit return (T1). The income (or loss) forms part of the sole proprietor's overall income for the year.

If you are a sole proprietor, you must file a personal income tax and benefit return if you:

- have to pay tax for the year;
- disposed of a capital property or had a taxable capital gain in the year;
- are required to make Canada Pension Plan/Quebec Pension Plan (CPP/QPP) payments on self-employed earnings or pensionable earnings for the year; or
- received a demand from us to file a return.

If you are claiming an income tax refund, a refundable tax credit, a GST/HST credit, or the Canada Child Tax Benefit, you also need to file a return. You may also be entitled to receive provincial tax credits.

The list above does not include every situation where you may be required to file. If you are not sure whether you have to file, call us at **1-800-959-5525**.

Note
As a sole proprietor, you may have to pay your income tax by instalments. You may also need to make instalment payments for CPP contributions on your own income. Remember to budget for these payments. For more information, see Pamphlet P110, *Paying Your Income Tax by Instalments*.

When you file your income tax and benefit return, you must include financial statements or one or more of the following forms, as applicable:

- Form T2124, *Statement of Business Activities*;
- Form T2032, *Statement of Professional Activities* (**for 2008 and future years, Forms T2124 and T2032 will be combined into Form T2125, *Statement of Business or Professional Activities***);
- Form T2042, *Statement of Farming Activities*;
- Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*;
- Form T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*; and
- Form T2121, *Statement of Fishing Activities*.

We will also accept a computer-generated version of the applicable form.

For GST/HST, sole proprietors have reporting periods for which they have to file a return. For more information, see "Reporting periods" on page 18.

Partnership

A partnership is an association or relationship between two or more individuals, corporations, trusts, or partnerships that join together to carry on a trade or business.

Each partner contributes money, labour, property, or skills to the partnership. In return, each partner is entitled to a share of the profits or losses in the business. The business profits (or losses) are usually divided among the partners based on the partnership agreement.

Like a sole proprietorship, a partnership is easy to form. In fact, a simple verbal agreement is enough to form a partnership. However, if money and property are at stake, we recommend that you have a written agreement.

The partnership is bound by the actions of any member of the partnership, as long as these are within the usual scope of the operations.

How does a partnership pay taxes?

A partnership by itself does not pay income tax on its operating results and does not file an annual income tax return. Instead, each partner includes a share of the partnership income (or loss) on a personal, corporate, or trust income tax return. You do this whether or not you actually received your share in money or in credit to your partnership's capital account.

Each partner also has to file either financial statements or one of the forms referred to in the section on sole proprietorship or a computer-generated version of one of these forms:

- Form T2124, *Statement of Business Activities*;
- Form T2032, *Statement of Professional Activities* (**for 2008 and future years, Forms T2124 and T2032 will be combined into Form T2125, *Statement of Business or Professional Activities***);
- Form T2042, *Statement of Farming Activities*;
- Form T2121, *Statement of Fishing Activities*;
- Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;

- Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*;
- Form T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*; and
- Form T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*.

A partnership has to file a partnership information return if, throughout the fiscal period, it has six or more members or if one of its members is a member of another partnership. For more information, see Guide T4068, *Guide for the T5013 Partnership Information Return*, and Information Circular IC–89-5, *Partnership Information Return*, and its Special Release.

For GST/HST purposes, a partnership is considered to be a separate person and must file a GST/HST return and remit tax where applicable.

Corporation

A corporation is a separate legal entity. It can enter into contracts and own property in its own name, separately and distinctly from its owners.

A corporation may have some of the following features:

- It is a separate legal entity with a perpetual existence.
- It can generally raise larger amounts of capital more easily than a sole proprietorship or partnership.
- The shareholders cannot claim any loss the corporation sustains.

When forming a corporation, the owners transfer money, property, or services to the corporation in exchange for shares. The owners are referred to as **shareholders**.

You can buy and sell shares in a corporation without affecting the corporation's existence. A corporation continues to exist unless it winds up, amalgamates, or surrenders its charter for reasons such as bankruptcy.

Since a corporation has a separate legal existence, it has to pay tax on its income, and therefore must file its own income tax return. It must also register for GST/HST if its taxable worldwide annual revenues (including those of associates) are more than $30,000.

You set up a corporation by completing articles of incorporation and filing them with the appropriate provincial, territorial, or federal authorities.

How does a corporation pay taxes?

A corporation must file a corporation income tax return (T2) within six months of the end of every tax year, even if it does not owe taxes. It also has to attach complete financial statements and the necessary schedules to the T2 return. A corporation usually pays its taxes in monthly instalments. For more details on instalment payments and the filing requirements for corporations, see Guide T4012, *T2 Corporation – Income Tax Guide*.

For GST/HST, corporations have reporting periods for which they have to file a return. For more information on reporting periods, see "Reporting periods" on page 18.

The tax year for a corporation is its fiscal period. For more information on fiscal periods, see "Fiscal period" on page 32.

For more details, visit our Web site at **www.cra.gc.ca/t2return**.

Are you responsible for your corporation's debts?

As a shareholder of your corporation, you have limited liability. In the strict sense, this means you and the other shareholders are not responsible for the corporation's debts.

However, limited liability may not always protect you from creditors. For example, if a smaller, more closely held corporation wants to borrow money from a bank or other creditor, the creditor may ask for the shareholder's guarantee that the debt will be repaid. If you agree to this condition, you will be personally liable for that debt if the corporation does not pay it back.

This applies to taxes owing as well. If your corporation owes taxes, and you have personally guaranteed any loan on behalf of your corporation, we will claim the amount of the taxes owing up to the limit of the loan guarantee.

Directors may also be liable to pay amounts owed by the corporation if it has failed to deduct, withhold, remit or pay amounts as required by the *Income Tax Act*, *Employment Insurance Act*, Canada Pension Plan, *Excise Act, 2001*, and *Excise Tax Act*.

For more information on director's liability, see Information Circular IC-89-2R2, *Directors' Liability – Section 227.1 of the Income Tax Act and Section 323 of the Excise Tax Act and Subsection 295(1) of the Excise Act, 2001*. You can find this document on our Web site at **www.cra.gc.ca/E/pub/tp/ic89-2r2**.

The Business Number (BN)

Your first step to doing business with the CRA

When you register for a business, we assign you a **Business Number** (BN). The BN is a numbering system that simplifies and streamlines the way businesses deal with us. It is based on the idea of "one business, one number." This helps businesses reduce costs and be more competitive. It also increases government efficiency. You get your BN the first time you register to do business with us. Eventually, businesses will be able to use their BN for other government programs.

The BN consists of two parts: the registration number and the account identifier.

The four major Canada Revenue Agency (CRA) business accounts and the **account identifiers** are as follows:

- **RT** – GST/HST
- **RP** – payroll deductions
- **RC** – corporate income tax
- **RM** – import/export

The BN has 15 digits:

- 9 numbers to identify the business;
- 2 letters for the type of account; and
- 4 numbers for the account reference.

For example, your BN might look like this:

1 2 3 4 5 6 7 8 9	**RP 0 0 0 2**
(Registration number)	(Account identifier)

If you only have one account (GST/HST for example), we will show the account like this:

1 2 3 4 5 6 7 8 9 RT 0001

When making payments or enquiries related to your account, you must provide the nine-digit registration number and identify the type of account in question.

You can register for a BN by Internet, telephone, fax, or mail. Business Registration Online at **www.businessregistration.gc.ca** is easy to use, convenient, and secure. It is also a one-stop, self-serve application that allows you to register for a BN as well as the four major CRA business accounts. At the same time, you can register online for Ontario, Nova Scotia, and British Columbia programs. If the business's mailing address is in Quebec, we will offer the option to be directed to the Revenu Quebec Web site at **www.revenu.gouv.qc.ca/eng/services/sgp_inscription/index.asp**.

Note
Not all businesses require a BN, so it is important that you review the information for each type of account before registering. Visit our Web site at **www.cra.gc.ca/bn** or contact us at **1-800-959-5525** if you want to find out about the other types of accounts and register for them.

Are you doing business in Quebec?

For businesses physically located in Quebec, you will have to register your GST/HST accounts with Revenu Quebec. To register your payroll, import-export, or corporate income tax accounts, you must still contact the CRA.

Register for GST/HST only

If you plan to register only for GST/HST in Quebec, you do not need to register for a BN with us. For more information or to register, visit Revenu Quebec's Web site at **www.revenu.gouv.qc.ca/eng/services/sgp_inscription/index.asp** or contact Revenu Quebec:

Revenu Québec
3800, rue de Marly
Ste-Foy QC G1X 4A5

Telephone: **1-800-567-4692**
Outside Canada: **1-418-659-4692**

Do you need a BN?

If you need at least one of the four CRA business accounts listed on page 10, you will need a BN.

However, before you register for the BN, you need to know a few things about the business you plan to operate. For instance, you should know the name of the business, its location, its legal structure (sole proprietorship, partnership, or corporation), and its fiscal year-end. You should also have some idea of what the sales of your business will be. Without this information, you will not be able to complete Form RC1, *Request for a Business Number*.

> **Note**
> If you are a sole proprietor or a partner in a partnership, you will continue to use your social insurance number (SIN) to file your individual income tax and benefit return, even though you may have a BN for your GST/HST, payroll deductions, and import/export accounts.

For more information on the BN, visit our Web site at **www.cra.gc.ca/bn**, see Pamphlet RC2, *The Business Number and Your Canada Revenue Agency Accounts*, or call us at **1-800-959-5525**.

Keeping records

Five reasons why keeping records can benefit you

1. **Good records can help you identify the sources of your income.**
   You may receive cash or property from many different places. If you do not have records showing your income sources, you may not be able to prove that some sources are non-business or non-taxable.

2. **Well-kept records can mean tax savings.**
   Good records serve as a reminder of deductible expenses and input tax credits. If you do not record your transactions, you may forget some of your expenses or input tax credits when you prepare your income tax or GST/HST returns. For more information on input tax credits, see page 20.

3. **Well-kept records can prevent most of the problems you might encounter if we audit your income tax or GST/HST returns.**
   If your records are so incomplete that auditors cannot determine your income from them, the auditors will have to use other methods to establish your income. This will cost you time. If your records do not support your claims, they could be disallowed.

4. **Your records will keep you better informed about the financial position of your business.**
   You need good records to establish your profit or loss, and the value of your business. Information from good records can also tell you what is happening in your business and why. The successful use of records can show you trends in your business, let you compare performance in different years, and help you prepare budgets and forecasts.

5. **Proper records may help you get loans from banks and other creditors.**
   Creditors need accurate information about your current financial position before they give you a loan. You cannot give them this information if you do not keep organized records. Also, good records show potential creditors that you know what is going on with your business.

Legal requirements for keeping records

All records such as paper documents, as well as those stored in an electronic medium (such as on computer disk), must be kept in Canada or made available in Canada at our request. The records must be in English or French. Today, many kinds of records are kept in electronic formats. For more information on keeping these types of records, visit our Web site at **www.cra.gc.ca/records**, or see Guide RC4409, *Keeping Records*.

You can keep these documents outside Canada if you get written permission from us.

What records should you keep?

Make sure you keep orderly records of all income you receive. Also, keep all receipts, invoices, vouchers, and cancelled cheques indicating outlays of money. Such outlays include:

- salaries and wages;
- operating expenses such as rent, advertising, and capital expenditures; and
- miscellaneous items such as charitable donations.

If you import goods into Canada, your records must substantiate the price you paid for imported goods and list their origin and description. They must also include any documentation about the reporting, release, and accounting of the goods, as well as the payment of duties and taxes.

You should keep these records at your place of business or residence in Canada (unless you get written permission from us to keep them elsewhere). You have to make them available to us if you are asked to do so.

Your records must be permanent

Whichever accounting or record-keeping method you use, your records must be permanent. They must contain a systematic account of your income, deductions, credits, and other information you need to report on your income tax and GST/HST returns.

What information should your records contain?

It is not hard to keep records that meet the requirements of the law. However, sketchy or incomplete records that use approximates instead of exact amounts are not acceptable.

Your records must:

- allow you to determine how much tax you owe, or the tax, duties, or other amounts to be collected, withheld, or deducted, or any refund or rebate you may claim; and
- be supported by vouchers or other necessary source documents. If you do not keep your receipts or other vouchers to support your expenses or claims, and there is no other evidence available, we may reduce the expenses or claims you have made.

Retaining and destroying records

The six-year requirement

You must retain records (other than certain documents for which there are special rules) for six years from the end of the last tax year to which they relate for income tax, for six years from the end of the year to which they relate for GST/HST and excise duty purposes, or for six years after the goods are imported or exported.

If you filed your income tax return late, keep your records and supporting documents for six years from the date you filed the late return.

The minimum period for keeping records is usually measured from the last year you used the records, not the year the transaction occurred or the record was created.

You have to keep every record necessary for dealing with an objection or appeal until it is resolved and the time for filing any further appeal has expired, or until the six-year period mentioned above has expired, whichever is later.

Request for early destruction

If you want to destroy your records before the six years are up, you must apply in writing to the director of the tax services office in your area to obtain written permission from the Canada Revenue Agency. To do this, either use Form T137, *Request for Destruction of Records*, or prepare your own written request. In addition to our requirements, there are other federal, provincial, and municipal laws that require you to keep records. We have no authority to approve destruction of records that these other laws require you to keep.

For more information, see Guide RC4409, *Keeping Records*, and Information Circular IC-78-10, *Books and Records Retention/Destruction*.

Bringing assets into a business

There may be GST/HST implications when you transfer assets from one business structure to another. Please contact your tax services office for more information on the GST/HST status of your particular situation.

Fair market value (FMV)

You may find yourself in a situation where you would like to take assets that belong to you personally and transfer them to your business.

If you are operating a sole proprietorship, this is a reasonably simple process. The *Income Tax Act* requires that you transfer these assets to the business at their fair market value (FMV). This means that we consider you to have sold these assets at a price equal to their FMV at that time. If the FMV at the time of the transfer to the business is greater than your original purchase price, you must report the difference as a capital gain on your income tax and benefit return.

You may also be able to claim a GST/HST input tax credit based on the **basic tax content** of the assets you transfer to your business. For more information on basic tax content, visit our Web site at **www.cra.gc.ca/gsthst** or call us at **1-800-959-5525**.

Your business will show a purchase of these assets, with a cost equal to the FMV at the time of the transfer. This is the value that you will add to the capital cost allowance schedule for income tax purposes.

For income tax purposes, when you transfer the property to a Canadian partnership or a Canadian corporation, you may transfer the property to the partnership or the corporation for an **elected amount**. This amount may be different from the FMV, as long as you meet certain conditions. The elected amount then becomes your proceeds for the property transferred, as well as the cost of the property to the corporation or partnership.

The rules regarding these transfers of property are technical in nature. They allow you to change your business type from a sole proprietorship to a corporation or partnership, or from a partnership to a corporation, on a tax-free basis. For more information, see Interpretation Bulletin IT-291, *Transfer of Property to a Corporation Under Subsection 85(1)*, Information Circular IC-76-19, *Transfer of Property to a Corporation Under Section 85*, and Interpretation Bulletin IT-413, *Election by Members of a Partnership Under Subsection 97(2)*.

Buying an existing business

When you are considering becoming a business owner, you will find that you have the option of either **buying an existing business** or **starting up a new business**. The option you choose will have a significant effect on how you account for the purchase of the business assets for income tax purposes.

When you buy an existing business, you generally pay a set amount for the entire business. In some cases, the sale agreement sets out a price for each asset, a value for the inventory of the company, and if applicable, an amount that you can attribute to goodwill.

If the individual asset prices are set out in the sale agreement, and the prices are reasonable, then you should use these prices to claim capital cost allowance.

If the individual asset prices are not set out in the contract, you have to determine how much of the purchase price you should attribute to each asset, how much to inventory, and how much, if any, to goodwill. These amounts should coincide with the amounts the vendor determined when reporting the sale.

The amount you allocate to each asset should be the FMV of the asset. You should allocate to goodwill the balance of the purchase price that remains after you allocate the FMV to each asset and to inventory.

Example
You purchase a business for a total purchase price of $480,000. The FMV of the net identifiable assets of the business is as follows:

Accounts receivable	$ 80,000
Inventory	40,000
Land	120,000
Building	200,000
Total net identifiable assets	**$440,000**

You can determine the value of the goodwill by subtracting the total value of the net identifiable assets from the purchase price:

Purchase price	$480,000
Minus net identifiable assets	440,000
Amount attributed to goodwill	**$ 40,000**

Once you have determined the values for the assets and the goodwill, add the fixed assets (such as buildings and equipment) into the appropriate classes for the purpose of claiming the capital cost allowance. The goodwill is considered to be an **eligible capital expenditure**, which is treated in a manner similar to assets eligible for capital cost allowance.

Treat the value of the inventory as a purchase of goods for resale, and include it in the cost of goods sold in your income statement at the end of the year.

For GST/HST purposes, if you buy a business or part of a business and acquire all or substantially all of the property that can reasonably be regarded as necessary to carry on the business, you and the vendor may be able to jointly elect to have no GST/HST payable on the sale by completing Form GST44, *Election Concerning the Acquisition of a Business or Part of a Business*. You cannot use this election if the seller is a registrant but the buyer is not a registrant.

In addition, you must buy all or substantially all of the property, and not only individual assets.

For the election to apply to the sale, you have to be able to continue to operate the business with the property acquired under the sale agreement. You have to file Form GST44, on or before the day you have to file the GST/HST return for the first reporting period in which you would have otherwise had to pay GST/HST on the purchase.

Even when you use the election, GST/HST will still apply to a taxable supply of a service made by the seller; a taxable supply of property made by way of lease, licence, or similar arrangement; and, where the purchaser is not a registrant, a taxable sale of real property.

Another way of buying an existing business is to buy the shares of an incorporated business. This does not affect the cost base of the assets of the business. As explained previously, a corporation is a separate legal entity and can own property in its own name. A change in the ownership of the shares will not affect the tax values of the assets the corporation owns. For GST/HST purposes, the purchase of shares of a corporation is generally not subject to GST/HST.

For more information, visit our Web site at **www.cra.gc.ca/tax/business/topics/life-events**.

Why it pays to plan ahead

In considering when to register for your BN, keep several things in mind.

Remember your legal obligations. For example, you become a registrant who must register for GST/HST when your taxable worldwide revenues (including those of your associates) exceed $30,000 over four consecutive calendar quarters, or in one calendar quarter. This threshold is $50,000 if you are a public service body (such as a charity, non-profit organization, municipality, university, public college, school authority, or hospital authority). For more details on these thresholds, see "Small supplier" on page 17 of this guide. If you think your sales will exceed $30,000 (or $50,000 if you are a public service body), it is probably wise to register for the GST/HST sooner rather than later. Remember, registering for the GST/HST is the same as registering for the BN.

Registering early gives you certain advantages, such as the right to claim the GST/HST you pay on your business's start-up expenses from the time you register. For more information, see "Input tax credits" on page 20 in the chapter on GST/HST. Also see "Can you deduct business start-up costs?" on page 40.

If you intend to import goods into Canada, you should open an import/export account before you import the goods. This will avoid delays at the port of entry.

You should open a payroll deductions account as soon as you know when you will have employees. This account will allow you to make regular payroll deductions for your employees and make remittances on time. For information on how to make payroll deductions, see "Chapter 4: Payroll deductions and remittances" on 27.

If you decide to incorporate, you will need a BN to pay your corporate income taxes and to make instalment payments to your corporate account.

? For more information

- T4068, *Guide for the T5013 Partnership Information Return*
- T4012, *T2 Corporation – Income Tax Guide*
- Information Circular IC-78-10, *Books and Records Retention/Destruction*
- Interpretation Bulletin IT-291, *Transfer of Property to a Corporation Under Subsection 85(1)*
- Information Circular IC- 76-19, *Transfer of Property to a Corporation Under Section 85*
- Interpretation Bulletin IT-413, *Election by Members of a Partnership Under Subsection 97(2)*
- Form GST44, *Election Concerning the Acquisition of a Business or Part of a Business*
- Pamphlet RC2, *The Business Number and Your Canada Revenue Agency Accounts*
- Form RC1, *Request for a Business Number (BN)*
- Business Registration Online and Internet request for a business number
  www.businessregistration.gc.ca
- Web sites
  www.cra.gc.ca
  www.cra.gc.ca/t2return
  www.cra.gc.ca/bn

  Revenu Québec
  www.revenu.gouv.qc.ca

  Business Start-Up Assistant
  www.canadabusiness.ca

Chapter 2: Goods and services tax (GST) and harmonized sales tax (HST)

What is GST/HST?

Goods and services tax (GST) is a tax that applies at a rate of 5% to the supply of most goods and services in Canada. Three participating provinces (Nova Scotia, New Brunswick, and Newfoundland and Labrador) harmonized their provincial sales tax (PST) with GST to create the harmonized sales tax (HST). HST applies to the same goods and services as GST, but at a rate of 13%. Of this, 5% is the federal part and 8% is the provincial part.

Although the consumer ultimately pays GST/HST, generally businesses are responsible for collecting and remitting it to the government. Businesses that must register or that register voluntarily for GST/HST are called **registrants**.

Generally, registrants collect GST/HST on their taxable **supplies**, and pay GST/HST on taxable purchases they make to operate the business. Registrants can generally claim a credit, called an **input tax credit** (**ITC**), to recover the GST/HST they paid or owe on the purchases they use, consume or supply in their commercial activities. When they complete their GST/HST return, they deduct the amount of the credit from the GST/HST they collected. If they pay more than they collect, they can claim a refund.

The term **commercial activity** generally means any business, adventure, or concern in the nature of trade carried on by certain persons, except when making exempt supplies.

Taxable goods and services means goods and services taxable at 0%(zero-rated), 5% or 13%.

Types of goods and services

There are three types of goods and services for GST/HST purposes:

- goods and services taxable at 5 % or 13 %;
- goods and services taxable at 0 % (zero-rated); and
- exempt goods and services.

On which goods and services do you charge GST/HST?

As a GST/HST registrant, you charge 5% GST or 13% HST on the taxable goods and services (other than zero-rated) you sell, lease, transfer, or provide in some other way. You can generally claim an ITC to recover the GST/HST you paid or owe on purchases, expenses and imports you use, consume, or supply in your commercial activities.

Examples of goods and services taxable at **5%** or **13%** include:

- commercial real property and newly constructed residential property;
- rentals of commercial real property;
- clothing and footwear;
- car repairs; and
- hotel accommodation.

A limited number of supplies of goods and services are taxable at the rate of 0%. They are referred to as **zero-rated supplies**. You do not charge tax on these supplies, but you are still able to claim an ITC to recover the GST/HST you paid or owe on purchases made to provide them.

Examples of **zero-rated** goods and services include:

- basic groceries such as milk, bread, and vegetables;
- most farm livestock;
- medical devices such as hearing aids and artificial teeth;
- prescription drugs and drug dispensing fees; and
- exports (most goods and services taxable at 5% or 13% in Canada are zero-rated when exported).

Which goods and services are tax-exempt?

Some goods and services are not subject to GST/HST. They are **tax-exempt**. You do not collect GST/HST on these goods or services. You cannot claim an ITC to recover the GST/HST you pay or owe on purchases and expenses relating to such supplies.

You cannot register for GST/HST if you are selling or providing **only** tax-exempt goods and services.

Tax-exempt goods and services include:

- sales of most used residential housing;
- most residential rents of one month or more and residential condominium fees;
- most health, medical, and dental services that are performed by licensed physicians or dentists for medical reasons;
- day-care services provided for less than 24 hours per day primarily to children 14 years of age and younger;
- bridge, road, and ferry tolls (ferry tolls are zero-rated if the service is to or from a place outside Canada);
- legal aid services;
- many educational services such as those courses supplied by a vocational school that lead to a certificate or diploma and allow the practice of a trade or a vocation, or tutoring services made to an individual in a course that follows a curriculum designated by a school authority;
- most services provided by financial institutions such as lending money or operating deposit accounts;
- arranging for and issuing insurance policies by insurance companies, agents, and brokers;
- most goods and services provided by charities;
- certain goods and services provided by non-profit organizations, governments, and other public-sector organizations such as municipal transit services and standard residential services such as water distribution; and
- music lessons.

Registering for GST/HST

Who registers for GST/HST

You have to register for GST/HST if:

- you provide taxable goods and services in Canada; **and**
- you are not a small supplier. To find out if you are a small supplier, see the next section.

You do not have to register if your only commercial activity is the sale of real property otherwise than in the course of a business or if you are a non-resident who does not carry on business in Canada. If you are a non-resident, see Guide RC4027, *Doing Business in Canada – GST/HST Information for Non-Residents*.

Small supplier

You are a small supplier if you meet one of the following conditions:

- you are a sole proprietor with total taxable revenues (before expenses) from all your businesses of $30,000 or less in the last four consecutive calendar quarters and in any single calendar quarter;
- you are a partnership or a corporation and the total taxable revenues of the partnership or corporation are $30,000 or less in the last four consecutive calendar quarters and in any single calendar quarter; or
- you are a public service body (charity, non-profit organization, municipality, university, public college, school authority, or hospital authority) and the total taxable revenues from all the activities of your organization are $50,000 or less in the last four consecutive calendar quarters and in any single calendar quarter. A gross revenue threshold of $250,00 also applies to charities and public institutions. For more information, see Guide RC4082, *GST/HST Information for Charities*.

In all cases, your total taxable revenues include your worldwide revenues from your supplies of goods and services subject to GST/HST at a rate of 5% and 13%, and your zero-rated supplies. However, they do not include goodwill, financial services, and sales of capital property. You also have to include the total taxable revenues of all your associates in this calculation. Contact us at **1-800-959-5525** if you need help to determine if you are associated to another person.

If your total taxable revenues exceed $30,000 ($50,000 for public service bodies) in any single calendar quarter or in four consecutive calendar quarters, you are no longer considered a small supplier and you have to register for GST/HST. You can register online at **www.businessregistration.gc.ca**, or by completing and submitting Form RC1, *Request for a Business Number (BN)*.

Exception
Taxi and limousine operators, for their taxi operations, and non-resident performers selling admissions to seminars and other events must register for the GST/HST, even if they are small suppliers.

Voluntary registration

If you are a small supplier and you are engaged in a commercial activity in Canada, you can choose to register voluntarily, even if you are not legally required to do so.

If you register voluntarily, you have to charge and remit GST/HST on your taxable supplies of goods and services, and you can claim ITCs for the GST/HST you paid or owe on eligible purchases related to these supplies. Generally, you have to stay registered for at least one year before you can ask to cancel your registration.

If you cancel your registration, you may have to remit part of the ITCs you claimed on certain properties you have on hand, such as inventory and capital property.

How to register for GST/HST

If you have to register, or if you are a small supplier and want to register, use our quick and secure Business Registration Online at **www.businessregistration.gc.ca**.

You can also provide the necessary information to us over the telephone or by fax. Alternatively, you can complete Form RC1, *Request for a Business Number (BN)* and send it to us. For more information, visit our Web site at **www.cra.gc.ca/bn** or call us at **1-800-959-5525**.

Remember that if your business is in Quebec, you should contact Revenu Quebec at **1-800-567-4692**. Their address is on page 11.

Reporting periods

We will assign you a reporting period for filing your GST/HST returns when you register for GST/HST. For each reporting period, you must file a GST/HST return.

The GST/HST reporting period is based on your total annual taxable revenues in Canada as well as the annual taxable revenues of all your associates, if applicable. This amount does not include zero-rated exports of goods and services, zero-rated financial services, taxable sales of capital real property, and goodwill.

Before each filing due date, we will send you a personalized return. Although we assign you a specific reporting period, you may choose another period if you meet certain conditions.

The following chart shows the assigned and optional GST/HST reporting periods, based on your annual taxable revenues, for fiscal years beginning after 2007.

Annual taxable revenues	Assigned reporting periods	Optional reporting periods
$1,500,000 or less	Annually	Monthly/ Quarterly
More than $1,500,000 up to $6,000,000	Quarterly	Monthly
More than $6,000,000	Monthly	Nil

If your annual taxable revenues are $1,500,000 or less, you may elect to file your GST/HST return quarterly or monthly.

If your annual taxable revenues are more than $1,500,000, but not more than $6,000,000, you may elect to file your GST/HST return monthly.

Filing and remitting due dates

Monthly and quarterly filers

If your reporting period is monthly or quarterly, you have to file your GST/HST return and remit any amount owing no later than one month after the end of your reporting period.

Annual filers

If your reporting period is annual, you usually have to file your return and remit any amount owing no later than three months after the end of your fiscal year.

Exception

If all of the following apply to you, then your GST/HST return is due by June 15. However, any GST/HST remittance is due by April 30. These different due dates apply if:

- you are an individual with business income for income tax purposes;
- you file annual GST/HST returns; and
- you have a December 31 fiscal year-end.

As an annual filer, you may also have to pay quarterly instalments. If so, they are due no later than one month after the last day of each fiscal quarter.

If you base your instalments on an estimate of your current-year net tax and underestimate your net tax, we may charge you penalty and interest.

For fiscal years beginning after 2007, you will be required to make instalment payments throughout a fiscal year if your net tax in the previous fiscal year was $3,000 or more. For a fiscal year that began in 2007, you still need to use the previous threshold amount of $1,500 to determine if you are required to make instalment payments throughout the fiscal year.

To start making instalment payments, you need to order Form RC160, *GST/HST Interim Payments Remittance Voucher*. You will not automatically receive Form RC160 for your next instalment payment unless you make the current payment. For more information on Form RC160, see Guide RC4022, *General Information for GST/HST Registrants*.

How to collect GST/HST on the taxable goods and services you provide

As a GST/HST registrant, you generally charge 5% GST or 13% HST on the taxable supplies you provide (other than zero-rated supplies). You remit GST and HST on the same GST/HST return.

> **Note**
> If you provide taxable supplies (other than zero-rated) to customers in Nova Scotia, New Brunswick, or Newfoundland and Labrador, including supplies shipped or mailed to recipients in these provinces, you are required to collect and remit the 13% HST.

Provincial sales tax

When you have to charge both GST and provincial sales tax (PST), calculate GST on the purchase price excluding PST. For more information on how to calculate PST, contact your provincial tax office.
Visit our Web site at **www.cra.gc.ca/tax/business/prov_links-e.html** for links to provincial and territorial departments of finance, business service centres, and other tax and financial services.

You will find the phone numbers of the provincial tax offices in the government section of your telephone book.

Informing your customers

As a GST/HST registrant, you must show your customers the total tax payable or let them know that the amount payable includes the tax. You can show this to your customers on the invoice, receipt, or contract, or by displaying acceptable signs. If you show the tax on your invoice, receipt, or contract, you must show the total tax or the total of the tax rate (e.g., 5% or 13%).

What to put on your invoices

You have to give customers who are GST/HST registrants specific information that will allow them to support their claims for ITCs and rebates for the GST/HST you charged. The following chart shows the required information.

Information required for sales invoices from GST/HST registrants	Total sale under $30	Total sale from $30 to $149.99	Total sale of $150 or more
The vendor's business or trading name or the intermediary's name	✔	✔	✔
Invoice date or, if an invoice has not been issued, the date on which the GST/HST is paid or payable	✔	✔	✔
Total amount paid or payable	✔	✔	✔
The total amount of GST/HST charged or that the amount paid or payable for each taxable supply (other than zero-rated supplies) includes GST/HST and the applicable tax rate		✔	✔
When you supply items taxable at different rates, a statement about which items are taxed at the GST rate and which are taxed at the HST rate		✔	✔
The vendor's Business Number or the intermediary's Business Number		✔	✔
The buyer's name or trading name or the name of the duly authorized agent or representative			✔
A brief description of the goods or services			✔
Terms of payment			✔

Note
Intermediary of a person for a particular supply means a registrant who, under an agreement with the person, causes or facilitates the making of the supply by the person.

Input tax credits (ITCs)

A fundamental principle of GST/HST is that no tax should be incorporated into the cost of inputs that registrants use in commercial activities. With certain exceptions, registrants are entitled to a refundable credit, called an input tax credit (ITC), for tax paid or payable on purchases that relate to a commercial activity.

Commercial activities include the supply of goods and services taxable at 0%, 5%, and 13%. Commercial activities do not include the supply of exempt goods and services, such as long-term residential rent (for example, of one month or more). **Therefore, you cannot claim ITCs for the GST/HST you paid or owe on items that you use to provide exempt goods and services, or for personal use.**

You can recover the GST/HST you pay or owe on goods and services you use in operating a business of making taxable supplies. Examples are:

- merchandise you purchase for resale;
- advertising services;
- personal and real capital property, such as office furniture, vehicles, other equipment, and buildings used in the operation of the business; and
- general operating expenses such as office rent, utilities, office supplies, and the rental of equipment such as computers, vehicles, photocopy machines, and other office appliances.

Where goods or services are used partly for personal use or for making exempt supplies, you are entitled to a partial ITC to the extent that they are for use in commercial activities, with certain exceptions for capital property, as discussed below.

Expenses for which you cannot claim an ITC include the following:

- employee wages;
- interest and dividend payments;
- most federal, provincial, and municipal taxes;
- most fees, fines, and levies;
- tax-exempt goods and services;
- items for your personal use or enjoyment;
- capital personal property that is not primarily for use in your commercial activities;
- capital real property for use 10% or less in your commercial activities (If you are an individual using the property more than 50% for your, or a related individuals', personal use, you cannot claim an ITC even if you are using that property more than 10% in commercial activities.); and
- membership fees or dues to any club that provides recreational, dining, or sporting facilities (such as fitness clubs, golf clubs, hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business.

For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

How to claim an input tax credit

Most registrants claim their ITCs when they file their GST/HST return for the reporting period in which the related purchases were made. If you do not claim ITCs at that time, you have four years after the end of that reporting period to claim them on a GST/HST return.

When you calculate your ITCs, you can include purchases for which you have received an invoice, but that you have not yet paid.

Simplified accounting methods

There are two simplified accounting methods available for small businesses to calculate the GST/HST they owe. They are the Quick Method and the Simplified Method for claiming ITCs.

The Quick Method

The Quick Method is an easy way to calculate the amount of GST/HST you have to remit.

Who can use it

Generally, you can use the Quick Method if your worldwide taxable annual supplies (including zero-rated supplies and supplies of associates) are $200,000 or less (including GST/HST) in any four consecutive fiscal quarters over the last five fiscal quarters. This amount does not include supplies of financial services, sales of real property, sales of capital assets, and goodwill.

Certain businesses cannot use the Quick Method including accountants, bookkeepers, financial consultants, and public service bodies.

The Special Quick Method is a simplified accounting option available to selected public service bodies, qualifying non-profit organizations, specified facility operators, and certain charities. For more information, see Pamphlet RC4247, *The Special Quick Method of Accounting for Public Service Bodies*.

How the Quick Method works

You collect GST at 5% or HST at 13% on taxable supplies to your customers in the usual manner. When you complete your GST/HST return, you remit part of the tax you collected. Since you cannot claim ITCs on most of your purchases when you use this method, the part of the tax that you keep accounts for the approximate value of the ITCs you would otherwise have claimed.

When you complete your GST/HST return, you multiply your total supplies (GST/HST included) for the reporting period by the Quick Method remittance rate that applies to those supplies. The remittance rates are explained in Booklet RC4058, *Quick Method of Accounting for GST/HST*.

You do not claim an ITC on your operating expenses (such as utilities, rent, and telephone), meal and entertainment expenses, and inventory purchases. However, you can claim ITCs on most of your purchases of capital and real property. You can claim these credits when you complete your GST/HST return. However, if you dispose of capital assets, you must remit the full 5% GST or 13% HST, not the Quick Method percentage.

For more information, see Booklet RC4058, *Quick Method of Accounting for GST/HST*.

The Simplified Method for claiming ITCs

You use the Simplified Method to calculate your ITCs if you do not want to keep track of the GST/HST you paid or owe on your business purchases.

Who can use it

You can use the Simplified Method if you are registered for GST/HST and your (and your associates') annual worldwide taxable revenues from supplies of goods and services were $500,000 or less in your last fiscal year and the previous fiscal quarters of your current fiscal year. Do not include zero-rated financial services, sales of capital real property, or goodwill.

Listed financial institutions, however, cannot use the Simplified Method.

To use the Simplified Method for claiming ITCs, your taxable purchases (excluding zero–rated purchases but including purchases imported into Canada or brought into a participating province) in Canada must also not exceed $2 million in the immediately preceding fiscal year.

If you qualify, you can start using the Simplified Method at the beginning of any reporting period. You do not have to file any form to use it. After you decide to use this method, you must use it for at least one year if you continue to qualify.

How the Simplified Method works

Using this method, your records do not have to show GST/HST separately from the total purchases. However, you must be able to total your taxable purchases for which you can claim an ITC. In addition, if you make purchases in both participating and non-participating provinces, you must separate purchases on which you paid GST and those on which you paid HST. You must keep the usual documents to support your ITC claims for audit purposes.

For more information on the Simplified Method, see Guide RC4022, *General Information for GST/HST Registrants*.

Filing your GST/HST returns

How to calculate the GST/HST you owe and file your return

For each reporting period, you calculate:

- the GST/HST collected and collectible on your taxable supplies during the reporting period; **and**
- the GST/HST paid and payable on your purchases for which you can claim an ITC.

The difference between these two amounts, plus or minus any adjustments, is your **net tax** (your GST/HST payment or your refund). If you charge more GST/HST than you paid or owe, you pay us the difference. If you paid or owe more GST/HST than you charged, you can claim a refund.

We will automatically send you Form GST34, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return for Registrants*, which includes pre-printed information about your account.

The personalized return we send you for each reporting period is not available on our Web site as we can only provide it in a pre-printed format. If you do not receive a personalized return within 15 working days of the end of your reporting period, or if you misplace it, you can use Form GST62, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return (Non-personalized)*, instead.

If you have not received the personalized GST/HST return (Form GST34) 15 working days before its due date, or if you lose your GST/HST return, call **1-800-959-2221** to get Form GST62.

> **Note**
> You still have to file your return and pay any net tax owing by the due date even if you do not receive your personalized return on time.

How to file your return and remit any amount owing

Depending on your situation, you may have up to four different options for filing your GST/HST return and remitting any amount owing:

By mail

You can mail your return and your remittance, if any, to the address shown on the GST/HST return.

Print your BN on your cheque and make it payable to the Receiver General for Canada. Do not send cash in the mail. To avoid processing delays, do not staple or attach receipts or other supporting documents to your return.

> **Note**
> You have to make your remittance at your financial institution if it is more than $50,000.

At your financial institution

If you are remitting an amount owing, you can take your return and remittance to your participating financial institution in Canada, **unless**:

- you are offsetting an amount owing on the return by a rebate or refund;
- you are claiming a refund; or
- you are filing a nil return.

In these cases, you have to mail your return and remittance to the address shown on your return. **You cannot claim a refund or rebate at your bank or financial institution.**

If you are paying at a financial institution and your return requires attached documentation, you will have to send us these documents separately.

Using GST/HST NETFILE and TELEFILE

You may be eligible to file your return electronically using GST/HST NETFILE or TELEFILE. You need to have a four-digit access code printed on the working copy of your personalized GST/HST return and you need to meet certain conditions. See Guide RC4022, *General Information for GST/HST Registrants*, to find out if you are eligible to file using GST/HST NETFILE or TELEFILE.

Use Form RC158, *GST/HST Netfile/Telefile Remittance Voucher,* to remit any amount owing on a return that you file using GST/HST NETFILE or TELEFILE. Form RC158 is not available on our Web site as we can only provide it in a pre-printed format. To order Form RC158, call us at **1-800-959-2221**.

For more information, visit our Web site at **www.cra.gc.ca/gsthst-netfile**.

Using Electronic Data Interchange (EDI)

Returns and remittances can also be filed electronically through a participating financial institution. For more information, visit our Web site at **www.cra.gc.ca/gsthst-edi**, or contact your financial institution.

Stop filing GST/HST returns temporarily

As a registrant, you must file your returns for each reporting period, even if you do not have to remit any net tax.

However, if you operate a seasonal or part-time business, or if you are a non-resident who carries on business in Canada only for a short period of time each year, and you normally file on a quarterly or monthly basis, you may be eligible to stop filing GST/HST returns for reporting periods for which you have little or no GST/HST to report. For this to apply, you need to meet certain criteria. For more details, visit our Web site at **www.cra.gc.ca/gsthst**, or see Guide RC4022, *General Information for GST/HST Registrants*, or call **1-800-959-5525**.

GST/HST Rulings

GST/HST Rulings is the centre of technical expertise on GST/HST in the Canada Revenue Agency. Through our rulings and interpretations program, we give taxpayers timely, accurate, and accessible technical information on their entitlements and obligations under the *Excise Tax Act* and related regulations. For more information, see Guide RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*, or visit our Web site at **www.cra.gc.ca/E/pub/gp/rc4405**.

? For more information

- RC4022, *General Information for GST/HST Registrants*
- Booklet RC4058, *Quick Method of Accounting for GST/HST*
- RC4027, *Doing Business in Canada – GST/HST Information for Non-Residents*
- Pamphlet RC4247, *The Special Quick Method of Accounting for Public Service Bodies* – Includes Form GST287
- RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*
- Form RC1, *Request for a Business Number (BN)*
- Form GST34, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return for Registrants*
- Form GST62, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return (Non-personalized)*
- Web site
  www.cra.gc.ca
  www.cra.gc.ca/gsthst-netfile
  www.cra.gc.ca/gsthst-edi

Chapter 3: Excise taxes, excise duties and softwood lumber products export charge

What are excise taxes and excise duties?

There are two types of federal levies on products manufactured or produced in Canada: excise taxes and excise duties.

These levies are applied to a limited range of goods at different rates and in different ways, depending on the product. Excise tax and excise duty apply to the goods before GST/HST is added on.

Excise taxes

Excise taxes are charged on:

- fuel-inefficient vehicles;
- automobile air conditioners; and
- certain petroleum products.

Note
The excise tax on jewellery was eliminated effective May 2, 2006.

The heavy vehicle weight tax was replaced by the fuel-inefficient vehicle tax effective March 19, 2007.

The *Excise Tax Act* sets out the rates of tax for each of these goods.

When goods are manufactured in Canada, excise tax is payable at the time the goods are delivered to the purchaser. When they are imported, excise tax is payable by the importer, at the time the goods are imported.

Under certain circumstances, you may be able to claim a refund of the excise taxes you paid.

Manufacturers need an excise tax licence ("E" licence) unless they qualify as a small manufacturer. You qualify as a small manufacturer if your total annual sales are not more than $50,000.

A wholesaler licence ("W" licence) allows you to buy goods for resale without paying excise taxes. You may qualify for a W licence under certain limited circumstances, thereby enabling you to buy goods exempt of excise tax and to collect and remit the excise tax at the time you sell the goods.

For more information, contact us at **1-866-330-3304** (service in English) or **1-888-609-0073** (service in French).

Excise duties

Excise duties are charged on spirits, wine, beer, and tobacco products. The rates of duty on spirits, wine, and tobacco products are set out in the *Excise Act, 2001* and duty rates on beer are contained in the *Excise Act.*

When these goods are manufactured in Canada, duty is payable on goods at the point of packaging rather than at the point of sale. Generally, when they are imported into Canada, duty is payable by the importer at the time the goods are imported.

All persons who manufacture these goods in Canada must be licensed. Most licensees must provide security of at least $5,000.

For more information, visit **www.cra.gc.ca/exciseduty** or contact the nearest Regional Excise Duty Office. For a listing of their numbers, please consult Excise Duty Memoranda EDM1-1-2, *Regional Excise Duty Offices*, on our Web site at **www.cra.gc.ca/E/pub/em/edm1-1-2**.

Softwood lumber products export charge

The *Softwood Lumber Products Export Charge Act, 2006* is the implementing legislation for an export charge introduced under the Softwood Lumber Agreement, 2006 (SLA 2006) between the governments of Canada and the United States. The Act imposes a charge on certain softwood lumber products exported to the United States after October 11, 2006. Products subject to the export charge are defined by the SLA 2006, and are included on the Export Control List under *Export and Import Permits Act*, administered by the Department of Foreign Affairs and International Trade.

Every person who exports softwood products subject to the charge to the U.S. is required to register with the CRA on or before the day on which the products are exported. To register, exporters must complete Form B253, *Softwood Lumber Products Export Charge – Registration Form*. This form is available on our Web site at **www.cra.gc.ca/E/pbg/ef/b253** and must be submitted to the following address:

Surrey Tax Centre
Softwood Lumber Division
9755 King George Highway
Surrey BC V3T 5E1

Every person who is registered must file, on a monthly basis, Form B275, *Softwood Lumber Products Export Charge Return*, in which they calculate the charge(s) imposed during the calendar month. The return and the export charge payment are due on or before the last day of the month following the month during which a charge was imposed. For example, a return and a payment for the month of January will be due on or before the last day of February.

For more information, visit our Web site at **www.cra.gc.ca/swl**. For information on registration or returns and payments, call **1-800-935-0313** for service in English, or **1-800-935-0340** for service in French.

For technical enquiries regarding the *Softwood Lumber Products Export Charge Act, 2006*, call **1-866-330-3304**.

For more information

Excise Taxes and Special Levies Memoranda

Licences (2.1)

Small Manufacturers (2.2)

Bonds Given as Security by Licensed Wholesalers (2.3)

ETSL53, *Phase Out of the Excise Tax on Jewellery Products*

Excise Duty Memoranda

Regional Excise Duty Offices (1.1.2)

Registration Types (2.3.1)

Licence Types (2.1.1)

Form B253, *Softwood Lumber Products Export Charge – Registration Form*

Form B275, *Softwood Lumber Products Export Charge Return*

Web sites

www.cra.gc.ca
www.cra.gc.ca/exciseduty
www.cra.gc.ca/tax/technical/menu-e.html
www.cra.gc.ca/ swl

Chapter 4: Payroll deductions and remittances

If you are an employer, you must make regular deductions from your employees' remuneration.

You are an employer if:

- you pay salaries, wages (including advances), bonuses, vacation pay, or tips to your employees; or
- you provide certain taxable benefits or allowances such as board and lodging to your employees.

An individual is an employee if the employment arrangement between the worker and the payer is an employer-employee relationship. Although a written contract might indicate that an individual is self-employed (working under a contract for services), we may not consider the individual as such if there is evidence of an employer-employee relationship. For more information on employment status, see Guide RC4110, *Employee or Self-Employed?*

Do you need to register for a payroll deductions account?

You need to register for a payroll account if you:

- pay salaries or wages;
- pay tips and gratuities;
- pay bonuses and vacation pay;
- provide benefits and allowances to employees; or
- need to deduct and remit amounts from other types of remuneration (such as pension or superannuation).

If you need a payroll account and you already have a BN, you only need to add a payroll deductions account to your existing BN. However, if you don't have a BN, you must request one and register for a payroll account before your first remittance due date.

For more information, see the "The Business Number (BN)" on page 10.

Payroll deductions can be complicated. If you are having trouble with them, visit our Web site at **www.cra.gc.ca/payroll** or give us a call at **1-800-959-5525**. We offer an on-site consultative service to provide any help you may need with payroll deductions. As part of the Employer Visits Program, we can visit you to help with problems you have.

What to deduct from your employees' remuneration

You're responsible for deducting Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, Employment Insurance (EI) premiums, and income tax from your employees' remuneration. You are also responsible for remitting this money to us at regular intervals, usually on or before the 15th day of the month following the month in which you deducted it.

For example, if you make your deductions from an employee's remuneration on May 10, you then have to remit the money to us on or before June 15. If June 15 falls on a Saturday, Sunday, or holiday, the remittance is due on the next business day.

If your payment is late, we may apply a late-remitting penalty.

Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

The Canada Pension Plan (CPP) came into effect as a way to provide financial assistance to Canadians when they retire from the workforce. Every person who works in Canada is eligible to get benefits when he or she retires.

If you run a business in Quebec, you deduct Quebec Pension Plan (QPP) contributions instead of CPP. You remit the payments to Revenu Quebec instead of the Receiver General for Canada.

Both employees and employers contribute to the CPP or the QPP. But you, as an employer, are responsible both for deducting CPP or QPP contributions from your employees' pensionable earnings and for matching those contributions yourself.

Employees fall into many different categories, which determine how and when you should deduct CPP or QPP. For more information on CPP, visit our Web site at **www.cra.gc.ca/tax/business/topics/payroll/calculating/cpp/menu-e.html** or see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*, and Guide T4032, *Payroll Deductions Tables*, for your province or territory. For information on QPP, visit the Revenu Quebec Web site at **www.revenu.gouv.qc.ca/eng/ministere/index.asp**.

How to calculate CPP/QPP contributions

To calculate CPP contributions, you can use the Payroll Deductions Online Calculator (PDOC) available on our Web site at **www.cra.gc.ca/pdoc** or the Tables on Diskette available at **www.cra.gc.ca/tod**, or consult the payroll deductions publications mentioned above. These publications can help you determine how much CPP to deduct from your employees' pensionable earnings, depending on their salaries and pay periods.

The contribution rates for CPP may vary from year to year. Visit our Web site at **www.cra.gc.ca/tax/business/topics/payroll/calculating/cpp/historic-e.html** for the most current rates.

> **Note**
> You must contribute the **same amount** that you deduct from your employees' remuneration. This means that if you deduct $100 from an employee's salary, you must also contribute $100. You must then send us $200 for that employee.

To find out when you should deduct CPP contributions from your employees' pensionable earnings and remit them to us, visit our Web site at **www.cra.gc.ca/tax/business/topics/payroll/payments/remitter/menu-e.html**, or see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*, and Guide T4032, *Payroll Deductions Tables*, for your province or territory.

For information on how to calculate QPP, QPP contribution rates and when to deduct and remit QPP, visit the Revenu Quebec Web site at **www.revenu.gouv.qc.ca/eng/ministere/index.asp**.

Types of employment for which you do not deduct CPP premiums

There are certain types of employment which are not considered pensionable and for which you do not deduct CPP contributions.

For example, you do not deduct CPP contributions for the employment of a spouse or common-law partner if you cannot deduct the remuneration paid as an expense under the *Income Tax Act*, or for the employment of your child or a person that you maintain if no cash remuneration is paid.

For more information, see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

Employment Insurance (EI)

Employment insurance is a federally administered insurance program that gives financial assistance to people who are unemployed. It also helps people get training for jobs.

How to calculate EI premiums

As an employer, you are responsible for deducting EI premiums from your employees' insurable earnings. To calculate EI premiums, use the Payroll Deductions Online Calculator (PDOC) available on our Web site at **www.cra.gc.ca/pdoc**, or the Tables on Diskette available at **www.cra.gc.ca/tod**, or consult the payroll deductions publications mentioned on this page. These publications can help you determine how much EI to deduct from your employees' insurable earnings, depending on their salaries.

The rates for EI premiums may vary from year to year. Visit our Web site at **www.cra.gc.ca/tax/business/topics/payroll/calculating/ei/historic-e.html** for the most current rates.

Note
You must also make your own contributions to EI on behalf of your employees. Generally, the employer's contribution will be slightly more than the employee's.

To find out your share of EI premiums and when you should deduct EI premiums from your employees' insurable earnings and remit them to us, see Guide T4001, *Employers' Guide – Payroll deductions and Remittances*, and Guide T4032, *Payroll Deductions Tables*, for your province or territory.

Types of employment for which you do not deduct EI premiums

There are certain types of employment which are not considered insurable and for which you do not deduct EI premiums.

For example, you do not deduct EI premiums when you and your employee do not deal with each other at arm's length. This includes individuals connected by blood relationship, marriage, common-law relationship, or adoption. However, an employee who does not deal with you at arm's length can be in insurable employment if you would have negotiated a similar contract with a person that you deal with at arm's length.

This decision is based on the terms and conditions of employment, and the remuneration paid for the work done.

For more information, see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

Income tax

As an employer, you are responsible for deducting income tax from the salaries, wages, or other remuneration you pay your employees.

Since employees fall into various categories (such as fishers, employees who get paid commissions and claim expenses, etc.), you need various forms, such as federal and provincial TD1 forms, to help you decide what to deduct from their remuneration. For more information on these forms, see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

How to calculate income tax deductions

To calculate income tax deductions from your employees' remuneration, you can use the Payroll Deductions Online Calculator (PDOC) available on our Web site at **www.cra.gc.ca/pdoc** or the Tables on Diskette available at **www.cra.gc.ca/tod** or consult the payroll deductions publications for your province or territory mentioned on page 28. These publications can help you determine how much income tax to deduct from your employees' remuneration, depending on their salaries and pay periods.

Workers' compensation

As an employer, you may be required to make payments, and be subject to certain regulations under workers' compensation legislation. For more information, see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

How to report payroll deductions

The T4 slip

You report your employees' salary, wages, and taxable benefits, as well as any deductions, on the T4 slip, *Statement of Remuneration Paid*. You can get a copy of this slip from our Web site at **www.cra.gc.ca/forms**, by calling our Forms line at **1-800-959-2221**, or from the nearest tax services office.

You have to fill out and give your employees their copies of the T4 slip no later than the end of February following the calendar year to which the slip relates.

File your T4 information return electronically

You can choose from four convenient and secure options to file your original T4 information returns and amendment information electronically. Your choice will depend on the number of your T4 slips. If you file **more than 500 various information slips**, you **must** file the return electronically in extensible mark-up language (XML) format.

- If you file **1** to **3 original or amended** T4 slips, use the T4 Web Forms application.
- If you file **1** to **70 original or amended** T4 slips, use the T4 Desktop application.
- If you use payroll, commercial, or in-house developed software to manage your business, you can file **1 to approximately 3,500 slips (up to 5 MB)** over the Internet via Internet File Transfer (XML).
- If your file is **more than 5 MB**, you must file electronically in extensible mark-up language (XML) on electronic media (DVD or CD).

If you file **501 to approximately 3,500** various information slips **(up to 5 MB)**, you must file electronically in extensible mark-up language (XML) by Internet File Transfer (XML) or on electronic media (DVD, CD, or diskette)

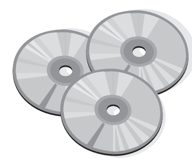
Internet File Transfer is available for the following information returns: T3, T4, T4A, T4A-NR, T4E, T4RIF, T4RSP, T5, T5008, T5007, T5018, NR4, and RRSP Contribution Receipt. Taxpayers will require a payroll Business Number and Web Access Code (WAC) when filing these returns with the CRA.

Quarterly remittances

Most employers are required to remit withholding amounts on a monthly basis; large employers remit more frequently. As a small business employer, you may be able to make quarterly remittances of taxes and payroll deductions.

We will automatically notify you if you qualify for this program. No application is required. You can continue to remit monthly if you prefer. For more information on this subject, visit our Web site at **www.cra.gc.ca/tax/business/topics/payroll/payments/remitter/menu-e.html**.

Do you have a computer?



If you have a computer, you can use it instead of the paper tables to calculate your employees' payroll deductions.

We provide a computerized version of Guide T4032, *Payroll Deductions Tables*, and Guide T4008, *Payroll Deductions Supplementary Tables*, called T4143, *Tables on Diskette (TOD)*. This is a stand-alone computer program that calculates payroll deductions for any pay periods, provinces (except Quebec), and territories.

The *TOD* is available on our Web site at **www.cra.gc.ca/tod**. You can also use the Payroll Deductions Online Calculator, which is available on our Web site at **www.cra.gc.ca/pdoc**. For more information, call us at **1-800-959-5525**.

If you would like to create your own payroll deduction calculations, a guide containing the formulas you need (except for Quebec provincial tax and QPP) is available. See Guide T4127, *Payroll Deductions Formulas for Computer Programs*, on our Web site at **www.cra.gc.ca/E/pub/tg/t4127-jan**.

In summary, your responsibilities as an employer are to:

- deduct CPP/QPP contributions, EI premiums, and income tax from amounts you pay to your employees;

- remit these deductions **along with your share** of CPP/QPP contributions and EI premiums that you have to pay throughout the year on your employees' behalf; and
- report the employees' income and deductions on the appropriate information return and give information slips to your employees by the last day of February following the calendar year to which the information return applies.

For more information

- Form TD1, *Personal Tax Credits Return*
- T4001, *Employers' Guide – Payroll Deductions and Remittances*
- T4032, *Payroll Deductions Tables*
- T4008, *Payroll Deductions Supplementary Tables*
- T4143, *Tables on Diskette (TOD)*
- T4127, *Payroll Deductions Formulas for Computer Programs*
- RC4110, *Employee or Self-Employed?*
- Web sites

www.cra.gc.ca
www.cra.gc.ca/payroll
www.cra.gc.ca/cppei

Electronic PD7A option
www.cra.gc.ca/epd7a

Electronic media
www.cra.gc.ca/electronicmedia

Tables on Diskette (TOD)
www.cra.gc.ca/tod

Payroll Deductions Online Calculator (PDOC)
www.cra.gc.ca/pdoc

Automobile Benefits Online Calculator
www.cra.gc.ca/autobenefits-calculator

T4 Desktop application
www.cra.gc.ca/t4desktop

T4 Web Forms application
www.cra.gc.ca/webforms

Chapter 5: Income tax

This chapter introduces you to the process of reporting earnings and paying income tax on your business's profits. It will explain how to account for what your business earns, and what kinds of income you have to report. It also tells you what expenses you are allowed to deduct.

Accounting for your earnings

Generally, you have to report business income (other than farming or fishing income) using the accrual method of accounting. Farmers or fishers may use the cash method or the accrual method, but not a combination of both.

The accrual method

Under the accrual method, you have to report income in the fiscal period you earn it, regardless of when you receive payment.

Similarly, you deduct allowable expenses in the fiscal period in which you incur them, whether or not you pay for them in that period. **Incur** usually means you either paid or will have to pay the expense.

The cash method

Under the cash method, you report income in the year in which it is received (whether in cash, property, or services) and you deduct allowable expenses as they are paid in the year in which you actually pay them, except prepaid expenses. If you are a farmer, fisher, or self-employed commissioned sales agent, you can use the cash method.

For more information about the cash method, see Guide T4002, *Business and Professional Income*, T4003, *Farming Income*, or T4004, *Fishing Income*.

How to keep sales and expense journals

You should keep a day-to-day record of your receipts and expenses. A book with columns and separate pages for income and expenses is good for this. Keep this record along with your duplicate deposit slips, bank statements, cancelled cheques, and receipts. This will support your expenditure claims.

How to record your business expenses

You can generally deduct business expenses if you incur them for the sole purpose of producing income. If you claim expenses, you have to be able to back up your claim. You do this by keeping all your business-related vouchers and receipts, and recording all your expenses in a journal, a computerized file, or a software accounting program.

The simplest method of recording these expenses is a basic sheet with columns that list the common categories of expenses. At the end of each month, total each column, and then start a new sheet for the next month.

Fiscal period

You have to report your business income on an annual basis. For sole proprietorships, professional corporations that are members of a partnership, and partnerships in which at least one member is an individual, professional corporation, or another affected partnership, your business income is generally reported on a calendar-year basis.

If you are a sole proprietor or in a partnership in which all the members are individuals, you can elect to have a non-calendar year fiscal period. To do this, use Form T1139, *Reconciliation of Business Income for Tax Purposes*, to file your election. You need to file this form by a specific date. For more information, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes.*

A corporation's tax year is its fiscal period. A fiscal period cannot be longer than 53 weeks (371 days). A **new** corporation may choose any tax year-end as long as its first tax year does not exceed 53 weeks from the date it was either incorporated or formed as a result of an amalgamation. The corporation has to file its income tax return within six months of the end of its fiscal period. When the fiscal year ends on the last day of the month, the return is due on or before the last day of the sixth following month. When the fiscal year ends on a day other than the last day of the month, the return is due on or before the same day of the sixth following month.

The rules governing fiscal periods are complicated. It is a good idea to get familiar with them before you get into business. For more information, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*, and T4002, *Business and Professional Income*.

Note
If you are a GST/HST registrant, your decision about your fiscal period-end for income tax purposes may affect your GST/HST reporting periods, as well as your filing and remitting due dates. For more information, see Guide RC4022, *General Information for GST/HST Registrants*, or call us at **1-800-959-5525**.

Income

This part gives you an overview of the business income that you should account for in your records for income tax purposes.

Types of income

During the year, you may receive income from your business and from sources other than your actual sales. If they relate to your business, you have to include them in your business income.

What is business income

Business income includes money you earn from a profession, a trade, a manufacture or undertaking of any kind, an adventure or concern in the nature of trade, or any other activity you carry on for profit and there is evidence to support that intention. For example, income from a service business is business income. However, business income does not include employment income, such as wages or salaries received from an employer.

Note
You have to report all amounts of income that are required for calculating income for tax purposes. If you fail to report all your income, you may be subject to a penalty of 10% of the amount of income that you failed to report.

How to account for your business income

Business owners have to provide information about their business income and expenses.

Although we accept other types of financial statements, we encourage you to use the following forms if they apply to you:

- Form T2124, *Statement of Business Activities*;
- Form T2032, *Statement of Professional Activities* (**for 2008 and future years, Forms T2124 and T2032 will be combined into Form T2125, *Statement of Business or Professional Activities***);
- Form T2042, *Statement of Farming Activities*;
- Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*;
- Form T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*; and
- Form T2121, *Statement of Fishing Activities*.

You will find instructions on completing them in the income tax guides on our Web site.

We have designed these forms to accommodate the most common types of income and expense categories used in business, so it should be easy for you to set up your accounting records. You may use the categories included on these forms when you establish your accounting records.

You must also record as income any amount credited to your account or set aside for you as payment for providing goods and services. This also includes amounts credited to your accounts as offsets against an amount you owe.

You must support all income entries in your records with original documents - sales invoices, cash register tapes, receipts, fee statements, and contracts. Keep the supporting documents in chronological or numerical order and make them available if we ask to see them.

You should also keep a separate record of your income from all other sources, such as professional fees and income from property, investments, taxable capital gains, estates, trusts, employment, and pensions.

Bad debts

If, during the year, you received any amount that you wrote off as a bad debt in a previous year, you have to include the amount in your income for the current year.

For more information, see Interpretation Bulletin IT-442, *Bad Debts and Reserves for Doubtful Debts*.

There may be GST/HST implications on the recovery of bad debts. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Reserves

You have to bring any reserve you claimed in a given year back into income in the following year. The *Income Tax Act* allows you to take a new reserve based on your circumstances at that time.

For more information, see Interpretation Bulletin IT-154, *Special Reserves*.

Vacation trips and awards

If you received vacation trips or other awards of any kind (such as jewellery or furniture) as a result of your business activities, you must include the value of these awards in your business income.

Vacation trips and awards may have GST/HST implications. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Government grants and subsidies

If you receive a grant or subsidy from a government or government agency, you have to report it either as income or as a reduction of an expense. Generally, a grant or subsidy:

- increases your income or reduces your expenses;
- relates to an income deficiency; or
- relates to specific expenses.

For example, if you are a farmer and you received a payment to subsidize your income in a drought year, you would add the payment to your income. However, if you are a business that receives a government employment grant to allow you to hire more students, you would generally deduct it from the wage expense you are claiming.

Government assistance that enables you to acquire capital property does not increase your net income. However, in the case of depreciable property, you reduce the capital cost of the property by the amount of the assistance you received. In the case of other capital property, reduce the adjusted cost base accordingly.

For more information, see Interpretation Bulletin IT-273, *Government Assistance – General Comments*.

Surface rentals for petroleum or natural gas exploration

If you have land that you usually use in your farming or business operation, and you are leasing it out for petroleum or natural gas exploration, you may have to include the leasing proceeds in your income either as a capital receipt or as an income receipt.

For more detailed information, see Interpretation Bulletin IT-200, *Surface Rentals and Farming Operations*.

Rental income

Rental income can be either income from property or income from business. Income from rental operations is usually income from property.

Do not include rental income, whether from farm property or real estate, with your business or farming income. You have to report it separately on your tax return.

To determine the type of rental income you have, and how to report it, see Guide T4036, *Rental Income*.

Barter transactions

A barter transaction takes place when any two persons agree to an exchange of goods or services, and carry out that exchange without using money.

If you are involved in a barter transaction, the goods or services you receive could be considered proceeds from a business operation. If you are in a business or profession that provides goods or services, and you offer these goods or services in a barter transaction in exchange for other goods or services, you have to include the value of the goods or services you provided in your income.

Barter transactions may also have GST/HST implications. For more information, see Guide RC4022, *General Information for GST/HST Registrants*, or call us at **1-800-959-5525**.

Selling a property

If you sell a capital property, you may have to include certain amounts in your income, such as:

- a recovery of capital cost allowance, known as **recapture**; and
- part of any capital gain you realize on the sale.

Generally, you have a capital gain or a capital loss when you dispose of capital property. For example, if you sell a piece of land for more than it cost, you have a capital gain as a result. Similarly, if you sell the land for less than it cost, you have a capital loss.

For more information on capital gains and capital losses, see Guide T4037, *Capital Gains*. For special rules relating to farmers, see Guide T4003, *Farming Income*.

Also, there may be GST/HST implications when you sell a property. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Inventory and cost of goods sold

To match expenses with income, you need to prepare an annual inventory. This is usually a list of goods held for sale. If you are a manufacturer, this includes raw materials as well as packaging material and supplies, work-in-progress (goods and services that you have not yet completed at the end of your fiscal period), and finished goods that you have on hand. Inventory is used in the calculation of the cost of goods sold, which allows the calculation of net income on Form T2124, *Statement of Business Activities* or Form T2125, *Statement of Business or Professional Activities* **(for 2008 and future years)**.

However, if you have a professional practice and you are an accountant, dentist, lawyer, medical doctor, notary, veterinarian, or chiropractor, you may elect to exclude your work-in-progress when you determine inventory.

How to value your inventory

The value you place on the items in your year-end inventory is important in determining your income. For income tax purposes, the two acceptable methods of valuing your inventory are by determining:

- the fair market value of your entire inventory (use either the price you would pay to replace an item, or the amount you would get if you sold an item); or
- the value of individual items (or classes of items, if specific items are not readily distinguishable) in the inventory, at either their cost or their fair market value, whichever is lower.

Once you choose a method of inventory valuation, you must continue to use this method in subsequent years.

For more information about valuing inventory, see Interpretation Bulletin IT-473, *Inventory Valuation*.

Expenses

This section gives you an overview of the business expenses that you can claim for income tax purposes. For more information, visit our Web site at **www.cra.gc.ca/business** or see Guide T4002, *Business and Professional Income*.

What are business expenses

A business expense is a cost you incur for the sole purpose of earning business income.

You must back up business expense claims with a sales invoice, an agreement of purchase and sale, a receipt, or some other voucher that supports the expenditure. If you pay cash for any business expenses, be sure to get receipts or other vouchers. Receipts should include the vendor's name and the date.

Remember to keep your cancelled cheques if you receive them from the bank. This is part of your proof that the bill was paid or the asset purchased. Keep the cancelled cheques in an orderly manner so we can easily review them.

Running a business from your home

You can deduct expenses for the business use of a work space in your home, as long as you meet **one** of these conditions:

- it is your principal place of business; or
- you use the space only to earn your business income, and you use it on a regular and ongoing basis to meet your clients or customers.

You can deduct a part of your maintenance costs, such as heating, home insurance, electricity and cleaning materials. You can also deduct a part of your property taxes, mortgage interest, and capital cost allowance (CCA). To calculate the part you can deduct, use a reasonable basis, such as the area of the work space divided by the total area of your home.

For more information, see Guide T4002, *Business and Professional Income*.

Types of operating expenses

Personal or living expenses

In most cases, you cannot deduct personal and living expenses, except for travelling expenses you incur in the course of carrying on a business while away from home.

The general rule is that you cannot deduct outlays or expenses that are not related to earning business income.

Prepaid expenses

A prepaid expense is an expense you pay ahead of time. If you use the accrual method of accounting, claim any expense you prepay in the year or years in which you receive the related benefit.

For more information, see Interpretation Bulletin IT-417, *Prepaid Expenses and Deferred Charges*.

Accounting and legal fees

You can deduct the fees you incurred for external professional advice or services, including consulting fees.

You can deduct accounting and legal fees you incur to get advice and help in keeping your records. You can also deduct fees you incur for preparing and filing your income tax and GST/HST returns.

For more information, see Interpretation Bulletin IT-99, *Legal and Accounting Fees*.

Advertising expenses

You can deduct expenses for advertising, including ads in Canadian newspapers and on Canadian television and radio stations. You can also include any amount you paid as a finder's fee.

Certain restrictions apply to the amount of the expense you can deduct for advertising in a periodical. You can deduct all the expense if your advertising is directed to a Canadian market and the original editorial content in the issue is 80% or more of the total non-advertising content in the issue.

You can deduct 50% of the expense if your advertising in a periodical is directed to a Canadian market and the original editorial content in the issue is less than 80% of the total non-advertising content in the issue.

You cannot deduct expenses for advertising directed mainly to a Canadian market when you advertise with a foreign broadcaster.

Business tax, fees, licences, and dues

You can deduct any annual licence fees and business taxes you incur to run your business.

You can also deduct annual dues or fees to keep your membership in a trade or commercial association. However, you cannot deduct club membership dues (including initiation fees) where the main purpose of the club is to provide dining, recreational, or sporting facilities for its members.

Insurance expenses

You can deduct all regular commercial insurance premiums you incur on any buildings, machinery, and equipment that you use for your business.

Interest and bank charges

You can deduct the interest you incur on money you borrow to run your business. However, there are some limits.

There is a limit on the interest you can deduct on money you borrow to buy a passenger vehicle. For more detailed information, see "Motor vehicle expenses" in Guide T4002, *Business and Professional Income*.

There is also a limit on the amount of interest you can deduct for vacant land.

You can choose to capitalize the interest you pay on the money you borrow for the following purposes:

- to buy depreciable property;
- to buy a resource property; or
- for exploration and development.

In the case of exploration and development, when you choose to capitalize interest, you add the interest to either the cost of the property or the exploration and development costs.

Do not deduct the capitalized interest as a current expense. See "Interest" in Guide T4002, *Business and Professional Income*. If you need more information, call us at **1-800-959-5525**.

Maintenance and repairs

You can deduct the cost of labour and materials for any minor repairs or maintenance done to property you use to earn income. However, you cannot deduct the value of your own labour.

You cannot deduct costs you incur for repairs that are capital in nature. However, you may be able to claim capital cost allowance on the repaired property. A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense. For more information about capital cost allowance, see Guide T4002, *Business and Professional Income*.

Meals and entertainment

The maximum part you can claim for food, beverages, and entertainment expenses is 50% of either the amount you incur or an amount that is reasonable in the circumstances, whichever is less.

The 50% limit also applies to the cost of your meals when you travel or go to a convention, conference, or similar event. However, special rules can affect your claim for meals in these cases. For an update and more details, see "Meals and entertainment," "Convention expenses," or "Travel" in Guide T4002, *Business and Professional Income*.

For more information, see Interpretation Bulletin IT-518, *Food, Beverages, and Entertainment Expenses*.

Motor vehicle expenses

You can deduct expenses you incur to run a motor vehicle that you use to earn business income. However, several factors can affect your deduction.

What kind of vehicle do you own?

The kind of vehicle you own can affect the expenses you deduct. For income tax purposes, there are three types of vehicles:

1. **Motor vehicle** – Any automotive vehicle designed or adapted for use on highways and streets. A motor vehicle does not include a trolley bus or a vehicle designed or adapted to be operated only on rails.

2. **Automobile** – This is a motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers.

An automobile **does not** include:

- an ambulance;
- clearly marked police and fire emergency-response vehicles;
- a motor vehicle you bought to use more than 50% as a taxi, a bus used in the business of transporting passengers, or a hearse in a funeral business;
- a motor vehicle you bought to sell, rent, or lease in a motor vehicle sales, rental, or leasing business;
- a motor vehicle (except a hearse) you bought to use in a funeral business to transport passengers;
- a van, pick-up truck, or similar vehicle that seats no more than the driver and two passengers which, in the tax year you bought or leased, was used more than 50% to transport goods and equipment to earn income;
- a van, pick-up truck, or similar vehicle that, in the tax year you bought or leased, was used 90% or more to transport goods, equipment, or passengers to earn income;
- a pick-up truck that, in the tax year you bought or leased, was used more than 50% to transport goods, equipment, or passengers while earning or producing income at a remote work location or at a special work site that is at least 30 kilometres from the nearest community having a population of at least 40,000 persons; and
- a clearly marked Emergency Medical Service vehicle used to carry paramedics and their emergency medical equipment.

3. **Passenger vehicle** – An automobile you bought after June 17, 1987. A passenger vehicle is also an automobile that you leased under a lease agreement you entered into, extended, or renewed after June 17, 1987.

With certain exceptions, most cars, station wagons, vans, and some pick-up trucks are considered passenger vehicles. If you own or lease a passenger vehicle, there may be a limit on the amounts you can deduct for capital cost allowance, interest, and leasing costs.

For definitions and more detailed information about capital cost allowance limits, interest limits, and leasing costs, see Guide T4002, *Business and Professional Income*.

How to record motor vehicle expenses

You can deduct motor vehicle expenses only when they are reasonable and you have receipts to support them.

To get the full benefit of your claim for each vehicle, keep a record of the total kilometres you drove, and the kilometres you drove to earn business income. For each business trip, list the date, destination, purpose, and the number of kilometres you drove.

Be sure to write down the odometer reading of each vehicle at the start and end of the year. If you change motor vehicles during the year, write down the odometer reading at the time you buy, sell, or trade the vehicle. Record the dates of these readings.

What kind of vehicle expenses can you deduct?

The types of expenses you can deduct include:

- fuel and oil;
- maintenance and repairs;
- insurance;
- licence and registration fees;
- capital cost allowance;

- interest you pay on a loan used to buy the motor vehicle; and
- leasing costs.

Joint ownership

If you and another person own or lease a passenger vehicle together, the limits on capital cost allowance, interest, and leasing still apply.

As a joint owner, the total amount you and any other owners deduct cannot be more than the amount that one person owning or leasing the vehicle could deduct.

Business use of a motor vehicle

If you use a motor vehicle for both business and personal use, you can deduct only the portion of the expenses that relates to earning business income.

However, you can deduct the full amount of parking fees related to your business activities and supplementary business insurance for your motor vehicles.

To support the amount you deduct, keep a record of both the total kilometres you drove, and the kilometres you drove to earn income.

The following chart shows you how to keep this type of record.

Jay owns a stereo retail business and has a van that he uses for the business. In keeping his records, Jay wrote down the following information for the current year:

Kilometres driven to earn business income	27,000
Total kilometres driven	30,000
Gas and oil	$2,400
Capital cost allowance	4,500
Insurance	800
Licence and registration fees	100
Maintenance and repairs	200
Total expenses for the van	**$8,000**

Jay calculates the expenses he can deduct for his van in the current year as follows:

$$\frac{27{,}000 \text{ (business kilometres)}}{30{,}000 \text{ (total kilometres)}} \times \$8{,}000 = \$7{,}200$$

Note
When you use more than one motor vehicle to earn income, calculate the expenses for each vehicle separately.

Interest expenses on vehicle loans

You can deduct interest on money you borrow to buy a motor vehicle, automobile, or passenger vehicle that you use to earn business income.

Include the interest as an expense when you calculate your allowable motor vehicle expenses. However, when you use a passenger vehicle to earn business income, there is a limit on the amount of interest you can deduct.

For more information, see Guide T4002, *Business and Professional Income*.

Vehicle leasing expenses

You can deduct the leasing costs of a motor vehicle that you use to earn business income.

Include the leasing costs when you calculate your allowable motor vehicle expenses.

However, when you use a passenger vehicle to earn income, there is a limit on the amount of leasing costs you can deduct.

To calculate your eligible leasing costs, see Guide T4002, *Business and Professional Income*.

Office expenses

You can deduct the cost of office expenses, which include small items such as pens, pencils, paper clips, stationery, and stamps. Office expenses do not include items such as calculators, filing cabinets, chairs, and desks, which are capital items. For more information, see Guide T4002, *Business and Professional Income*.

Salaries, including employer's contributions

You can deduct salaries you pay to employees. You report these salaries by the end of February on a T4 slip, *Statement of Remuneration Paid*, or T4A slip, *Statement of Pension, Retirement, Annuity and Other Income*. For more details on these slips, see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

Can you deduct business start-up costs?
To be able to deduct a business expense, you had to have carried on a business in the fiscal period in which the expense was incurred. Because of this, you have to be very clear about the date your business started.

Determining exactly what you can claim as a start-up expense can be difficult. For more information, see Interpretation Bulletin IT-364, *Commencement of Business Operations*.

For more information

- T4002, *Business and Professional Income*
- T4004, *Fishing Income*
- T4003, *Farming Income*
- T4036, *Rental Income*
- T4037, *Capital Gains*
- T4001, *Employers' Guide – Payroll Deductions and Remittances*
- RC4022, *General Information for GST/HST Registrants*
- Form T2124, *Statement of Business Activities*
- Form T2032, *Statement of Professional Activities*
- Form T2125, *Statement of Business or Professional Activities* **(for 2008 and future years)**
- Form T2042, *Statement of Farming Activities*
- Form T2121, *Statement of Fishing Activities*
- Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*
- Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*
- Form T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*
- Form T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*
- Interpretation Bulletin IT-442, *Bad debts and Reserves for Doubtful Debts*
- Interpretation Bulletin IT-154, *Special Reserves*
- Interpretation Bulletin IT-473, *Inventory Valuation*
- Interpretation Bulletin IT-417, *Prepaid Expenses and Deferred Charges*
- Interpretation Bulletin IT-364, *Commencement of Business Operations*
- Web site **www.cra.gc.ca**

Chapter 6: Audits

What is an audit?

Auditing is a way for the CRA to monitor and inspect GST/HST and income tax returns, excise taxes and duties, and payroll records. Although there is a high standard of compliance with the law in Canada, audits help us maintain public confidence in the fairness and integrity of Canada's tax system.

How we select files to audit

Your tax return is recorded in a computer system that enables us to select returns to be audited. The system also allows us to sort returns into various groups to help with our selection.

In some cases, we compare selected financial information for current and previous years of clients engaged in similar businesses or occupations. From computer-generated lists of returns for potential audit, we then choose specific returns. Most returns are selected in this way. But there are four common ways of selecting files.

1. **Computer-generated lists**
   Most returns are selected for audit review from computer-generated lists. For example, the computer system can compare selected financial information of taxpayers engaged in similar business or occupations and generate lists of returns with audit potential. From these lists, we choose specific returns to be audited.

2. **Audit projects**
   In some cases, we test the compliance of a particular group of taxpayers. If the test results indicate that there is significant non-compliance within the group, we may audit its members on a local, regional, or national basis.

3. **Leads**
   Leads include information from other audits or investigations, as well as information from outside sources.

4. **Secondary files**
   Sometimes we select files for audit because of their association with other previously selected files. For example, if you are in partnership with another taxpayer, and that person's file has been selected for audit, it is usually more convenient to examine all the records at the same time.

How we conduct audits

If you are selected, an auditor will review your records at a CRA office (office audit) or at your place of business (field audit). The audit usually includes an examination of the following documents:

- information on file at the CRA, such as the returns selected for audit, financial statements, audit reports from previous audits, if any; and
- your business records including your ledgers, journals, bank accounts, sales invoices, purchase vouchers, and expense accounts.

The auditor will contact you and either request that you send specific records to a CRA office, or arrange a convenient date and time to start the audit at your place of business.

If a field audit is required, upon arriving at your place of business, the auditor will present an identification card. Before examining your records, the auditor may want to discuss the general nature of your business, or tour the premises to get a better understanding of the transactions recorded in your books.

Throughout the process, the auditor may need to get information and assistance from your employees, particularly those who do your accounting.

Delays in the audit, and how to avoid them

The time an audit takes depends on the state of your accounting records and related documents, as well as the size and complexity of your business. Your co-operation will help keep this time to a minimum.

Well-kept records will reduce the time required to complete the audit. Refer to the record-keeping guidelines on page 11 of this guide.

Finalizing an audit

When the audit is completed, the auditor may propose certain adjustments to your return. He or she will prepare a summary of the proposed adjustments.

Initially, the auditor will discuss this with you or your representative. If you request it, or if it is reasonable to expect that you will need some time to analyze the proposed adjustments, the auditor will confirm the proposal in writing and allow a reasonable time for your reply.

If you provide additional information within this period, the auditor will consider it and will issue a new proposal letter, if applicable.

If there are no proposed adjustments to your return, the auditor will inform you of this when the audit is completed.

If there are changes, you will be issued a *Notice of Assessment* or *Notice of Reassessment*.

Note
The auditor's role is to determine the correct amount of duty or tax payable. This may mean that your taxes will be reduced and you will get a refund as a result.

Chapter 7: Objections and appeals

What to do if you disagree with a tax assessment

If you do not understand or you disagree with an assessment, call **1-800-959-8281**. You can also write to the tax centre that dealt with your return. We resolve many problems with assessments in this way. If you employ the services of a tax professional, you may wish to consult with that person.

The objection process

Under income tax and GST/HST legislation, you can file an objection if you disagree with your *Notice of Assessment* or *Notice of Reassessment* and you think that the law has been applied incorrectly.

Income tax – You can do this by using the "Register my formal dispute" option at *My Account* on our Web site at **www.cra.gc.ca/myaccount**, or by sending Form T400A, *Objection – Income Tax Act*, or a signed letter addressed to the Chief of Appeals, at your local Appeals Intake Centre. Residents of the provinces west of Ontario and the 3 territories may send the objection to the following address:

Western Intake Centre
Burnaby/Fraser TSO
9737 King George Highway
PO Box 9070 Station Main
Surrey BC V3T 5W6

Residents of Ontario and provinces east may send the objection to the following address:

Sudbury Intake Centre
Sudbury Tax Services Office
Appeals Division
1050 Notre Dame Avenue
Sudbury ON P3A 5C1

For more information, visit our Web site at **www.cra.gc.ca/resolvingdisputes**.

If you are an individual (other than a trust) or if you are filing for a testamentary trust, you must file your objection by the later of:

- one year after the due date of the return; or
- 90 days after the date we mailed your *Notice of Assessment or Notice of Reassessment*.

In every other case, you have to file your objection within 90 days of the day we mailed the *Notice of Assessment* or *Notice of Reassessment*.

GST/HST – You must use Form GST159, *Notice of Objection (GST/HST)*, to file your objection. Send it to the Chief of Appeals at your local Appeals Intake Centre within 90 days of the day we mail the *Notice of Assessment* or *Notice of Reassessment*.

When we receive your objection, the Appeals Division will conduct an independent impartial review of the assessment. If the Chief of Appeals agrees with you in whole or in part, we will adjust your return and send you a *Notice of Reassessment*. However, if the Chief of Appeals disagrees, we will send you a *Notice of Confirmation* confirming that the assessment was correct.

Excise Act, 2001 – You must use Form E680, *Notice of Objection – Excise Act, 2001*, to file your objection within 90 days of the day we mailed the *Notice of Assessment* or *Notice of Reassessment*. Send your objection to the following address:

Assistant Commissioner, Appeals Branch
22nd Floor
25 Nicholas Street
Ottawa ON K1A 0L5

CPP/EI – If you think we have misinterpreted the facts or applied the law incorrectly, you have the right to appeal assessments and rulings related to the CPP and EI. To file an appeal to the Minister, you can:

- use *My Business Account*;
- mail your appeal directly to the CPP/EI Appeals office located in your region or to any tax services office;

- if you want to appeal a **ruling** of CPP and/or EI, you can use Form CPT100, *Appeal of a Ruling under the Canada Pension Plan and/or Employment Insurance Act*; or
- if you want to appeal an **assessment** of CPP and/or EI, you can use Form CPT101, *Appeal of an Assessment under the Canada Pension Plan and/or Employment Insurance Act*.

In all cases, you can choose to send a letter detailing your request, signed by the appellant or by an authorized officer of the corporation.

Tax Court of Canada

If you still do not agree, you can appeal our decision to the Tax Court of Canada. You have 90 days from the date we mail our decision on your objection (a *Notice of Reassessment* or a *Notice of Confirmation*). You can also file an appeal to the Tax Court of Canada if we do not notify you of our decision within 90 days of the date you filed your income tax objection, or within 180 days of the date you filed a GST/HST or excise duty objection.

The Tax Court of Canada deals with appeals under the informal or general procedure.

Informal procedure

This procedure is designed to resolve less complex cases involving smaller amounts of taxes, interest, and penalties. You have to indicate in your appeal that you want the Court to hear your case under this procedure.

Through a series of strict time frames built into this procedure, decisions should be made within about six months of the date you filed your appeal.

Decisions are final and not subject to appeal. However, they are subject to judicial review by the Federal Court of Appeal.

General procedure

If you do not elect to have your appeal heard under the informal procedure, it will be heard under the general procedure.

This is a more formal process that includes:

- filing a written notice of appeal;
- paying a filing fee;
- restricting representation in court to either you or your lawyer;
- awarding costs to either party (the plaintiff or the defendant).

The Federal Court of Appeal reviews appeals by either party of decisions made under this procedure.

Federal Court of Appeal

If either you or the Minister of National Revenue want to appeal a decision the Tax Court of Canada made under the general procedure, the appeal must be filed with the Federal Court of Appeal no later than 30 days after the decision.

Either party can request that the Federal Court of Appeal review a decision the Tax Court of Canada made under the informal procedure. The Federal Court review will be restricted to questions of law and jurisdiction. An application for this type of review has to be filed no later than 30 days after the decision of the Tax Court of Canada.

Supreme Court of Canada

You can appeal a judgement of the Federal Court of Appeal to the Supreme Court of Canada. However, you first have to get the Supreme Court's permission.

Collection of disputed amounts

If you object to or appeal an income tax assessment, we usually postpone collection action on amounts in dispute until 90 days after we mail our decision to you. We will not postpone collection action on some disputed amounts, such as employees' income tax that you were required to withhold and remit.

You do not have to pay the tax you are disputing while you are waiting for the CRA or a court to settle your appeal. However, these taxes are still subject to the usual interest charges. Before you appeal a lower court's decision to a higher court, you have to pay the tax in dispute or post acceptable security.

If you lose your appeal to the Tax Court of Canada, we will resume collection action even if you appeal the Court's decision. However, we will accept security for payment while your appeal is outstanding.

If you object to a GST/HST assessment, collection action may be postponed. However, you may post acceptable security while we are reviewing your objection.

Your rights, entitlements, and obligations

The CRA operates on the fundamental belief that its taxpayers are more likely to comply with the law if they are treated fairly and have the information, advice, and other services they need to meet their obligations. These obligations may include filing required returns, paying taxes, providing information, and properly declaring imported or exported goods.

While we want to make sure you are aware of your obligations, we also want to make sure that you understand and can exercise your rights. For more information on Taxpayer Relief Provisions and taxpayer rights, visit our Web site at **www.cra.gc.ca/fairness**, or see Guide RC17, *Taxpayer Bill of Rights Guide: Understanding Your Rights as a Taxpayer*.

For information on the CRA's Commitment to Small Business, visit our Web site at **www.cra.gc.ca/agency/fairness/tbrbill-e.html#smb**.

Taxpayer Relief Provisions

We can waive or cancel all or part of the interest or penalties when they result from circumstances that are beyond your control. Such circumstances could include a serious illness, natural disasters, or a postal service strike that prevents you from filing an income tax or GST/HST return, or making a payment by the required deadline.

Provisions in the *Income Tax Act* and *Excise Tax Act* (for GST/HST) help us administer the legislation fairly. These provisions apply to individuals, testamentary trusts, small business owners, and corporations. All requests for relief should be submitted in writing.

For requests made on or after January 1, 2005 under the taxpayer relief provisions of the *Income Tax Act*, the Minister may grant relief for any tax year (or fiscal period in the case of a partnership) that ended within 10 years before the calendar year in which the taxpayer's request was made. For more information, see Information Circular IC-07-1, *Taxpayer Relief Provisions*.

For requests made on or after April 1, 2007 under the taxpayer relief provisions of the *Excise Tax Act*, the Minister may grant relief for any reporting period that ended within 10 years before the calendar year in which the taxpayer's request was made.

Taxpayers can address requests involving the taxpayer relief provisions to any CRA office. Form RC4288, *Request for Taxpayer Relief*, can be used to make a request. A copy of this form is available on our Web site at **www.cra.gc.ca/E/pbg/tf/rc4288**, or by calling **1-800-959-2221**.

For more information

- Form T400A, *Objection – Income Tax Act*
- Form GST159, *Notice of Objection (GST/HST)*
- Form E680, *Notice of Objection – Excise Act, 2001*
- Form RC4288, *Request for Taxpayer Relief*
- Form RC193, *Service-Related Complaint*
- Form CPT100, *Appeal of a Ruling under the Canada Pension Plan and/or Employment Insurance Act*
- Form CPT101, *Appeal of an Assessment under the Canada Pension Plan and/or Employment Insurance Act*
- Pamphlet P148, *Resolving Your Dispute: Objection and Appeal Rights Under the Income Tax Act*
- Booklet RC4420, *Information on CRA – Service Complaints*
- Information Circular IC-07-1, *Taxpayer Relief Provisions*
- RC17, *Taxpayer Bill of Rights Guide: Understanding your Rights as a Taxpayer*
- Web sites
  www.cra.gc.ca
  www.cra.gc.ca/forms

  Fairness and Taxpayer Bill of Rights
  www.cra.gc.ca/fairness

  Taxpayer relief provisions and voluntary disclosures
  www.cra.gc.ca/agency/programs_services/disagree/fairness-e.html

Chapter 8: At your service

You can get information and publications, and conduct other types of business on our Web site at **www.cra.gc.ca** or contact us at **1-800-959-5525** for business enquiries and **1-800-959-2221** for forms.

Some of these publications and services are also available at Government of Canada Info Centres. You can contact these offices for written information on income tax, customs duties and tariffs, and GST/HST programs.

Electronic services for businesses

Electronic services help businesses by streamlining communications with the CRA and simplifying the preparation and submission of tax information. Take advantage of the growing line of secure electronic services that we offer. To ensure the privacy and security of your information, we use measures such as firewalls and one of the most secure forms of encryption available in North America. We use the same level of encryption as North-American financial institutions.

My Account

My Account is a secure online service that gives you the convenience and flexibility of viewing and managing your personalized information. This service gives you access to your tax refund or balance owing, direct deposit information, authorized representatives and so much more. It also allows you to manage your personal income tax and benefit account online by changing your return, changing your address or telephone numbers, applying for child benefits, authorizing your representative, setting up a payment plan and formally disputing your assessment. For more information, visit *My Account* on our Web site at **www.cra.gc.ca/myaccount** or see Pamphlet RC4059, *My Account for Individuals*.

My Business Account

My Business Account, one of CRA's online services, provides convenient and secure access to a growing range of personalized business account information and services. It offers business owners online access to their GST/HST, payroll, corporation income tax, excise tax, excise duty, and other levies accounts. You can view account balances and transactions, file GST/HST returns, transmit corporation income tax and information returns (such as T4 slips), and view previously issued correspondence items right from your personal computer. This service also allows you to register a formal dispute regarding payroll, corporation income taxes, and excise duty. As of October 2007, *My Business Account* allows you to authorize your representatives online, including your employees. For more information, visit our Web site at **www.cra.gc.ca/mybusinessaccount**.

Represent a client

As of October 2007, authorized representatives are able to view account information and transact online on behalf of the business owners through the *Represent a client* service. Business owners can authorize their representatives through *My Business Account*, or with the newly revised RC59, *Business Consent Form*. For more information, visit **www.cra.gc.ca/representatives**.

Making online requests

You can request certain financial actions (such as payment search, credit transfer, or interest review) to be processed on GST/HST, corporation income tax, excise tax, excise duty, and other levies accounts. The Online Requests for Business service also accepts requests for the following items:

- additionnal remittance vouchers;
- customized statements;

- copies of previously issued communication items;
- changes to mailing instructions (stop/restart account statements and remittance envelopes).

For more information on this convenient service, visit **www.cra.gc.ca/requests-business**.

Registering your business

Business Registration Online is a one-stop registration service that allows you to apply for a BN with the CRA and register for programs administered by British Columbia, Nova Scotia, and Ontario.

You can also use this online service if you already have a BN and need to register for any of the four major program accounts (GST/HST, payroll deductions, corporation income tax, and import/export). Businesses with a physical address in Quebec that need a GST account will be automatically linked to the Revenu Quebec site. For more information, visit **www.cra.gc.ca/bro**.

Filing returns

File your personal income tax return using NETFILE

NETFILE is one of our electronic tax-filing options. This transmission service allows you to file your personal income tax return directly to the CRA using the Internet. You can only transmit your own tax return to the CRA using NETFILE. Authorized representatives cannot transmit tax returns on behalf of their clients via NETFILE. When you use NETFILE, you cannot change any of your personal information such as your name, address, date of birth, or direct deposit information.

To change your address, please visit *My Account* prior to using NETFILE. You will need an epass to use *My Account*. If you don't have one, you can call **1-800-714-7257** to make the necessary changes to your address before using NETFILE.

File your corporation income tax return over the Internet

You can file your corporation income tax return directly with the CRA using the Internet. You will benefit from faster processing and refunds, less paper use, and lower mailing and courier costs.

Once a corporation income tax return has been prepared using CRA-certified commercial software, simply access the Corporation Internet Filing Web site, follow the easy-to-use instructions, and transmit the return. You will receive immediate confirmation that the return has been accepted for processing. If you encounter problems sending the electronic return, online messages will help you correct them.

When you register with the CRA for direct deposit through your financial institution, local branch or service provider, your refund will be in your account the same day we would have mailed your cheque. To take advantage of this service, simply complete and submit Form T2-DD, *Direct Deposit Request Form for Corporations*, available at **www.cra.gc.ca/dd-bus**.

For more information, visit **www.cra.gc.ca/corporation-internet** or call the Corporation Internet Filing Help Desk at **1-800-959-2803**.

Filing your GST/HST returns electronically

The CRA offers you the options of filing your GST/HST returns over the Internet, by telephone, or through your financial institution or third-party service provider. Eligible GST/HST registrants filing a return with a debit balance or nil balance, or claiming a refund of $10,000 or less, can do so quickly, easily, and securely over the Internet with GST/HST NETFILE, or by using a touch-tone phone with GST/HST TELEFILE. Not only will you receive immediate confirmation that your return has been received, but you will also receive your refund faster.

When you register with the CRA for direct deposit through your financial institution, local branch or service provider, your refund will be in your account the same day we would have mailed your cheque. To take advantage of this service, simply complete and submit Form GST469, *Direct Deposit Request*, available at **www.cra.gc.ca/dd-bus**.

You may also be able to electronically file your return and make your payment through a participating financial institution or third-party service provider. Contact your local branch or service provider to see if they offer this service, or visit **www.cra.gc.ca/gsthst-edi**.

For more information about the various ways of filing GST/HST returns, visit **www.cra.gc.ca/gsthst-filing**.

> **Note**
> Eligible corporation income tax, GST/HST, and information returns can be filed electronically by business owners through *My Business Account*, or by authorized representatives through *Represent a Client*.

Making electronic payments

You may be able to make your payments electronically through your financial institution's telephone or Internet banking services or through a third-party service provider.

Visit **www.cra.gc.ca/electronicpayments**, or contact your financial institution or service provider to see what services they offer. Most financial institutions also allow you to schedule future-dated payments.

The GST/HST Registry

The GST/HST Registry is an online service that allows you to validate the GST/HST number of a business, which helps to ensure that claims submitted for input tax credits only include GST/HST charged by suppliers who are registered for GST/HST.

For more information, visit **www.cra.gc.ca/gsthstregistry**.

You can validate the Quebec Sales Tax (QST) registration number by accessing the QST registry on the Revenu Québec Web site at **www.revenu.gouv.qc.ca/eng/services/sgp_validation_tvq/index.asp**.

Electronic mailing lists

We can notify you immediately about new information on payroll, GST/HST, electronic filing for businesses, and more. To subscribe free of charge, visit **www.cra.gc.ca/lists**.

Getting help

To get help using *My Business Account*, GST/HST NETFILE, GST/HST TELEFILE, Information Returns Electronic Filing, *Represent a client*, or the Payroll Deductions Online Calculator, call our e-service helpdesk at **1-877-322-7849** and for Teletypewriter (TTY), contact us at **1-888-768-0951**.

The following table shows their hours of service:

E-service Helpdesk hours of service

Time zone	Monday to Friday
Pacific time	3:45 a.m. to 5:00 p.m.
Mountain time	4:45 a.m. to 6:00 p.m.
Central time	5:45 a.m. to 7:00 p.m.
Eastern time	6:45 a.m. to 8:00 p.m.
Atlantic time	7:45 a.m. to 9:00 p.m.
Newfoundland and Labrador time	8:15 a.m. to 9:30 p.m.
Outside Canada and the U.S. (Eastern time)	6:45 a.m. to 8:00 p.m.

> **Note**
> The e-service helpdesk is not available on weekends and statutory or civic holidays.

For assistance with Corporation Internet Filing, call **1-800-959-2803**. For general business enquiries, call **1-800-959-5525**.

For more information on the CRA's electronic services for business, visit our Web site at **www.cra.gc.ca/electronicservices**, or see Pamphlet RC4358, *Service Options for Businesses*.

Bilingual service

In every office across Canada, we offer our services in both English and French. All publications and forms are also available in both official languages.

Tax services offices

The CRA Web site, **www.cra.gc.ca**, has the answers to your questions. From information about registering a business to filing a tax return, the CRA Web site covers it all. With its specialized tools and improved search capabilities, it is a convenient self-service resource.

Still cannot find what you are looking for? For answers to your tax questions, call us at **1-800-959-5525**. If you still need help after speaking with a telephone agent, you can book an appointment at a tax services office (TSO) at a time that is convenient for you. Visit our Web site at **www.cra.gc.ca/tso**, which provides you with the addresses and fax numbers of tax services offices or tax centres.

Tax centres

Staff members at the tax centres process and store income tax returns. They send assessment notices, arrange for refund cheques, and provide written explanations of tax assessments. They also process tax payments.

For a listing of the tax centres, their addresses, office hours, and fax numbers, visit our Web site at **www.cra.gc.ca/tso**.

The International Tax Services Office

The CRA's International Tax Services Office (ITSO) is located in Ottawa.

Staff members at ITSO process individual and corporate tax returns, respond to written taxpayer enquiries, process requests for adjustments, and provide telephone and counter enquiry services for non-residents, deemed residents, emigrants as well as newcomers to Canada (immigrants).

The office also maintains the accounts of those individuals and institutions that issue payments to non-residents of Canada.

Advance income tax rulings and interpretations

An advance income tax ruling is a written statement to a taxpayer from the Income Tax Rulings Directorate that states how the CRA will interpret and apply Canadian income tax law to transactions the taxpayer is considering.

GST/HST rulings and interpretations

You can ask for a written ruling or interpretation on how GST/HST applies to your operations or transactions. We will provide guidance and as much certainty as possible about how GST/HST applies and the consequences of your transactions or proposed transactions.

If you require general information about GST/HST, visit **www.cra.gc.ca/gsthst** or contact our Business Enquiries line at **1-800-959-5525**.

We provide our GST/HST rulings and interpretations service from rulings centres across Canada (except in Quebec). You can contact us at **1-800-959-8287**. For service in Quebec, contact Revenu Quebec at **1-800-567-4692**.

Excise duty rulings and interpretations

You can ask for a written ruling or interpretation on how excise duties apply to certain goods (such as alcohol and tobacco products). For more information, please contact a Regional Excise Duty Office. For a listing of their numbers, please consult Excise Duty Memoranda EDM1-1-2, *Regional Excise Duty Offices*, on our Web site at **www.cra.gc.ca/E/pub/em/edm1-1-2**.

Help for taxpayers with a hearing or visual disability or speech disorder

Taxpayers with a hearing disability or speech disorder who have access to a **teletypewriter** (TTY) can get income tax information and help by calling our bilingual enquiry service at **1-800-665-0354**.

The service is available weekdays from 8:15 a.m. to 5:00 p.m., local time, with extended hours offered during the income tax filing season.

Visually impaired persons can get our publications and their personalized correspondence in braille, large print, or etext (CD or diskette), or on audio cassette or MP3. For details, visit our Web site at **www.cra.gc.ca/alternate** or call **1-800-959-2221** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern time).

Seminars, trade shows, and workshops

To help small business taxpayers understand their rights and obligations under existing and frequently changing legislation, we offer the following services:

Seminars – These cover a variety of topics, from general to complex matters. We give seminars on request and target them to meet the needs or interests of the audience.

Trade shows – These are one and two-day events sponsored by the private sector, where we present information on our services.

Workshops – These are one and two-day events where we present, instruct, or walk through examples of how to complete various forms and schedules.

To register for a seminar or workshop, visit our Web site at **www.cra.gc.ca/events** or contact the Business Enquiries section of your tax services office.

Employer visits program

If you operate a small business, you may be too busy to attend an information seminar. If so, our staff is available on request to visit you at your place of business.

This will give you a chance to ask questions about recording, withholding, or reporting employee earnings, tax, Canada Pension Plan contributions, or Employment Insurance premiums. We do not charge for this service. For information about this service, call **1-800-959-5525**.

Service Canada

(formerly Government of Canada Info Centres)

We work with other federal agencies and departments to serve Canadians in smaller communities by offering a variety of government services in single locations called Service Canada centres. Visit their Web site at **www.servicecanada.gc.ca** for the office nearest you.

Scientific research and experimental development (SR&ED) investment tax credit

We have set up a service to address the needs of individuals and businesses that have claimed the SR&ED investment tax credit. We regularly conduct public information sessions to explain the meaning of SR&ED, describe eligible activities, explain what expenditures qualify for the credit, and describe the documentation required for a claim.

You can get information about these sessions at **www.cra.gc.ca/sred** or by calling our Business Enquiries line at **1-800-959-5525**.

For more information on scientific research and experimental development, see Guide T4052, *An Introduction to the Scientific Research and Experimental Development Program*.

Canada Business Service Centres

These centres provide businesses with access to information about the programs and services of various federal departments and agencies, including the CRA, Industry Canada, and economic development agencies such as the Atlantic Canada Opportunities Agency, Western Economic Diversification Canada, and the Federal Office of Regional Development

(Quebec). Other partners include provincial and non-government agencies.

At the Canada Site, **www.canada.ca**, you can find a list of links to the Web sites of Government of Canada departments, agencies, and Crown corporations. You can also find links to Web sites maintained by organizations for which federal departments and agencies are responsible.

Thirteen Canada Business Service Centres operate across the country – in every province and territory. They are in Charlottetown, Edmonton, Fredericton, Halifax, Montréal, Saskatoon, St. John's, Toronto, Vancouver, Whitehorse, Winnipeg, Yellowknife, and in the territory of Nunavut.

Complaint resolution

Problem Resolution Program

Most questions and concerns can be resolved quickly through our general enquiries service by calling **1-800-959-5525**. However, from time to time, some people have situations that need special attention. To address such cases, we created the Problem Resolution Program.

Our Problem Resolution Program handles, on a priority basis, cases that cannot be resolved through regular channels. The program co-ordinators examine any concerns brought to their attention by the telephone staff, trace the problem to its source, determine whether the case is isolated or part of a larger trend that needs attention, and take action to resolve the case.

For more information on objections and appeals, visit our Web site at **www.cra.gc.ca/resolvingdisputes**.

CRA – Service Complaints Program

On May 28, 2007, the CRA introduced a complaint resolution process called CRA – Service Complaints to support the service rights outlined in the Taxpayer Bill of Rights. For more information, visit our Web site at **www.cra.gc.ca/rights**.

"Service" refers to all interactions, solicited and unsolicited between the CRA and taxpayers. A service-related complaint could include errors, omissions, or oversights on our part in our process, undue delays in meeting our service standards, poor or misleading information you may have received in your dealings with us, or any unprofessional behaviour from our staff.

If you are not satisfied with the service you have received after exhausting normal complaint channels at the CRA, you have the right to make a formal written complaint through CRA – Service Complaints Program.

For more information about the complaint process, see Booklet RC4420, *Information on CRA – Service Complaints*, which includes Form RC193, *Service-Related Complaint*.

Visit our Web site at **www.cra.gc.ca/complaints** or call our Forms line at **1-800-959-2221** to order these documents.

Taxpayers' Ombudsman

The Minister of National Revenue announced the appointment of Canada's first Taxpayers' Ombudsman on February 21, 2008, to enhance the CRA's accountability and service to the public and to provide the people it serves with renewed assurance that they will be treated fairly, equitably, and with respect.

The Taxpayers' Ombudsman is an independent and impartial officer who operates at arm's length from the CRA, reports to the Minister of National Revenue, and reviews service-related complaints about errors, undue delays, poor or misleading information, or staff behaviour.

The ombudsman also reviews complaints where any of the service rights outlined in the Taxpayer Bill of Rights may not have been respected by the CRA.

The role of the Taxpayers' Ombudsman is to provide a final, impartial review of a service-related complaint after you have exhausted the normal complaint channels, including the CRA – Service Complaints program, and you are still not satisfied with the way your service-related complaint was handled by the CRA. You can contact the Taxpayers' Ombudsman's office at:

Taxpayers' Ombudsman
Suite 724
50 O'Connor Street
Ottawa ON K1P 6L2

Telephone: **1-866-586-3839**
Outside Canada: **1-613-946-2310**

For more information, visit their Web site at **www.taxpayersrights.gc.ca**.

Note
There are no costs associated with filing a complaint or for any service provided by the Taxpayers' Ombudsman.

Publications

In addition to the services mentioned above, we offer numerous tax guides, pamphlets, bulletins, and circulars. You can get information on any tax-related matter from these publications. Many of them are available on our Web site at **www.cra.gc.ca/forms**.

You can also order copies of these publications by calling us at **1-800-959-2221**.

The following are some of the types of publications available:

- **Income tax guides** – The guide that accompanies each income tax return is an important source of information. We also publish other guides to meet the needs of specific groups of taxpayers. These include Guide T4002, *Business and Professional Income*, Guide T4003, *Farming Income*, and Guide T4004, *Fishing Income*.
- **GST/HST guides** – To help businesses and organizations comply with GST/HST, we have developed a range of guides. Some of them are general in scope, some are for specific types of businesses and organizations, and some are for completing different GST/HST returns and rebate applications. For more information, or to get copies of GST/HST publications, forms, and applications, visit our Web site at **www.cra.gc.ca/formspubs/topics/gsthst-e.html**, or contact your tax services office. If you are a resident of Quebec, contact an office of Revenu Quebec.

You can also visit Strategis at **www.strategis.gc.ca**. This link provides you with easy, direct access to Industry Canada's extensive expertise and information resources.

Summary of important dates for businesses

Sole proprietorships and partnerships	
Monthly, by the 15th	Remit the payroll deductions from your employees' remuneration, along with your part of Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums, by the 15th of the following month.
Last day of February	File your T4 and T4A slips along with the related Summary form. Distribute the slips to your employees.
Quarterly, by the 15th	If you are self-employed, make your **instalment** payments of tax and CPP contributions by these dates: 1st instalment: March 15th; 2nd instalment: June 15th; 3rd instalment: September 15th; and 4th instalment: December 15th.
March 31	Partnerships (except those made up of corporations, or a combination of individuals, corporations, or trusts with different filing dates) that are required, must file a partnership information return.
April 30	File your T1 personal income tax and benefit return for the previous year. **Pay** any tax amounts owing. Self-employed individuals and their spouses or common-law partners have until June 15 to **file** their returns.
June 15	Self-employed individuals (and their spouses or common-law partners) must file their T1 personal income tax and benefit returns. However, you have to pay any balance owing **by April 30**, to avoid interest charges.
December 31	For farmers and fishers, calculate and pay the amount of your current-year instalment payment.

Corporations	
Last day of February	File your T4 and T4A slips along with the related Summary form. Distribute the slips to your employees.
Monthly	Remit the payroll deductions from your employees' remuneration to us, along with your part of Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums, by the 15th of the following month.
Monthly	Corporations have to pay instalments of their current-year taxes, by the last day of each month.
Two months from your tax year-end	The balance of the corporation tax payable is due.
Three months from your tax year-end	For Canadian controlled private corporations claiming the small business deduction, the balance of the corporation tax payable is due.
Six months from your tax year-end	Corporations must file a *T2 Corporation Income Tax Return* no later than six months after the corporation's year-end.

Note
It is important that you file any required returns and remit payments on time. Penalties apply if you do not, and interest is charged on unpaid taxes and penalties.

For important dates regarding GST/HST, see "Reporting periods" on page 18, or visit our Web site at **www.cra.gc.ca/importantdates**.

Frequently used Web sites for small businesses

Topic	Web site
Business account registration	**www.cra.gc.ca/bn**
Canadian Agricultural Income Stabilization (CAIS) Program	**www.agr.gc.ca/caisprogram**
Completing and filing information returns	**www.cra.gc.ca/slips**
Conducting business on the Internet	**www.cra.gc.ca/ecomm**
Contact us	**www.cra.gc.ca/contact**
Contract payment reporting	**www.cra.gc.ca/contract**
Corporate income tax	**www.cra.gc.ca/t2return**
Corporation Internet filing	**www.cra.gc.ca/corporation-internet**
Direct deposit – Business	**www.cra.gc.ca/dd-bus**
Electronic payments	**www.cra.gc.ca/electronicpayments**
Electronic mailing lists	**www.cra.gc.ca/lists**
Events – Outreach	**www.cra.gc.ca/events**
Excise and GST/HST News	**www.cra.gc.ca/formspubs/type/gsthstnews-e.html**
Fairness and taxpayer bill of rights – Overview	**www.cra.gc.ca/fairness**
FAQs available on the CRA Web site	**www.cra.gc.ca/faqs**
File on electronic media	**www.cra.gc.ca/electronicmedia**
Forms and publications	**www.cra.gc.ca/forms**
Forms and publications – Online order forms	**www.cra.gc.ca/orderforms**
GST/HST electronic filing and remitting	**www.cra.gc.ca/gsthst-edi**
GST/HST NETFILE	**www.cra.gc.ca/gsthst-netfile**
GST/HST TELEFILE	**www.cra.gc.ca/gsthst-telefile**
Information for Aboriginal people	**www.cra.gc.ca/aboriginalpeoples**
Main page for business	**www.cra.gc.ca/business**
My Business Account	**www.cra.gc.ca/mybusinessaccount**
Online Requests for Business	**www.cra.gc.ca/requests-business**
Payroll	**www.cra.gc.ca/payroll**
Payroll Deductions Online Calculator (PDOC)	**www.cra.gc.ca/pdoc**
Prescribed interest rates	**www.cra.gc.ca/interestrates**
Public holidays	**www.cra.gc.ca/duedates**
Security options – Taxable benefit	**www.cra.gc.ca/stockoptions**
T4 Internet filing	**www.cra.gc.ca/t4internet**
Tables in Diskette (TOD)	**www.cra.gc.ca/tod**
Taxpayer's Ombudsman	**www.taxpayersrights.gc.ca**
Tax services offices and taxation centres	**www.cra.gc.ca/tso**
The CRA warns Canadians against tax "myths"	**www.cra.gc.ca/myths**
Visitor Rebate Program	**www.cra.gc.ca/visitors**

Glossary of terms

Terms that appear in capital letters have their own listing elsewhere in the glossary.

Account – A formal record of transactions involving a particular item or person.

Accounts payable – Debts you have as a result of purchasing ASSETS or receiving services on an open account or on credit. You have accounts payable when you have not yet paid for the assets or services you have received.

Accounts receivable – Amount of money you are owed. Generally, you are owed this amount because you sold ASSETS or provided services.

Accrual method of accounting – With this method, INCOME is reported in the FISCAL PERIOD it is earned, regardless of when it is received. The expenses are also deducted in the fiscal period they are incurred, whether they are paid or not. This method is generally used by businesses or professionals.

Appeal – A process by which you ask a Court to review the decision the Appeals Division made on behalf of the Minister of National Revenue.

Articles of incorporation – Legal document filed with a provincial or territorial government, or the federal government, which sets out a CORPORATION's purpose and regulations.

Assessment – A formal determination of taxes, duties, or other amounts to be paid or refunded. An assessment includes a reassessment. See NOTICE OF ASSESSMENT.

Assets – Any property owned by a person or business. Assets include money, land, buildings, investments, inventory, cars, trucks, boats, or other valuables that belong to a person or business. They also may include intangibles such as GOODWILL.

Bad debt – Money owed to you that you cannot collect.

Balance – The amount remaining in an ACCOUNT after recording all deposits and withdrawals.

Balance sheet – Statement of the financial position of a business. It states the ASSETS, liabilities, and owners' equity at a particular point in time.

Budget – A plan outlining an organization's financial and operational goals.

Business expenses – Certain costs that are reasonable for a particular type of business, and that are incurred for the purpose of earning INCOME. Business expenses can be deducted for tax purposes. Personal, living, or other expenses not related to the business cannot be deducted for tax purposes.

Business Number (BN) – A number you get when you register to do any business with us. It is a single number that replaces the numbers that Canadian businesses previously needed to deal with the federal government.

Calendar year – The twelve-month period beginning January 1 and ending December 31. Depending on your business circumstances, you may or may not use the calendar year as your FISCAL PERIOD.

Canada Pension Plan (CPP) – An insurance program to help Canadians provide INCOME for their retirement. It also gives them income if they become disabled. Contributions are directly related to annual earnings.

Capital cost allowance (CCA) – A yearly deduction or depreciation on the cost of certain ASSETS. You can claim CCA for tax purposes on the assets of a business such as buildings or equipment, as well as on additions or improvements, if these assets are expected to last for some years.

Capital gains – The amount by which PROCEEDS OF DISPOSITION less outlays and expenses exceed the adjusted cost base of CAPITAL PROPERTY.

Capital loss – The amount by which the adjusted cost base and outlays and expenses of CAPITAL PROPERTY exceeds PROCEEDS OF DISPOSITION.

Capital property – Generally, any property of value, including DEPRECIABLE PROPERTY. Common types of capital property include principal residences, cottages, stocks, bonds, land, buildings, and equipment used in a business or rental operation.

Cash method of accounting – With this method, you report INCOME in the year it is actually received. Similarly, expenses are deducted in the year they are actually paid. Farmers, fishers, and certain salespeople who work on commission may use the cash method.

Commercial activity – For GST/HST purposes, generally, any business, adventure or concern in the nature of trade carried on by certain persons, except when making exempt supplies.

Confidentiality – The CRA will protect income tax, GST/HST, excise duty, tax, and other related tax and DUTY information. The only people with access to this information are those who are authorized by law or those to whom the taxpayer, REGISTRANT or LICENSEE has given permission in writing.

Corporation – A form of business authorized by federal, provincial, or territorial law to act as a separate legal entity. Its purpose and regulations are set out in its ARTICLES OF INCORPORATION. One or more persons may own a corporation.

Cost of goods sold – The actual cost of the items sold in the normal course of business during a specific period.

Debt – An amount that is owed. If you borrow money or purchase something on credit, you have created a debt.

Deemed – A legal term used when something is considered to be something else for certain purposes.

Depreciable property – Property that wears out as it is used over the years. For example, cars, farm equipment, and business machines are depreciable. See CAPITAL COST ALLOWANCE.

Depreciation – A decrease in the value of an asset through age, use, and deterioration. In accounting terminology, depreciation is a deduction or expense claimed for this decrease in value.

Disposition – Generally, the disposal of property by sale, gift, transfer, or change in use.

Duty – Generally, the duty imposed under the *Excise Act, 2001*, the *Excise Act*, and the duty levied under certain sections of the *Customs Tariff* and, with some exceptions, includes special duty.

Election – A formal choice among specific options on how tax laws are applied to a taxpayer's financial affairs. Usually you make an election on your tax return.

Employment income – See SALARY.

Employment Insurance (EI) – A federal program that provides financial assistance to people who are temporarily out of work. It is an insurance program, with employers and employees making payments into the Employment Insurance Fund.

Employment Insurance premiums – Deductions that an employer must make from employees' paycheques and forward to the Receiver General for Canada. Employers must also contribute EMPLOYMENT INSURANCE payments.

Excise – Taxes on the manufacture, sale, or use of goods and items.

Fiscal period – This is the twelve-month period over which a business or profession reports its income-earning activities. The fiscal period may or may not coincide with the CALENDAR YEAR. The business usually establishes its fiscal period when it files its first income tax return.

Goodwill – The excess of the purchase price of a business over the fair market value of the net ASSETS of the business.

Gross profit – Sales minus COST OF GOODS SOLD.

Half-year rule – A provision in the *Income Tax Act* that allows you to claim only half of the CAPITAL COST ALLOWANCE available on an ASSET in the year you purchased the asset.

Income – The sum of revenues earned in a specific period of time. It includes revenues from salaries, wages, benefits, tips, and commissions, profits from operating a business or profession, and investments earned.

Income statement – A financial statement that summarizes the results of business activities (income and expenses) for a given period of time. Sometimes called a PROFIT AND LOSS STATEMENT.

Income tax payroll deductions – Employers must deduct income tax from their employees' salaries or wages. They must base these deductions on the income tax deductions tables, which reflect each province's rates.

Information circulars – Publications that we issue to give detailed explanations on a variety of tax subjects.

Information slips – Forms that employers, trusts, and businesses use to tell taxpayers and the CRA how much income was earned, and how much tax was deducted.

Input tax credit – A credit GST/HST REGISTRANTS can claim to recover the GST/HST they paid or owe for goods or services they acquired, imported into Canada or brought into a PARTICIPATING PROVINCE for use, consumption or supply in the course of COMMERCIAL ACTIVITIES.

Instalment – Instalments are periodic payments of income tax that individuals are required to pay to the CRA to cover tax they would otherwise have to pay on April 30. For GST/HST purposes, periodic payments may also be payable by persons who file annual returns. These periodic payments are also referred to as instalments.

Interpretation bulletins – Publications that give our interpretation of parts of the *Income Tax Act*.

Inventory – Generally, the total value of the goods on hand that a business intends to sell, uses for manufacture, or use to render a service. In certain cases, inventory can also include services.

Investment – Expenditure to acquire property that yields or is expected to yield revenue or services.

Lease – A contract under which a property is rented from one person or business to another for a fixed period of time at a specified rate.

Liability – DEBT owed by a person or business.

Licensee – A person who holds a licence issued under the *Excise Act, 2001*.

Loss – The amount by which expenses exceed revenues.

Net income – INCOME subject to taxation after allowable deductions have been subtracted from gross or total income.

Notice of Assessment – A form that we send to all taxpayers and GST/HST REGISTRANTS after we process their returns. It tells taxpayers or GST/HST registrants if we made any corrections to the returns or rebate applications and, if so, what they are. It also informs taxpayers or registrants if they owe more tax or what the amount of their refund will be.

Objection – A statement of facts and reasons detailing why a taxpayer, REGISTRANT, or LICENSEE or other person disagrees with an ASSESSMENT.

Operating expenses – The routine costs of running a business. They include expenses for gasoline, electricity, and office supplies. They do not include the cost of buildings or machinery that are expected to last for several years. See CAPITAL COST ALLOWANCE.

Participating provinces – For GST/HST purposes, three provinces (Nova Scotia, New Brunswick, and Newfoundland and Labrador) harmonized their provincial sales tax with GST to create HST.

Payroll deductions – Income tax deductions, CANADA PENSION PLAN (CPP) or QUEBEC PENSION PLAN (QPP) contributions, and EMPLOYMENT INSURANCE (EI) premiums which are deducted from an employee's wages or SALARY and sent regularly to us. Employers also make their own contributions to the CPP or QPP, and EI.

Penalties – Amounts taxpayers, REGISTRANTS, or LICENSEES must pay if they fail to file returns or remit or pay amounts owing on time, or if they try to evade paying or remitting tax by not filing returns. Penalties must also be paid by people who knowingly, or under circumstances amounting to gross negligence, participate in or make false statements or omissions in their returns, and by those who do not provide the information required on a prescribed form.

Personal tax credit return (Form TD1) – The first income tax form a person has to complete when starting a new job. It tells an employer how much income tax to deduct from the employee's pay.

Prepaid expense – An expense you pay for in advance; an expense you incur for goods and services you will receive in a later FISCAL PERIOD; amounts you pay in interest, income taxes, municipal taxes, rent, dues, or insurance for later fiscal periods. These amounts are included as assets on the balance sheet at the end of a fiscal period.

Proceeds of disposition – Usually, the selling price of property when it is disposed of. Proceeds of disposition also include compensation received for property that has been destroyed, expropriated, stolen, or damaged. It is also the fair market value of property when it is transferred to another person, or when there is a change in its use.

Professional dues – Membership fees paid to maintain a professional status recognized by law, such as lawyers' annual law society fees.

Profit and loss statement – Same as an INCOME STATEMENT.

Proprietorship – A non-incorporated business entirely owned by one person. Same as a SOLE PROPRIETORSHIP.

Quebec Pension Plan (QPP) – A pension plan equivalent to the CANADA PENSION PLAN (CPP) but maintained by the province of Quebec. The provincial government handles the contributions.

Rates of tax – Percentages of INCOME that must be paid as tax. The Department of Finance sets the basic income tax rates, which vary progressively with the amount of income received.

For GST/HST purposes, the GST rate is 5%, while the HST rate is 13%.

Records – Documents such as account books, sales and purchase invoices, contracts, bank statements, and cancelled cheques. You must keep records in an orderly manner at your business or residence in Canada for at least six years from the end of the last tax year to which the records relate. You must make these books and other documents available to our officers for audit purposes.

Refund – The overpayment of income tax or GST/HST returned to a taxpayer after we assess the return.

Regional Excise Duty Office – Offices that serve as the CRA's liaison with REGISTRANTS, LICENSEES, and the general public on all matters relating to the excise duty program.

Registrant – A person who is registered or required to be registered under GST/HST legislation.

Remittance – A payment of CPP or QPP, EI, income tax, or GST/HST that is paid to us through a financial institution, or that a business or individual sends directly to us. It also includes the employer's share of CPP contributions and EI premiums.

Research grants – Amounts of money given to individuals to explore areas in various fields of study. The grants cover the cost of research plus the researcher's income. These amounts are taxable but some of the researcher's expenses may be deductible for tax purposes. For more specific information, refer to Interpretation Bulletin IT-75, *Scholarships, Fellowships, Bursaries, Prizes, Research Grants and Financial Assistance*.

Reserves – Funds set aside to cover future expenses, losses, or claims.

Salary – The amount an employer pays an employee for work done. Each employer records this type of employment income on T4 slips. Same as EMPLOYMENT INCOME and wages.

Self-employment – The operation of your own business.

Shareholders – A person (individual or corporation) who owns shares in a limited company.

Social insurance number (SIN) – A number given to each contributor to the CANADA PENSION PLAN, QUEBEC PENSION PLAN, and EMPLOYMENT INSURANCE. It helps record the contributions and premiums paid into and the benefits paid out of the plans. Since these social insurance programs are connected to the tax system, the SIN is also used as an identifier for federal income tax purposes. Everyone who files an income tax and benefit return must provide a SIN.

Sole proprietorship – An unincorporated business entirely owned by one person. Same as a PROPRIETORSHIP.

Spouse – For purposes of the *Income Tax Act*, since 2001, the term **spouse** only means a married partner. The term **common-law partner** includes partners of the same sex or opposite sex, who meet certain conditions. For more information, see the *General Income Tax and Benefit Guide*.

Statement of income and expenses – Form that summarizes revenue, income, and expenses for a specific period.

Statement of remuneration paid (T4 slip) – Information slip that shows the income that an employer pays to an employee. Taxable allowances and benefits, such as payments made on the employee's behalf to a provincial health care plan, are included as income. A T4 slip also shows how much the employer deducted for income tax, CPP or QPP contributions, EMPLOYMENT INSURANCE premiums, and contributions to the employer's pension plan.

Supply – For GST/HST purposes, this generally means the provision of property or a service in any manner, including sale, transfer, barter, exchange, licence, rental, lease, gift, or disposition.

Tax centres – Offices in different regions of Canada where we process tax returns.

Tax Court of Canada – A court that hears appeals about income tax and GST/HST assessments. In addition, the Court has jurisdiction to hear appeals under the Canada Pension Plan, *Employment Insurance Act*, and several other acts. The Tax Court maintains four offices (Vancouver, Ottawa, Toronto, and Montréal) and regularly conducts hearings in major centres across Canada.

Tax payable – The amount of income tax that you must pay on TAXABLE INCOME for the tax year. It is also the amount of tax payable on a taxable supply (for GST/HST purposes).

Tax services offices – Offices across the country that provide a point of contact for the public. Visit the CRA Web site at **www.cra.gc.ca/tso** for the address and services available at your TSO.

Tax treaties – Government agreements signed between countries. They help citizens who earn foreign INCOME avoid double taxation.

Taxable benefits – Amounts of money, or the value of goods or services, that an employer pays or provides in addition to SALARY. For example, the part of a health insurance plan that the employer pays is a taxable benefit.

Taxable goods and services – This refers to goods and services taxable at 0%(zero-rated), 5% or 13%.

Taxable income – The amount of INCOME left after all allowable deductions have been subtracted from NET INCOME. This amount is used to calculate the TAX PAYABLE.

Tax year – The CALENDAR YEAR or FISCAL PERIOD for which income tax is to be paid.

Tobacco products – This refers to manufactured tobacco, packaged raw leaf or cigars.

Workers' compensation – Money paid to compensate a person injured on the job. It is an insurance plan paid for by employers and administered by the Workers' Compensation Board.

Your opinion counts!

If you have any comments or suggestions that could help us improve our publication, we would like to hear from you. Please send your comments to:

Taxpayer Services Directorate
Canada Revenue Agency
750 Heron Road
Ottawa ON K1A 0L5