

## Financial Statement Requirements

References: section 93, subsections 57.1(2), 75(5), (6), (9), (10), (11), (12)

### Application

*This bulletin replaces Information Bulletin 4002R1 originally published October 2002. This bulletin has been updated to clarify the Ministry of Finance's policy with respect to the General Index of Financial Information (GIFI).*

*The bulletin sets out the policy of the Ministry of Finance (Ministry) regarding the requirements for financial statements filed with a corporation's tax return. It also provides the Ministry's policy with respect to accepting a hard copy of the GIFI in lieu of financial statements where a corporation files a paper tax return or a return on diskette. It is provided as a guide to taxpayers and is not intended as a substitute for the relevant legislation. Any references to legislation are to the provisions of the **Corporations Tax Act (Ontario) (CTA)** and its Regulations, unless otherwise noted.*

### Introduction

1. Financial statements play an integral part in computing a corporation's income tax, corporate minimum tax (CMT), capital tax, premium tax and special additional tax liabilities. Financial statements are also utilized to determine whether small business corporations are eligible for an exemption from capital tax and whether corporations are subject to CMT. Accordingly, the CTA contains several provisions which specify the form and content of the financial statements that are required to be filed with a corporation's tax return.

### Legislation

2. Subsection 75(9) specifies the following requirements for financial statements filed with a corporation's CT23 or CT8 Corporations Tax Return:
  - All financial statements should be prepared in accordance with generally accepted accounting principles (GAAP) in Canada. However, consolidated statements are not allowed.
  - The financial statements should be complete and include all notes to the statements. In addition, if an auditor has reported on the financial statements, the auditor's report should be included.
  - If the corporation is a member of a partnership, financial statements of the partnership prepared in accordance with Canadian GAAP should be included for all fiscal periods of the partnership ending in the taxation year of the corporation.
  - If the corporation is a bank or a life insurance company, the financial statements should be prepared in accordance with the statute incorporating, continuing or governing the corporation and all applicable Canadian GAAP.
3. The financial statements to be filed with the return should be those prepared for reporting to shareholders, owners or partners and, pursuant to subsection 75(6), should be in agreement with the books of account of the corporation.

### Financial Statements of Small Business Corporations

4. The intent of these requirements is to ensure that the Ministry of Finance (Ministry) receives complete and consistent information with all corporate tax returns. At the same time, the Ministry recognizes that many small corporations do not currently prepare a full set of financial statements in accordance with GAAP. Therefore, subsection 75(10) allows the Minister of Finance (Minister) to use discretion and accept financial statements which do not meet the criteria outlined in subsection 75(9).

### Financial Statements of Small Business Corporations (continued)

5. If a corporation has not prepared a statement of changes in financial position in the past, or all the notes to the financial statements as required under GAAP, the Ministry will accept such departures from GAAP, provided the departures do not hinder the ability of the Ministry to verify the correct amount of taxes payable under the CTA.
6. The acceptance of the financial statements will also depend on the past filing practice of a particular corporation. Factors such as whether the corporation has always filed in a certain way and whether the Ministry has previously experienced a compliance problem with respect to the company's financial statements, will have a bearing on the decision to accept less than GAAP financial statements. In other words, it is not intended that smaller companies incur additional administrative costs where financial information of the same nature as previously provided has been sufficient for purposes of assessment of tax.

### Minimum Financial Statement Requirements

7. However, as a minimum, financial statements for all companies **must** include an income statement and a balance sheet that accurately reflect the financial position and results of operations. In addition, pursuant to subsection 57.1(2), any corporation subject to the CMT is required to calculate its net income or loss for the year in accordance with GAAP and must file full financial statements.
8. It should be noted that under section 93 the Ministry has the authority to request additional information as needed for purposes of its administration of the CTA.

### Audited Financial Statements

9. As noted in paragraph 2, where an auditor has reported on a corporation's financial statements, the auditor's report and the audited financial statements are required. Nevertheless, subsection 75(11) allows the Minister to demand, at least 180 days before the end of a taxation year, audited financial statements for that and following taxation years.
10. Audited statements are requested only in situations where the information currently being provided is not satisfactory. The request is made in writing, and is effective until such time as the Minister notifies the company, in writing, that audited financial statements are no longer required. A requirement for audited financial statements will be determined after a review of all the facts of each particular case.

### General Index of Financial Information (GIFI)

11. The GIFI is an initiative of the federal government which was introduced by the Canada Customs and Revenue Agency (CCRA) in order to capture financial information electronically. The GIFI is a standardized template on which corporate taxpayers file their financial statement information. When the GIFI is used, financial statements are not submitted to CCRA with the federal T2 tax return. For federal purposes the GIFI is mandatory for all corporations filing the T2 tax return, except insurance corporations, for taxation years ending in or after the year 2000.
12. The Ministry's policy regarding the GIFI is provided below in paragraphs 13 and 16.

### Financial Statements Required with Paper Returns and D-Filed Returns

13. Where a corporation is filing a tax return on either paper or a diskette (D-File) the Ministry prefers it to file the financial statements prepared for the shareholders of the corporation as explained in paragraph 3 above. However, where a corporation does file a hard copy of the GIFI, in lieu of financial statements, the Ministry will accept the GIFI where there is sufficient information in the GIFI to validate any taxes payable as allowed by subsection 75(10). Since there can be a wide range in the quality of information submitted in the GIFI, the Ministry reserves the right to request the financial statements in the form specified by the legislation (see paragraphs 2 and 3) where this is needed to verify the correct amount of a corporation's tax liability under the CTA.

### Financial Statements Required with Paper Returns and D-Filed Returns (continued)

14. Corporations that D-File their tax return are still required to attach a copy of the certification to the floppy disk regardless of whether they file a hard copy of the GIFI or the financial statements prepared for the shareholders of the corporation.
15. Where a corporation is involved in a partnership or joint venture, it must file the financial statements of the partnership or joint venture with the Ministry. This is required regardless of whether the corporation is filing a hard copy of the GIFI or the financial statements prepared for the shareholders of the corporation.

### Financial Statements Required by EFF Corporations When Loss Carried Back

16. Under subsection 75(5), certain small business corporations with no tax payable under the CTA are exempt from filing (EFF) a Corporations Tax Return and financial statements. Nevertheless, where an EFF corporation is claiming a refund of taxes from the application of a loss to one or more prior year(s), the corporation is required to file financial statements and supporting documentation for the year in which the loss was incurred. As well, in certain situations a corporation may be required to file a tax return and financial statements where a loss is being carried forward and applied to a subsequent taxation year. Where a corporation files the loss year tax return on either paper or diskette and files a hard copy of the GIFI in lieu of financial statements, the Ministry will accept the GIFI if there is sufficient information contained in the GIFI to support the loss. For further discussion on EFF corporations, refer to Information Bulletin 4001R1.
17. EFF corporations should maintain adequate records including financial statements for non-filing years to support any claim made in other years. For example, an EFF corporation applying losses to prior or subsequent years must keep the records needed to prove those losses as well as the income for the applicable year. For additional information on the Ministry's record retention requirements, corporations should refer to the Ministry's Tax Information Bulletin on "*Retention/ Destruction of Books and Records*" dated April 2000.

### Forecast Financial Statements to Obtain Refund of Instalments

18. Occasionally, a corporation may request, prior to the date that its tax return is otherwise due, that all or part of its instalments paid for the year be refunded. Such a request is normally made in a situation where a corporation, having paid instalments for a few months of a year, realizes it has overestimated its tax liability for the year. The Branch will normally process such requests but may, in certain situations, require forecast financial statements to support the corporation's request for a refund of instalments paid.

### For More Information

For further information, please contact Desk Audit, general tax enquiries

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