



Canada Revenue  
Agency

Agence du revenu  
du Canada

# **Guide for Canadian Small Businesses**

Revised (July 1, 2006 – electronic version only)

The success of small business 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 the burden of compliance, and maintain confidence in Canada's tax system.

We created this publication in co-operation with the members of the Small Business Advisory Committee. This committee provides advice and comments on administrative concerns and initiatives to CRA officials from the perspective of small business. The committee members are small business owners from all parts of Canada, from diverse backgrounds, and represent all sectors of the Canadian economy.

Visually impaired persons can get our publications in braille, large print, etext (computer diskette), or on audio cassette by visiting our Web site at [www.cra-arc.gc.ca/alternate](http://www.cra-arc.gc.ca/alternate) or by calling **1-800-959-2221** weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

### **Point. Click. It's that quick!**

That's all it takes to get tax information when you need it. Visit [www.cra.gc.ca](http://www.cra.gc.ca) today and find out how easy managing your taxes can be.

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 Website at [www.cra.gc.ca/E/pub/tg/rc4070](http://www.cra.gc.ca/E/pub/tg/rc4070), as well as 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*.

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## How This Guide Can Help You

**A**re 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, income tax reporting and payment, payroll deductions, electronic services, GST/HST, and how to prepare for and handle an audit, etc.

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

If you aren't familiar with some of the terms used in this guide, refer to the Glossary of Terms which starts on page 43.

### Internet access



To find more information and most of our forms and publications, visit our Web site at: [www.cra.gc.ca](http://www.cra.gc.ca).

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

You can also get copies of the guides and forms mentioned in this publication by calling us at **1-800-959-2221**. 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.bsa.cbcs.org](http://www.bsa.cbcs.org) where you will find information from the federal and provincial 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, administration of tariffs, various social and economical benefit and incentive programs delivered through the tax system.

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

We also collect the Goods and Services Tax/Harmonized Sales Tax (GST/HST) (except in Quebec), Canada Pension Plan contributions, Employment Insurance premiums, excise duties, and excise taxes on gasoline and tobacco products.

We also administer federal and provincial corporate income taxes for all provinces except Alberta, Ontario, and Quebec.

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 keep informed so that you can work in partnership with the professionals you hire and with the CRA.

It should be noted that the information about Importing and Exporting that was previously in this publication was removed. However, if your business is Importing or Exporting and you require more information on these subjects, it can be found at [www.cbbsa.gc.ca](http://www.cbbsa.gc.ca).

# Chapter 1: Setting Up Your Business

A business is an activity that you conduct for profit and there is evidence to support that initiative. There are three types of business structure: sole proprietorship, partnership, and corporation. The way your business is taxed has a lot to do with the way your business is set up.

## Sole proprietorship

A sole proprietorship is an unincorporated business that is owned by one person. It's 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're 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.

It's 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'll 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're 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.

The list above does not include every situation where you may be required to file. If you're unsure, 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 Canada Pension Plan contributions on your own income. Remember to budget for these payments. For more information, see our 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*;
- Form T2042, *Statement of Farming Activities*;
- Form T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*, and Form T1164, *Statement B – CAIS Program Information and Statement of Farming Activities for Additional Farming Operations*; or
- 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 the section "Reporting periods" on page 16.

## 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*;
- Form T2042, *Statement of Farming Activities*; and
- Form T2121, *Statement of Fishing Activities*;
- Form T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*.

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 the T4068, *Guide for the Partnership Information Return* and Information Circular 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.

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 the 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 taxation year, even if it doesn't owe taxes. It also has to attach complete financial statements and the necessary schedules to the T2 return. A corporation pays its taxes in monthly instalments. For more details on instalment payments and the filing requirements for corporations, see the 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 the section "Reporting periods" on page 16.

The taxation year for a corporation is its fiscal period. For more information on fiscal periods, see the section "Fiscal period" on page 25.



For more details, visit our  
Web site at  
[www.cra.gc.ca/t2return/](http://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'll 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* and *Excise Tax Act*.

For more information on the subject of Director's Liability, see Information Circular 89-2, *Directors' Liability – Section 227.1 of the Income Tax Act and Section 323 of the Excise Tax Act*. You can find this document on our Web site at [www.cra.gc.ca/E/pub/tp/ic89-2r-err/](http://www.cra.gc.ca/E/pub/tp/ic89-2r-err/).

## The Business Number (BN)

### Your first step to doing business with the CRA

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:

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

The BN number 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          R P 0 0 0 2**

(Registration number) (Account identifier)

Businesses that register for the BN will get one-stop business services from us, including integrated new business registration, a consolidated approach for updating account information, and integrated business account enquiries.

Your BN, and all information relating to it, are confidential.

You can register for a BN by Internet, telephone, fax or mail. Business Registration Online at [www.businessregistration.gc.ca](http://www.businessregistration.gc.ca) is a one-stop, self-serve application that allows you to register for a new business number as well as the four major CRA programs, namely corporate income tax, GST/HST, payroll deductions and import/export. At the same time you can register online for Ontario, Nova Scotia, New Brunswick and British Columbia programs. If the business's mailing address is in Québec, we will offer the option to be directed to the Revenu Québec Website at [www.revenu.gouv.qc.ca/eng/services/sgp\\_inscription/index.asp](http://www.revenu.gouv.qc.ca/eng/services/sgp_inscription/index.asp).



Business Registration Online is easy to use, convenient and secure. The Web address is: [www.businessregistration.gc.ca/](http://www.businessregistration.gc.ca/).

#### **Note**

There are other types of CRA accounts that the BN does not yet include. For example, some manufacturers and wholesalers need an excise tax licence for excise tax purposes, and some businesses need a filer identification number for filing information returns. Contact us at 1-800-959-5525 if you want to find out about these other accounts and register for them.

### **Are you doing business in Quebec?**

For businesses in Quebec, the BN does not include GST/HST accounts. Revenu Québec administers the GST/HST on behalf of the CRA. If you plan to register for the GST/HST in Quebec, please contact Revenu Québec for more information at this address:

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

Telephone: 1-800-567-4692  
Outside Canada: (418) 659-4692

### **Do you need a BN?**

If you need at least one of the four CRA business accounts listed before, 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 period end. You should also have some idea of what the sales of your business will be. Without this information, you won't be able to complete the BN registration form.

#### **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, see pamphlet RC2, *The Business Number and Your Canada Revenue Agency Accounts*, call us at 1-800-959-5525 or visit our web site at [www.cra.gc.ca/tax/business/topics/bn](http://www.cra.gc.ca/tax/business/topics/bn).

### **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 don't 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 don't 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 17.

**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 can't give them this information if you don't keep organized records. Also, good records show potential creditors that you know what's 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 (e.g., 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. Information on keeping these type of records is available on our Web site 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 and 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're 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's 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 taxation year to which they relate for income tax, for six years from the end of the year to which they relate for GST/HST 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 Books and 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*.

## **Bringing assets into a business**

### **Fair market value**

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 can 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-arc.gc.ca/tax/business/topics/gst](http://www.cra-arc.gc.ca/tax/business/topics/gst) 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. For more information, see Interpretation Bulletin IT-291, *Transfer of Property to a Corporation under Subsection 85(1)*, Information Circular 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 fair market value (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 \$120,000. The FMV of the net identifiable assets of the business is as follows:

Accounts receivable .....	\$ 20,000
Inventory .....	10,000
Land .....	30,000
Building .....	<u>50,000</u>
<b>Total net identifiable assets .....</b>	<b>\$110,000</b>

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

Purchase price.....	\$120,000
<b>Minus</b> net identifiable assets.....	<u>110,000</u>
<b>Amount attributed to goodwill .....</b>	<b>\$ 10,000</b>

Once you have determined the values for the assets and the goodwill, add the fixed assets (e.g., 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 must be GST/HST registrants,

and you both have to agree that the sale will not be subject to GST/HST. In addition, you must buy all or substantially all of the property, and not only individual assets.

Usually, 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.

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 more information visit our Web site [www.cra.gc.ca/tax/business/topics/life-events/](http://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. If you think your sales will exceed \$30,000 (or \$50,000 if you are a public service body), it's 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 the section "Input tax credits" on page 17 in the chapter on GST/HST. Also see the section "Can you deduct business start-up costs?" on page 32.

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 the chapter called “Payroll Deductions and Remittances” on page 21.

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

- *Guide for Partnership Information Return*
- *T2 Corporation – Income Tax Guide*
- *Information Circular 78-10, Books and Records Retention/Destruction*
- *Interpretation Bulletin IT-291, Transfer of Property to a Corporation under Subsection 85(1)*
- *Information Circular 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*
- *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](http://www.businessregistration.gc.ca)**
- *Other Web sites:*  
**[www.cra.gc.ca](http://www.cra.gc.ca)**  
**[www.cra.gc.ca/t2return/](http://www.cra.gc.ca/t2return/)**  
*Revenu Québec*  
**[www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca)**  
*Business Start-Up Assistant*  
**<http://bsa.cbcs.org>**

## Chapter 2: The Goods and Services Tax (GST) and Harmonized Sales Tax (HST)

### What is the GST/HST?

The GST is a tax that applies at a rate of 6% to the supply of most goods and services in Canada. Three provinces (Nova Scotia, New Brunswick, and Newfoundland and Labrador) harmonized their provincial sales tax with the GST to create the harmonized sales tax (HST). The HST applies to the same goods and services as the GST, but at a rate of 14%. Of this, 6% is the federal part and 8% is the provincial part.

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

Registrants collect the GST/HST on most of their supplies, and pay the GST/HST on most purchases they make to operate the business. Registrants can claim a credit, called an **input tax credit (ITC)**, to recover the GST/HST they paid or owe on the purchases they will use 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.

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

As a GST/HST registrant, you charge 6% GST or 14% HST on the taxable goods and services (other than zero-rated) you sell, lease, transfer, or provide in some other way. You can claim an input tax credit to recover the GST/HST you paid or owe on purchases and expenses you use, consume, or supply in your commercial activities.

Examples of goods and services taxable at 6% or 14% include:

- commercial real property and newly constructed residential property;
- rentals of commercial real property;

- clothing and footwear;
- car repairs; and
- hotel accommodation.

Certain goods and services are subject to GST/HST, but at a rate of 0%. These goods and services 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 6% or 14% in Canada are zero-rated when exported).

### Which goods and services are tax-exempt?

Some goods and services are exempt from the GST/HST. 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 the GST/HST if you're selling or providing **only** tax-exempt goods and services.

**Tax-exempt** goods and services include:

- sales of previously owned residential housing;
- 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;
- 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 (e.g., arrangements for a loan or mortgage);
- arranging for and issuing insurance policies by insurance companies, agents, and brokers;
- most goods and services provided by charities; and
- 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.

## Who registers for the 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.

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:

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

In all cases, total taxable revenues means your worldwide revenues from your supplies of goods and services subject to GST/HST at a rate of 6% and 14% respectively, and your zero-rated supplies. However, it does 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 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 will no longer be considered a small supplier and you have to register for the GST/HST. Contact us if this occurs.

### 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

Although you do not have to register for the GST/HST if your taxable worldwide revenues are \$30,000 or less (or \$50,000 if you are a public service body), you can register voluntarily.

## How to register for the 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](http://www.businessregistration.gc.ca).

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

Remember that if your business is in Quebec, you should contact Revenu Québec at 1-800-567-4692. Their address is on page 9.

## Reporting periods

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

The GST/HST reporting period is based on your estimated total annual taxable revenues in Canada as well as the annual taxable revenues of all your associates, if applicable.

The following chart shows the assigned GST/HST reporting periods based on your annual taxable revenues.

Annual Taxable Revenues	Reporting/Filing Period
\$500,000 or less	annually
more than 500,000 to \$6,000,000	quarterly
more than \$6,000,000	monthly

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

than \$6,000,000, you may elect to file your GST/HST return monthly.

For more information, see guide RC4022, *General Information for GST/HST Registrant* and form GST20, *Election for GST/HST Reporting Periods*.

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

As a GST/HST registrant, you generally charge 6% GST or 14% HST on the taxable supplies you make (other than zero-rated supplies). You remit the GST and the HST on the same GST/HST return.

### Note

If you make 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 14% HST.

## Provincial sales tax

When you have to charge both GST and the provincial sales tax (PST), calculate GST on the price before you calculate the PST. For more information on how to calculate PST, contact your provincial tax office. You'll 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, that is, 6% or 14%.

## What to put on your invoices

At the request of your customers who are GST/HST registrants, you must provide them with specific information that will allow them to support their ITC claim. 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 rate of tax (6% or 14%)		✓	✓
When items are taxable at 6% and 14%, a statement about which items are taxed at 6% and which are taxed at 14%		✓	✓
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			✓

## Input tax credits

As a GST/HST registrant, you can get back the GST/HST you paid or that you owe on purchases and expenses related to your commercial activities. You do this by claiming an ITC.

You can recover the GST/HST you pay or owe on goods and services such as:

- merchandise to resell;
- advertising services;
- real property and capital property, such as office furniture, vehicles, and other equipment; and
- general operating expenses such as office rent, utilities, office supplies, and the rent 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.

In addition, you can claim ITCs for purchases of land and purchases eligible for capital cost allowance under the *Income Tax Act*, such as buildings, computers, vehicles, and other large machinery and equipment. 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 property that is not primarily for use in your commercial activities; and
- membership fees or dues to any club that provides recreational, dining, or sporting facilities (e.g., fitness clubs, golf clubs, hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business.

## 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. However, you must claim your input tax credit in a GST/HST return filed by the due date of the return for the last reporting period that ends within four years after the end of the reporting period in which the tax became payable on the purchase that qualifies for the credit.

## 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 input tax credit method.

### The Quick Method

The Quick Method is an easy way to calculate the amount of GST/HST you have to remit. Generally, if your worldwide taxable annual supplies (including zero-rated supplies and supplies of associates) are \$200,000 or less (including GST/HST), you can use the Quick Method.

Certain persons, such as accountants, bookkeepers, financial consultants and public service bodies cannot use the Quick Method.

### How the Quick Method works?

You collect GST at 6% or HST at 14% 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 GST/HST included supplies for the reporting period by the Quick Method remittance rate that applies to those supplies. The remittance rates are explained in the 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.

If you are using the Quick Method at the beginning of a fiscal year or on the day you become a registrant, you are entitled to a credit equal to 1% of your first \$30,000 of supplies that are taxable at 6% or 14%.

For more information, see booklet RC4058, *Quick Method of Accounting for GST/HST*. A special Quick Method is also available for public service bodies. For more information see booklet RC4247, *The Special Quick Method of Accounting for Public Service Bodies*.

### The simplified input tax credit method

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 financial services, sales of capital real property or goodwill.

To use the simplified ITC method, your taxable purchases (excluding zero-rated purchases) 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 it works

To calculate your ITCs when you use this method, you total your taxable purchases, including GST or HST, provincial sales tax, tips, penalty and interest charges on late payments and

- multiply this total by 6 and divide the result by 106 for GST purchases; or
- multiply this total by 14 and divide the result by 114 for HST purchases.

For more information on the simplified ITC method, see guide RC4022, *General Information for GST/HST Registrants*.

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

For each reporting period, you calculate:

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

The difference between these two amounts, plus or minus any adjustments, is your GST/HST payment or your refund. If you charge more GST/HST than you paid or owe, you pay us the difference. Make cheques payable to the Receiver General. If you paid or owe more GST/HST than you charged, you can claim a refund.

## GST/HST Rulings

GST/HST Rulings is the centre of technical expertise on the goods and services tax/harmonized sales tax (GST/HST) in the Canada Revenue Agency (CRA). 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 publication RC4405, *GST/HST Rulings – Experts in GST/HST Legislation* or on our Web pages at: [www.cra.gc.ca/E/pub/gp/rc4405](http://www.cra.gc.ca/E/pub/gp/rc4405).



## For more information

RC4022, *General Information for GST/HST Registrants*

RC4058, *Quick Method of Accounting for GST/HST*

RC4027, *Doing Business in Canada – GST/HST Information for Non-Residents*

RC4247, *The Special Quick Method of Accounting for Public Service Bodies – Includes Form GST287*

GST20, *Election for GST/HST Reporting Periods*

Web site:

[www.cra.gc.ca](http://www.cra.gc.ca)

## Chapter 3: Excise Taxes and Excise Duties

### What are excise taxes and excise duties?

They are two types of federal levies on products manufactured or produced in Canada.

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 the GST/HST is added on.

### Excise taxes

Excise taxes are charged on:

- jewellery ( being phased out between February 24, 2005 and March 1, 2009);
- heavy automobiles;
- automobile air conditioners; and
- certain petroleum products.

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 1-800-877-9277 (service in French).

### Excise duties

Excise duties are charged on spirits, 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 charged on goods at the point of manufacture rather than sale. When they are imported into Canada, duty is payable by the importer at the time the goods are imported.

All manufacturers of these goods must be licensed. Most licensees must provide security of at least \$5,000.

For more information, visit [www.cra.gc.ca/exciseduty](http://www.cra.gc.ca/exciseduty) or contact the nearest Regional Excise Duty Office.



## 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 – Notice to All Importers and Licensed Jewellery Manufacturers and Wholesalers*

### Excise Duty Memoranda

Licence Types (2.1.1)

Registration Types (2.3.1)

### Web site

[www.cra.gc.ca/tax/technical](http://www.cra.gc.ca/tax/technical)  
[www.cra.gc.ca](http://www.cra.gc.ca)

## Chapter 4: Payroll Deductions and Remittances

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

You are an employer if:

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

Payroll deductions can be complicated. If you're having trouble with them, give us a call. One of our representatives will come to your business and help you get started. Just call the nearest tax services office, the locations and phone numbers are available at [www.cra.gc.ca/tso](http://www.cra.gc.ca/tso).

### What to deduct from your employees' paycheques

You're responsible for deducting income tax, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, and Employment Insurance (EI) premiums from your employees' paycheques. 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 paycheque on the 10th of May, you then have to remit the money to us on or before the 15th of June. If the 15th of June falls on a Saturday, Sunday, or holiday, the remittance is due on the next business day after the 15th.

It's a good idea to remit payroll deductions on time. If your payment is late, you will have to pay a 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 Québec instead of to 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/QPP contributions from your employees' paycheques and for matching those contributions yourself.

Employees fall into many different categories, which determine how and when you should deduct CPP/QPP. For more information, see the T4001, *Employer's guide – Payroll Deductions and Remittances* and T4032, *Payroll Deductions Tables* for your province or territory or visit our Web site at [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).

### How to deduct CPP/QPP contributions

To deduct CPP/QPP contributions, you consult the payroll deductions publications mentioned above. These publications indicate how much CPP/QPP to deduct from your employees' paycheques, depending on their salaries and pay periods.

The rates for CPP/QPP deductions may vary from year to year. Each edition of the payroll deductions publications gives information on current rates. Make sure you have an up-to-date edition.

Remember—you must match each employee's contribution. This means that if you deduct \$100 from an employee's paycheque, you must also contribute \$100. You must then send us \$200 for that employee.

To find out when you should deduct CPP/QPP contributions from your employees' paycheques and remit them to us, see the T4001, *Employer's Guide – Payroll Deductions and Remittances* and the T4032, *Payroll Deductions Tables* for your province or territory or visit our web site: [www.cra.gc.ca/payroll](http://www.cra.gc.ca/payroll).

## Employment Insurance

Employment insurance (EI) 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 deduct EI premiums

As an employer, you are responsible for deducting EI premiums from your employees' paycheques. To deduct EI premiums, consult the payroll deductions publications. These publications indicate how much EI to deduct from your employees' paycheques, depending on their salaries.

The rates for EI premiums may vary from year to year. Each edition of the payroll deductions publications gives information on current rates. Make sure you have an up-to-date edition.

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

To find out when you should deduct EI premiums from your employees' paycheques and remit them to us, see the T4001, *Employer's Guide – Payroll deductions and Remittances* and 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, 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 the T4001, *Employer's Guide – Payroll Deductions and Remittances*.

## Income tax

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

Since employees fall into various categories, you need various forms, such as federal and provincial TD1 forms, to help you decide what to deduct from their paycheques. For more information on these forms, see the T4001, *Employers' Guide – Payroll Deductions and Remittances*.

### How to make income tax deductions

To deduct income tax from your employees' paycheques, consult the payroll deductions publications for your province or territory. These publications indicate you how much income tax to deduct from your employees' paycheques, 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 the T4001, *Employer's Guide – Payroll Deductions and Remittances*.

## How to report payroll deductions

### The T4

You report your employees' salary, wages, and taxable benefits, as well as any deductions, on the T4 form. You can get this form from your nearest tax services office.

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

### File your T4 information return over the Internet

You can choose from three convenient and secure Internet options to file your original T4 information returns and amendment information electronically. Your choice will depend on the size of your T4 information return.

If you file from 1 – 500 T4 slips, you can use one of these three filing options:

- T4 Webforms (1 to 3 slips);
- T4 Desktop (1 to 70 slips);
- T4 File Transfer Web (XML) (1 to 500 slips).

For more information, visit our Web site at [www.cra.gc.ca/t4internet](http://www.cra.gc.ca/t4internet).

If you file more than 500 various slips (e.g. T4, T4A), you must use the Magnetic Media Filing System.

This filing option lets you send your year-end computer-generated information returns to the CRA on diskette, CD-ROM, or DVD-ROM. For more information, visit our Web site at [www.cra.gc.ca/magmedia](http://www.cra.gc.ca/magmedia).

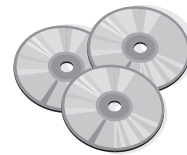
### **New for January 2006**

Internet File Transfer (XML) will be available for the following information returns: T3, T4, T4A, T4A-NR, T4E, T4RIF, T4RSP, T5, T5008, T5007, T5018, NR4, and RRSP Contribution Receipt. Clients 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/all-dates/payroll-e.html](http://www.cra.gc.ca/tax/business/topics/all-dates/payroll-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 the T4032, *Payroll Deductions Tables* and T4008, *Payroll Deductions Supplementary Tables* called T4143, *Tables on Diskette (TOD)*. This diskette contains the information you need to calculate deductions from your employees' pay for all pay periods.

The T4143, *Tables on Diskette* are available on our web site at [www.cra.gc.ca/tax/business/tod/menu-e.html](http://www.cra.gc.ca/tax/business/tod/menu-e.html). For more information, see the T4032, *Payroll Deductions Tables* or call us at 1-800-959-5525.

If you'd like to create your own payroll deduction calculations, a guide containing the formulas you need (except for Quebec provincial tax and QPP), is available. The guide T4127, *Payroll Deductions Formulas for Computer Programs* is available from on our Web site. A printed version is also available.

You can use any version of the tables to calculate your employees' payroll deductions for CPP, EI, and federal/provincial (except Quebec) income tax. The T4032, and T4008 are available for each province and territory, and also for employees working outside Canada.

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, *Employer's 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*
- Web sites:

Electronic PD7A option:  
[www.cra.gc.ca/tax/business/  
topics/payroll/payments/  
forms/e-pd7a/](http://www.cra.gc.ca/tax/business/topics/payroll/payments/forms/e-pd7a/)

Automobile Benefits Online  
Calculator:  
[www.cra.gc.ca/ebci/rhac/](http://www.cra.gc.ca/ebci/rhac/)

Corporations  
[www.cra.gc.ca/t2return/](http://www.cra.gc.ca/t2return/)  
[www.cra.gc.ca](http://www.cra.gc.ca)



## 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're 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.

#### The cash method

Under the cash method, you report income as it is received and you deduct allowable expenses as they are paid. 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 guides T4003, *Farming Income*, T4004, *Fishing Income*, or T4002, *Business and Professional Income*.

### How to keep sales and expenses 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.

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 certain date. For more information, see guide RC4015, *Reconciliation of Business Income for Tax Purposes*.

A corporation can choose a fiscal period that ends on any date. The corporation has to file its income tax return within six months of the end of its fiscal period.

The rules governing fiscal periods are complicated. It's a good idea to get familiar with them before you get into business. For more information, see guides 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, call us at 1-800-959-5525 or see guide RC4022, *General Information for GST/HST Registrants*.

## 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, i.e., wages or salaries received from an employer.

### 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*;
- Form T2042, *Statement of Farming Activities*;
- Form T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*, and Form T1164, *Statement B – CAIS Program Information and Statement of Farming Activities for Additional Farming Operations*; or
- Form T2121, *Statement of Fishing Activities*.

You'll find instructions on completing them in the appropriate income tax guides available 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 records of account. You may use the categories included on these forms when you establish your records of account.

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, income from property, investments, taxable capital gains, estates, trusts, employment, and pensions.

### Bad debts

If you received any amount during the year 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.

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.

### **Vacation trips and awards**

If you received vacation trips or other awards of any kind (e.g., 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 get a grant or subsidy from a government or government agency, you'll 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 which receives a government employment grant to let you 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.

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 received 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, 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, and finished goods that you have on hand.

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, see guide T4002, *Business and Professional Income* or visit our web site at [www.cra.gc.ca/tax/business](http://www.cra.gc.ca/tax/business).

### **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, if the work space is either:

- 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 portion of your maintenance costs, such as heating, home insurance, electricity and cleaning materials. You can also deduct a portion of your property taxes, mortgage interest, and capital cost allowance (CCA). To calculate the portion 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 aren't 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 books and records. You can also deduct fees you incur for preparing and filing your income tax and GST/HST returns.

### **Advertising expenses**

You can deduct expenses for advertising, including ads in Canadian newspapers and on Canadian television and radio stations. You can also include on this line 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.

Also, 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. 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 the section "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 the section “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. 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 more details, see the sections “Meals and Entertainment,” 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 things 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; and
- 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.
- 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 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.

### 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 income.

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.....	<u>200</u>
<b>Total expenses for the van .....</b>	<b>\$8,000</b>

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 income.

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

The guide T4002, *Business and Professional Income* has more information on claiming this kind of expense.

### **Vehicle leasing expenses**

You can deduct the leasing costs of a motor vehicle that you use to earn 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, i.e., 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 or T4A slip. For more details on how to complete these forms, see the chapter "Payroll Deductions and Remittances" in this guide, or guide T4001, *Employer's 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, *Employer's 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 T2042, *Statement of Farming Activities*
- Form T2121, *Statement of Fishing Activities*
- Form T1163, *Statement A – CAIS Program Information and Statement of Farming Activities for Individuals*, and Form T1164, *Statement B – CAIS Program Information and Statement of Farming Activities for Additional Farming Operations*
- IT-473, *Inventory Valuation*, and its Special Release
- IT-417, *Prepaid Expenses and Deferred Charges*
- IT-121, *Election to Capitalize Cost of Borrowed Money*
- IT-218, *Profit, Capital Gains and Losses from the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate from Capital Property to Inventory and Vice Versa*
- IT-364, *Commencement of Business Operations*
- Web site:  
[www.cra.gc.ca](http://www.cra.gc.ca)



### What is an audit?

Auditing is a way for the CRA to monitor and inspect GST/HST and income tax returns 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 lets us 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 other 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 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, on 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

Audits usually take only one or two weeks, but could be delayed for a number of reasons. For instance, you may want to consult with advisers, or you may be called out of town on

other business before the audit is completed. Similarly, the auditor may ask for an interpretation from CRA Headquarters on a particularly complex or contentious point of law.

Well-kept records will reduce the time required to complete the audit. Refer to the record-keeping guidelines on page 9 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. 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** – Send a letter, or complete and send Form T400A, *Objection* to the Chief of Appeals at your tax services office or use the “Register my formal dispute,” option at **My Account** on our Web site. For more information visit our Web site at [www.cra.gc.ca/resolvingdisputes](http://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 Assistant Director of Appeals at your tax services office within 90 days of the day we mail the *Notice of Assessment* or *Notice of Reassessment*.

When we get your objection, the Appeals Division will conduct an independent review of the assessment. If the Assistant Director 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 Assistant Director of Appeals disagrees, we will send you a *Notice of Confirmation* confirming that the assessment was correct.

### 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 objection.

### Federal Court of Appeal

If either you or the Minister 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 judgment 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 taxes you had to withhold and remit.

If you lose your appeal to the Tax Court, 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 Canada Revenue Agency (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 paying taxes and providing information.

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 Fairness and taxpayer rights visit our Web site [www.cra.gc.ca/agency/fairness](http://www.cra.gc.ca/agency/fairness) or see guide RC4213, *Your Rights*.

## Extraordinary circumstances

We can waive or cancel interest or penalties when they result from things that are beyond your control. Such things could include an illness that prevents you from filing an income tax or GST/HST return by the required deadline.

Fairness provisions in the *Income Tax Act* and *Excise Tax Act* (with respect to GST/HST) help us administer the legislation fairly. These provisions apply to individuals, testamentary trusts, small business owners, and corporations. All requests for relief under fairness legislation should be submitted in writing to your tax services office.

Under the amendment to the *Income Tax Act* which was announced in the March 2004 Federal Budget and which received Royal Assent in May 2005, the Minister's discretion to cancel or waive penalties and interest; to accept late-filed, amended, or revoked income tax elections; and to issue income tax refunds

beyond the normal three-year period (individuals and testamentary trusts only) will only apply for requests that are for a taxation year ending in the ten previous calendar years. Therefore effective January 1, 2005, for example, a request made in 2005 will only be accepted for 1995 and subsequent taxation years.

## Problem Resolution Program

Most questions and concerns can be resolved quickly through our general enquiries service. However, from time to time, some people have concerns that need special attention.

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, trace the problem to its source, and determine whether the case is isolated or part of a larger trend that needs attention.

For more information on Objections and Appeals, visit our Web site at [www.cra.gc.ca/resolvingdisputes](http://www.cra.gc.ca/resolvingdisputes).



## For more information

- Form T400A, *Objection-Income Tax*
- Form GST159, *Notice of Objection (GST/HST)*
- P148, *Your Appeal Rights Under the Income Tax Act*
- Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*
- Guide RC4213, *Your Rights*
- Web site:  
[www.cra.gc.ca](http://www.cra.gc.ca)  
Fairness provisions and voluntary disclosures:  
[www.cra.gc.ca/agency/programs\\_services/disagree/fairness-e.html](http://www.cra.gc.ca/agency/programs_services/disagree/fairness-e.html)

## Chapter 8: How To Get Information From the CRA

You can get information and publications, and conduct other types of business on our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) or phone 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

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.

Businesses can make electronic payments to us through their financial institution.

Businesses that meet certain criteria can use our T4 Internet filing service from our Web site at [www.cra.gc.ca/t4internet](http://www.cra.gc.ca/t4internet) to file their T4 information returns.

We accept cancellations and amendments in electronic format for information slips.

**GST/HST NETFILE and GST/HST TELEFILE** are fast, free, and easy-to-use filing options that cut down processing time, eliminate the need to mail a paper return, and speed up refunds.

Businesses can report nil payroll deductions by telephone using TeleReply.

Corporations that meet certain criteria can use our Corporation Internet Filing service to file their corporation income tax returns.

Our Online requests service lets business taxpayers ask electronically for certain financial and non-financial actions to be processed on their account.

For Internet information, see our Web site at [www.cra.gc.ca/gsthst-netfile](http://www.cra.gc.ca/gsthst-netfile).

If you need help using GST/HST NETFILE, GST/HST TELEFILE or T4/T1204 Internet filing visit [www.cra.gc.ca/gsthst-filing](http://www.cra.gc.ca/gsthst-filing) or contact our e-service Helpdesk at **1-877-322-7849** and for Teletypewriter (TTY) contact us at **1-888-768-0951**.

#### Note

The e-service Helpdesk is not available on weekends and statutory or civic holidays.

E-service Helpdesk hours of service	
Time zone	Monday to Friday
Pacific time	5:00 a.m. to 9:00 p.m.
Mountain time	6:00 a.m. to 10:00 p.m.
Central time	7:00 a.m. to 11:00 p.m.
Eastern time	8:00 a.m. to midnight.
Atlantic time	9:00 a.m. to 1:00 a.m.
Newfoundland time	9:30 a.m. to 1:30 p.m.
Outside Canada and the U.S. (Central time)	7:00 a.m. to 11:00 p.m.

For more information on CRA's Electronic Services for Business, visit our Web site at [www.cra.gc.ca](http://www.cra.gc.ca) and select "E-services" at the top of the screen or see pamphlet, RC4358, *Canada Revenue Agency's Electronic Services 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.

For service in English, call **1-800-959-2221**.

For service in French, call **1-800-959-3376**.

## Tax services offices

The CRA Web site at [www.cra.gc.ca](http://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 can't find what you're looking for? Our Web site also provides you with the address, telephone number, and fax number of a Tax Services Office or Tax Centre. For information visit our Web site [www.cra.gc.ca/tso](http://www.cra.gc.ca/tso).

Tax Services Offices provide Business Number registration services. Most of them also have agents who answer general questions on the telephone and who provide information on the status of refunds, GST/HST accounts, and assessment and reassessment notices.

## 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.

Our telephone service operates year-round, with agent-assisted service available Monday to Friday between 8:15 a.m. and 8:00 p.m. Automated service is available 24 hours a day, seven days a week.

## The International Tax Services Office

Canada's International Tax Services Office (ITSO), located in Ottawa, serves the special needs of taxpayers whose income tax returns or information returns involve non-residents.

Staff members at the ITSO process non-resident individual and corporate tax returns, respond to written taxpayer enquiries, process requests for adjustments, and provide telephone and counter enquiry services.

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

## Employer visits program

If you operate a small business, you may be too busy to attend an information seminar. If so, our staff are 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. If you are interested, call your tax services office to make arrangements. Or visit our Web site at [www.cra-arc.gc.ca/tax/business](http://www.cra-arc.gc.ca/tax/business) and select the payroll topic, then "How payroll works".

## Tax clinics

Every year during the filing season, the CRA sets up tax clinics in various communities. These clinics are located in convenient places, such as shopping malls and public buildings, that are easily accessible to people who need information and advice about their tax returns. The clinics also have available a variety of forms, guides, and pamphlets that taxpayers may need. For information visit our Web site [www.cra.gc.ca/volunteer](http://www.cra.gc.ca/volunteer).

For the convenience of individual taxpayers in Quebec, whose provincial income taxes are administered by the Quebec government, the CRA operates clinics jointly with Revenu Québec.

## 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 the goods and services tax/harmonized sales tax (GST/HST) applies to your operations or transactions. We will provide guidance and as much certainty as possible about how GST/HST applies and on

the consequences of your transactions or proposed transactions.

If you require general information about GST/HST, visit [www.cra.gc.ca/gsthst](http://www.cra.gc.ca/gsthst) or contact our Business Enquiries 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 Québec at 1-800-567-4692.

## Help for taxpayers with a hearing or visual disability

Taxpayers with a hearing disability 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 in Braille, large print, or e-text (computer diskette), or on audiocassette by visiting our Web site at [www.cra.gc.ca/alternate](http://www.cra.gc.ca/alternate) or by calling 1-800-267-1267 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 [www.cra-arc.gc.ca/events](http://www.cra-arc.gc.ca/events) or contact the Business Enquires section of your Tax Services Office

## Service Canada

(formerly the 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 Human Resources and Skills Development Canada (HRSDC). Visit their Web site at [www.hrsdc.gc.ca](http://www.hrsdc.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](http://www.cra.gc.ca/sred) or by calling the General Enquiries at 1-800-959-5525.

## Consultation

The Small Business Advisory Committee (SBAC) is one of several committees formed by the federal government to provide a forum for representatives of small business to communicate with us at the CRA. Members include those who are actively engaged in the operation of a small business as well as members who are well connected to the small business community.

The SBAC meets with the CRA at least twice a year to improve communication between CRA and the small business community to simplify CRA processes and improve services.

For more information on the SBAC visit our Web site at [www.cra.gc.ca/sbac](http://www.cra.gc.ca/sbac).

## 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.gc.ca](http://www.canada.gc.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. They are in Charlottetown, Edmonton, Fredericton, Halifax, Montréal, Saskatoon, St. John's, Toronto, Vancouver, Whitehorse, Winnipeg, Yellowknife and Nunavut.

## Business windows

Business windows are single-window service sites for our business clients and are located in 45 tax services offices across the country. They are the initial point of contact for business clients who are looking for general information on programs and services or who would like to get a Business Number.

## 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](http://www.cra.gc.ca/forms).

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

The following publications may also be of interest:

- *Your Guide to Government of Canada Services and Support for Small Business* – This publication lists every government resource for small businesses. If you are going to deal with government, you will want to get this guide from Industry Canada on their Web site at [www.ic.gc.ca/cmb/welcomeic.nsf/ICPages/Publications-e](http://www.ic.gc.ca/cmb/welcomeic.nsf/ICPages/Publications-e).
- *Strategis* – Provides you with easy, direct access to Industry Canada's extensive expertise and information resources. You will find *Strategis* at [www.strategis.ic.gc.ca](http://www.strategis.ic.gc.ca).



## Summary of Important Dates for businesses

Sole proprietorships and partnerships	
Monthly, by the 15th	Remit the payroll deductions from your employees' pay cheques, 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.
March 15	If you are self-employed, make your <b>first instalment</b> payment of tax and CPP contributions.
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	If you are self-employed, make your second instalment payment. 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.
September 15	If you are self-employed, make your third instalment payment of tax and CPP contributions.
December 15	If you are self-employed, make your fourth instalment payment of tax and CPP contributions.
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' paycheques to us, along with your portion of Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums, by the fifteenth 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 taxation year-end	The balance of the corporation tax payable is due.
Three months from your taxation year-end	For corporations claiming the small business deduction, the balance of the corporation tax payable is due.
Six months from your taxation year-end	Corporations must file a <i>T2 Corporation Income Tax Return</i> 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 don't, and interest is charged on unpaid taxes and penalties.

## List of frequently used Web sites for small businesses

Topic	Web site
Main page for business	<a href="http://www.cra.gc.ca/business">www.cra.gc.ca/business</a>
Business account registration	<a href="http://www.cra.gc.ca/bn">www.cra.gc.ca/bn</a>
Conducting business on the Internet	<a href="http://www.cra.gc.ca/ecommm">www.cra.gc.ca/ecommm</a>
Contact us	<a href="http://www.cra.gc.ca/contact">www.cra.gc.ca/contact</a>
Canadian Agricultural Income Stabilization (CAIS) Program	<a href="http://www.agr.gc.ca/caisprogram">www.agr.gc.ca/caisprogram</a>
Contract payment reporting	<a href="http://www.cra.gc.ca/contract">www.cra.gc.ca/contract</a>
Corporate income tax	<a href="http://www.cra.gc.ca/t2return">www.cra.gc.ca/t2return</a>
Corporation Internet filing	<a href="http://www.cra.gc.ca/eservices/tax/business/corpnet">www.cra.gc.ca/eservices/tax/business/corpnet</a>
Online Requests for Business	<a href="http://www.cra.gc.ca/eservices">www.cra.gc.ca/eservices</a>
Direct deposit – Business	<a href="http://www.cra.gc.ca/eservices/tax/business/directdeposit">www.cra.gc.ca/eservices/tax/business/directdeposit</a>
Electronic payments	<a href="http://www.cra.gc.ca/electronicpayments">www.cra.gc.ca/electronicpayments</a>
Electronic mailing lists	<a href="http://www.arc.gc.ca/lists">www.arc.gc.ca/lists</a>
Events – Outreach	<a href="http://www.cra.gc.ca/events">www.cra.gc.ca/events</a>
Fairness and taxpayer rights – Overview	<a href="http://www.cra.gc.ca/fairness">www.cra.gc.ca/fairness</a>
FAQs available on the CRA Web site	<a href="http://www.cra.gc.ca/faqs">www.cra.gc.ca/faqs</a>
Public holidays	<a href="http://www.cra.gc.ca/tax/holidays/menu-e.html">www.cra.gc.ca/tax/holidays/menu-e.html</a>
File on magnetic media	<a href="http://www.cra.gc.ca/magmedia">www.cra.gc.ca/magmedia</a>
Forms and publications	<a href="http://www.cra-arc.gc.ca/forms">www.cra-arc.gc.ca/forms</a>
Forms and publications – Online order forms	<a href="http://www.cra.gc.ca/orderforms">www.cra.gc.ca/orderforms</a>
GST/HST electronic filing and remitting	<a href="http://www.cra-arc.gc.ca/eservices/tax/business/">www.cra-arc.gc.ca/eservices/tax/business/</a>
GST/HST NETFILE	<a href="http://www.cra-arc.gc.ca/eservices/tax/business/">www.cra-arc.gc.ca/eservices/tax/business/</a>
GST/HST News	<a href="http://www.cra-arc.gc.ca/formspubs/type/gsthstnews-e.html">www.cra-arc.gc.ca/formspubs/type/gsthstnews-e.html</a>
GST/HST TELEFILE	<a href="http://www.cra-arc.gc.ca/eservices/tax/business/">www.cra-arc.gc.ca/eservices/tax/business/</a>
T4 Internet filing	<a href="http://www.cra-arc.gc.ca/tax/business/t4internet/">www.cra-arc.gc.ca/tax/business/t4internet/</a>
How to file a T4 information return	<a href="http://www.cra-arc.gc.ca/tax/business/t4internet/">www.cra-arc.gc.ca/tax/business/t4internet/</a>
Information for Aboriginal people	<a href="http://www.cra.gc.ca/aboriginalpeoples">www.cra.gc.ca/aboriginalpeoples</a>
Stock option – Taxable benefit	<a href="http://www.cra-arc.gc.ca/E/pub/tp/it113r4/README.html">www.cra-arc.gc.ca/E/pub/tp/it113r4/README.html</a>
Tables on Diskette (TOD)	<a href="http://www.cra.gc.ca/tod">www.cra.gc.ca/tod</a>
The CRA warns Canadians against tax “myths”	<a href="http://www.cra.gc.ca/myths">www.cra.gc.ca/myths</a>
Tax Services Offices and Taxation Centres	<a href="http://www.cra.gc.ca/tso">www.cra.gc.ca/tso</a>
Visitor Rebate Program	<a href="http://www.cra.gc.ca/visitors">www.cra.gc.ca/visitors</a>
Payroll	<a href="http://www.cra.gc.ca/payroll">www.cra.gc.ca/payroll</a>
Prescribed interest rates	<a href="http://www.cra.gc.ca/tax/faq/interest_rates">www.cra.gc.ca/tax/faq/interest_rates</a>

# Glossary of Terms

Terms appearing in the glossary in upper case letters have their own listings 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 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 can't 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.

**Confidentiality** – The privacy of income tax and GST/HST returns and other related tax information. The only people with access to this information are those who are authorized by law or those to whom the taxpayer 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 ARTICLE 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.

**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 may claim for GST/HST paid or payable on purchases relating to a commercial activity.

**Instalment** – A partial payment of a tax debt. The debt is divided into parts that are paid at different times within a certain period.

**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.

**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 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 or registrant 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.

**Payroll deductions** – Income tax deductions, CANADA PENSION PLAN or QUEBEC PENSION PLAN contributions, and EMPLOYMENT INSURANCE premiums which are deducted from an employee's wages or SALARY and sent regularly to us. Employers also make their own contributions to the Canada Pension Plan or Quebec Pension Plan, and Employment Insurance.

**Penalties** – Amounts taxpayers or registrants 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 6%, while the HST rate is 14%.

**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 taxation 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 returned to a taxpayer after we assess the return.

**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, and Research Grants*.

**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.

**Social insurance number (SIN)** – A number given to each contributor to the Canada Pension Plan, Quebec Pension Plan, and Employment Insurance Plan. 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*, starting in 2001, the term **spouse** will mean only a married partner. The term **common-law partner** will include partners of the same sex or opposite sex, who meet certain conditions. For more information, see your 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 taxation 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 main point of contact for the public.

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

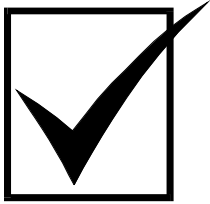
**Taxable benefits** – Amounts of money, or the value of goods or services, that an employer pays or provides in addition to salary. For example, the part of a health insurance plan that the employer pays is a taxable benefit.

**Taxable 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.

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

**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!***



We review our income tax guides and pamphlets each year. If you have any comments or suggestions to help us improve our publications, we would like to hear from you!

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**Client Services Directorate  
Canada Revenue Agency  
750 Heron Road  
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