Did You Know?

(A publication for the clients and contacts of Gary S. Aslett, Chartered Accountant)

WHEN CAN I DISPOSE OF OLD TAX RECORDS?

One of the most common questions we receive is "When can I dispose of old income tax records". The purpose of this article is to explain the rules as outlined in the Income Tax Act.

First, it is important to note that all taxpayers are required to keep adequate records to support the calculation of income tax (for example, sales invoices, purchase receipts, contracts, bank statements and cancelled cheques as a minimum). Generally, a 'record' will include any information which substantiates the information contained in the tax return.

Unless the taxpayer receives written permission to dispose of books and records, the rules prescribe the following retention periods:

GENERAL RULE

Six years from the end of the last tax year to which the records and books relate. This would include:

- Books, records and related accounts.
- Source documents.

This minimum retention period is based on when the record may be required to support a tax calculation and not the year when the record was created or transaction occurred. For example, assume an asset purchased in 1997 is disposed of in 2005. The record for the transaction in 1997 will affect the tax calculation in 2005 and therefore, this record should be retained for six years after 2005.

RETENTION PERIOD FOR PERMANENT RECORDS

Certain records must be retained for longer periods:

(a) Corporations:

Two years after the corporation is dissolved for permanent records such as:

- General ledger or other book containing yearly transactions.
- Minutes of meetings of directors and shareholders.
- Records of transfer of ownership of shares.
- Special contracts or agreements necessary to understand entries in the general ledger.

(b) Non-incorporated business:

Six years from the end of the tax year in which the business ceased for permanent records such as:

- General ledger or other book containing yearly transactions.
- Special contracts or agreements necessary to understand entries in the general ledger.

Please note that different rules may apply for other types of taxes, persons who have not filed returns, taxpayers with cases under appeal, and registered charities.

Note: Regardless of the periods specified above, we recommend that certain records are retained if they relate to important or significant tax transactions. Examples may include tax returns which report use of the capital gains exemption and deductions of allowable business investment losses which can affect the availability of the capital gains exemption.

Please contact Gary Aslett at 905-629-3318 or gary@aslettca.ca if you require further information on this subject.

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This information is based on existing legislation or legislation which is expected to be passed into law. Such legislation is subject to change without notice. Readers are advised to obtain specific professional advice before acting on the basis of material contained in this article.

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