

The Tax Break

HOW LONG DO I KEEP THIS?

BOOKS & RECORDS RETENTION

In a 2015 **Technical Interpretation**, CRA was asked about the required period for **records retention**. CRA noted the following:

1. A **corporation's permanent records** (including Minutes of Directors' and Shareholders' Meetings, share registers, the general ledger, and any contracts or agreements necessary to understand the general ledger entries) must be retained until **two years** after the corporation is **dissolved**.

2. In the absence of an exception, a **corporation's non-permanent records** must be retained for a period of **six years** after the end of the **last taxation year** to which they **relate**. For example, invoices for the purchases of capital assets must generally be kept for 6 years after they are disposed, not just 6 years after purchase. All non-permanent corporate records on hand at the date of dissolution must be retained for **two years after** the date of **dissolution**.

3. Permanent records of an **unincorporated business** must be retained for **six years** after the end of the taxation year in which the business ceased, while other records must be retained for six years after the end of the last taxation year to which they relate.

Review internal controls to ensure all records are retained for the appropriate length of time.

CRA + SOCIAL MEDIA = AUDIT?

It is possible for the CRA, and other similar bodies, to use social media to **identify** taxpayers for **audits**, or even to use as evidence against the taxpayer in the course of a reassessment. For example, posts regarding the creation of large balances in a TFSA on **LinkedIn, Twitter, or Facebook**



may result in an audit of the individual's TFSA. If the CRA believes that an individual is carrying on an equity trading business within the TFSA account, they may challenge the tax-free status of the account.

It is also important to note that not only will a direct view of the post by CRA possibly result in an audit, but also, an anonymous tip could cause the same result. Every post puts the user at the mercy of the individuals in their network, and far beyond if it is shared.

Caution should be taken when posting tax or other related information on social media.

Check out our weekly blog at <http://www.accountantsplus.ca/blog/>

You can also find us on Twitter: @PELCPA

We would love some comments other than spam! :)

IN THIS ISSUE...

- How Long Do I Keep This?
- CRA + Social Media = Audit?
- Request Change of Fiscal Period
- CRA: Powers of Collection
- TFSA Contribution
- Gift Cards for Promo

SEASON'S GREETINGS!

The PEL team wishes all of you a **Happy Holiday Season** and all the best for 2016! May the joy of the season be shared by all. In lieu of Christmas cards, we have made a donation to **Doctors Without Borders**.

We wish to express our appreciation for your support over the years and to thank you for your many referrals of friends, family and associates. We will do our best to continue to earn your confidence!



If you are receiving this newsletter by mail and would like to receive it by email instead (or vice versa), or if you no longer wish to receive our newsletter, please contact Julie at julie@accountantsplus.ca or 604.299.9274.

REQUEST A CHANGE OF FISCAL PERIOD

SIMPLIFY YOUR REPORTING

In a 2014 **Technical Interpretation**, CRA noted that they may **accept a change** to a taxpayer's **fiscal period**.

However, the request to change should only be approved when the request is prompted **solely on sound business reasons** other than to obtain a tax benefit. Changes for the personal convenience of the taxpayer and to defer taxes would not be permitted.

CRA provided a non-exhaustive list of reasons that could constitute a **sound business reason**:

- a corporation changes its fiscal period to end on the **same date** as its **parent** or **associated** company;
- a corporation changes its fiscal period to end when its **inventory** is at a seasonally low level;
- a corporation changes its fiscal period to **ease financial reporting**.

If it makes **sound business sense**, to **change the fiscal period**, contact us to consider making an application.



CRA: POWERS OF COLLECTION

The **CRA** has **special abilities** to **collect debts** from taxpayers where amounts are left outstanding for too long. Some of the issues to be considered when dealing with CRA collections include:

- CRA has the ability to **garnish** one's **bank account** or **wages**.
- CRA can **reduce government**

payments, such as **CPP**, when amounts are outstanding.

- If a taxpayer is disputing an assessment or amount outstanding, payment of the assessed amount will **not generally impact** the success, or failure, of their objection.

- It may be beneficial to **pay the outstanding amount** even if an assessment will be disputed. If the objection is successful, the CRA will pay taxable interest of 3% to individuals (1% to corporations). If unsuccessful, the taxpayer will avoid non-deductible interest CRA charges of 5%. These rates are re-evaluated quarterly.

- In some cases, CRA is **restricted** in their **ability to collect** where a taxpayer has objected or appealed. However, the Tax Act **does not limit** collections for debts such as **source deductions**, and **GST/HST**.

- Collection restrictions may be lifted where a delay puts collection **at risk**.

- **Giving** assets to non-arm's length parties (such as a spouse or child) in an attempt to prevent CRA from collecting, can cause the recipient to also be liable for a portion of the tax debt.

Consider **paying an amount in dispute with CRA to avoid accruing non-deductible interest** should you lose your **Objection or Appeal**.

TFSA CONTRIBUTION CAUTIONS AND POSSIBILITIES

Although withdrawals from a TFSA are **added to the available contribution room**, the limit is increased only at the start of the **following calendar year**. As such, a series of **contributions and withdrawals** within a calendar year can expose the individual to significant costs in the form of a **1% per month tax** on excess contributions.

Also note that if an **adult child** or other **relative** has TFSA contribution room available, a **gift or loan** may be made to that person so that they may invest in their TFSA account. This would essentially **convert taxable investment income** of the wealthier person **into tax-free** income of the other.

TFSA contribution limits for specific individuals can be found by logging onto **"My Account"** at www.cra.gc.ca. Caution, however, must be taken when relying on these balances as the CRA may not have the most current information.

Before contributing to a TFSA, individuals should consider their contribution room so as to avoid tax on excess contributions.



GIFT CARDS FOR PROMO PURPOSES

ARE THEY FULLY DEDUCTIBLE?

In a 2014 **French Technical Interpretation**, CRA was asked whether **gift cards** given away for **promotional purposes**, such as those provided to customers or clients, would be classified as a "meal and entertainment" expense which would reduce the deduction for tax purposes by 50%.

CRA indicated that their **general presumption** is that the 50% **reduction would apply** where the **main product** of the issuer of the gift card is **food or beverages**. They noted, however, that this presumption **could be rebutted** with appropriate supporting documentation.

Consider giving gift cards to customers for stores and companies that do not primarily provide food, beverages or entertainment.

We recommend that you obtain professional advice before acting on information contained in this newsletter.

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