



Canada Revenue
Agency

Agence du revenu
du Canada

Information for Canadian Small Businesses

Is this guide for you?

Are you starting a new small business in Canada? Are you operating one already? Then this guide is for you. It will introduce you to the Canada Revenue Agency (CRA) programs and online services 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:

- different kinds of business structures;
- goods and services tax/harmonized sales tax (GST/HST);

- excise tax, excise duties, and the softwood lumber products export charge;
- payroll deductions;
- income tax reporting and payment;
- audits (how to prepare for and handle an audit);
- objections and appeals; and
- electronic services;

For details on some topics, we will refer you to other publications which are available at www.cra.gc.ca/forms.

If you are not familiar with some of the terms used in this guide, see "Definitions" on page 5.

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

The term **income tax return** used in this guide has the same meaning as **T1 income tax and benefit return**.

If you are blind or partially sighted, you can get our publications in braille, large print, etext, or MP3 by going to www.cra.gc.ca/alternate. You can also get our publications and your personalized correspondence in these formats by calling **1-800-959-5525**.

Unless otherwise noted, all legislative references are to the *Income Tax Act* and the *Income Tax Regulations*.

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

What's new for 2014?

Direct deposit

The Government of Canada is switching to direct deposit for payments it issues.

We can deposit your refunds and rebates directly into your account at a financial institution in Canada. For more information, see "Direct Deposit" page 37.

Lottery prize commissions

Lottery ticket retailers who sell winning tickets must include the amount or value of any prize commissions they received from a provincial lottery corporation on or after **January 1, 2014**, in their income. For more information, go to www.cra.gc.ca/tx/bsnss/sm/tx/ncm/nc_typs-eng.html.

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Definitions

Terms that are all capitalized within a definition have their own listing in this section.

Adjusted cost base (ACB) – Usually the cost of a property plus any expenses to acquire it, such as commissions and legal fees.

The cost of a CAPITAL PROPERTY is its actual or DEEMED cost, depending on the type of property and how you acquired it. It also includes capital expenditures, such as the cost of additions and improvements to the property. You cannot add current expenses, such as maintenance and repair costs, to the cost base of a property.

For more information on ACB, see Interpretation Bulletin IT-456, *Capital Property – Some Adjustments to Cost Base*, and its Special Release.

Appeal – A process by which you ask a court to review the decision that the Canada Revenue Agency's Appeals Division made for the minister of National Revenue.

Arm's length – Generally refers to a relationship or a transaction between persons acting in their separate interests. An arm's length transaction is generally a transaction that reflects ordinary commercial dealings between parties acting in their own interests.

"Related persons" are not considered to deal with each other at arm's length. For example, individuals connected by blood relationship, marriage or common-law partnership, or adoption are related persons. A corporation and another person or two corporations may also be related persons. For more information and examples of related persons, see Income Tax Folio S1-F5-C1, *Related persons and dealing at arm's length*.

"Unrelated persons" may not be dealing with each other at arm's length at a particular time. Each case will depend upon its own facts. The following factors are useful criteria that will be considered in determining whether parties are not dealing at arm's length:

1. the existence of a common mind which directs the bargaining for both parties to a transaction;
2. the parties to a transaction are "acting in concert" without separate interests; "acting in concert" means, for example, a group acting with considerable interdependence in transactions involving a common purpose; or
3. the existence of control of one party by the other by way of, for example, advantage, authority or influence.

For more information, see Income Tax Folio S1 F5 C1, *Related persons and dealing at arm's length*.

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

Assessment – A formal determination of taxes, duties, or other amounts to be paid or refunded. This description also applies to 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, and other valuables. Assets can include intangibles such as GOODWILL.

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

Balance – The amount left in an account after deposits and withdrawals.

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) – An identifier assigned to a business to simplify and streamline the way the business deals with the federal government. A business will have one BN.

Calendar year – A year that begins on January 1 and ends on December 31.

Canada Pension Plan (CPP) – An insurance plan 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) – The deduction you can claim over a period of several years for the cost of depreciable property, that is, property that wears out or becomes obsolete over time, such as a building, furniture, or equipment, that you use in your business or professional activities.

Capital gains – The amount by which the PROCEEDS OF DISPOSITION less outlays and expenses is more than the ADJUSTED COST BASE of CAPITAL PROPERTY.

Capital loss – The amount by which the ADJUSTED COST BASE as well as outlays and expenses of CAPITAL PROPERTY is more than the PROCEEDS OF DISPOSITIONS.

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.

Commercial activity – Any business or adventure or concern in the nature of trade carried on by certain persons, but **does not include**:

- the making of EXEMPT SUPPLIES; or
- any business or adventure or concern in the nature of trade carried on without a reasonable expectation of profit by an individual, a personal trust, or a partnership where all the members are individuals.

However, commercial activity includes a supply of real property, other than an exempt supply, by any person, whether or not there is a reasonable expectation of profit, and anything done in the course of making the supply or in connection with the making of the supply.

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

- authorized online through My Account or My Business Account; or
- authorized by completing Form RC59, *Business Consent*, or Form T1013, *Authorizing or Cancelling a Representative*.

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

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

Debt – An amount that is owed. If you borrow money or buy 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 on which you can claim a CAPITAL COST ALLOWANCE (CCA). It is usually CAPITAL PROPERTY used to earn income from a business or property. The capital cost can be written off as CCA over a number of years. You usually group depreciable properties into classes. For example, diggers, drills, and tools acquired after May 1, 2006, that cost \$500 or more belong in Class 8. You have to base your CCA claim on the rate assigned to each class of property.

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

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

Election – A formal choice of the different options available under the tax laws to be applied to a taxpayer's financial affairs. The usual place for making an election is on your income tax and benefit return.

Employment Insurance Program – This is a federal program that provides financial assistance to people who are temporarily out of work. Employers and employees pay amounts into the Employment Insurance Fund.

Employment insurance premiums – These are deductions that an employer must make from employees' paycheques and send to the receiver general for Canada. Employers must also contribute employment insurance payments.

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

Exempt supplies – Are supplies of property and services that are not subject to the GST/HST. GST/HST registrants cannot claim INPUT TAX CREDITS to recover the GST/HST paid or payable on expenses related to making exempt supplies.

Fair market value (FMV) – Generally, it is the highest dollar value that you can get for your property in an open and unrestricted market between an informed and willing buyer and an informed and willing seller who are dealing at arm's length with each other.

Fiscal period – 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. A business usually establishes its fiscal period when it files its first income tax return. See TAX YEAR.

Goodwill – The excess of the purchase price of a business over the FAIR MARKET VALUE of the net ASSETS of the business.

Income – The sum of revenues earned in a period of time. It includes revenues from salaries, wages, benefits, tips, 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 period of time. Sometimes called a profit and loss statement.

Information slips – These are 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 (ITC) – This is a credit that GST/HST registrants can claim to recover the GST/HST paid or payable for property or services they acquired, imported into Canada, or brought into a PARTICIPATING PROVINCE for use, consumption, or supply in the course of their commercial activities.

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

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

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

Loss – The amount by which expenses are greater than revenues.

Motor vehicle – An 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.

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

Non arm's length – Refers to parties that are not dealing with each other at arm's length.

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

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

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

Participating provinces – Provinces that have harmonized their provincial sales tax with the GST to implement the harmonized sales tax (HST). Participating provinces include New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, and Prince Edward Island, but do not include the Nova Scotia offshore area or the Newfoundland offshore area except to the extent that certain offshore activities are carried on in that area.

Passenger vehicle – A motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers. Most cars, station wagons, vans, and some pick-up trucks are passenger vehicles. They are subject to the limits for CCA, interest, and leasing.

A passenger vehicle does **not** include:

- an ambulance;
- a clearly marked police or 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 and that, in the tax year you bought or leased the vehicle, 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 the vehicle, was used 90% or more to transport goods, equipment, or passengers to earn income;
- a pick-up truck that, in the tax year you bought or leased it, 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; or

- a clearly marked emergency medical service vehicle used to carry paramedics and their emergency medical equipment.

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

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

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; or an amount you pay in interest, income tax, municipal tax, rent, dues, or insurance for later fiscal periods. A prepaid expense is included as an asset on the balance sheet at the end of a fiscal period.

Proceeds of disposition – Generally, the amount you received or will receive for your property. In most cases, it refers to the sale price of the property. It could also include compensation you received for property that has been destroyed, expropriated, or stolen.

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

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

Records – Documents such as account books, sales and purchase invoices, contracts, bank statements, and cancelled cheques. Your books and records must be kept in English or in French. You must keep them in an orderly manner at your business or residence in Canada for at least six years from the end of the last TAX YEAR to which the records relate. You must make these books and other documents available to our officers when requested.

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

Regional excise duty office – An office that serves as the CRA's liaison with registrants, LICENSEES, and the general public on all matters relating to the Excise Duty Program.

Registrant – Person that is registered or should be registered for the GST/HST.

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.

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.

Shareholder – A person (individual or corporation) who owns shares of a corporation.

Social insurance number (SIN) – A number given to each contributor to the CANADA PENSION PLAN, QUEBEC PENSION PLAN, and EMPLOYMENT INSURANCE PROGRAM. A SIN helps record the contributions and premiums paid into and the benefits paid out of the plans and the program. Since these social insurance plans and program 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 an individual.

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

Supply – The provision of property or a service in any way, including sale, transfer, barter, exchange, licence, rental, lease, gift, or other 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*, the *Employment Insurance Act*, and several other acts. The Tax Court maintains four offices (Montréal, Ottawa, Toronto, and Vancouver) and regularly conducts hearings in major centres across Canada.

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

Tax services offices (TSOs) – Offices across the country that provide a point of contact for the public. For the address of and services available at your TSO, go to www.cra.gc.ca/tso.

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 contribution by an employer to a provincial or territorial health insurance plan for an employee is a taxable benefit.

Taxable supplies – These are supplies of goods and services that are made in the course of a COMMERCIAL ACTIVITY and are subject to GST/HST (including ZERO-RATED SUPPLIES).

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

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

Tobacco products – Manufactured tobacco, packaged raw leaf, or cigars.

Workers' compensation – Money paid to compensate a person injured on the job. The money is paid out of an insurance plan funded by employers and administered by a provincial or territorial workers' compensation organization.

Zero-rated supplies – Supplies of property and services that are taxable at the rate of 0%. This means there is no GST/HST charged on these supplies, but GST/HST registrants can claim ITCs for the GST/HST paid or payable on purchases and expenses made to provide them.

Chapter 1 – General information

Finding information on the web

You can find business information and search by topic at www.cra.gc.ca/business.

A list of websites that might be useful for small businesses is provided on page 33.

For more information on starting a business, see Canada Business (Services for Entrepreneurs) at www.canadabusiness.ca. There you will find information from the federal, provincial, and territorial governments, as well as from many other sources.

About the CRA

The Canada Revenue Agency (CRA) is the federal government agency responsible for administering tax laws for the Government of Canada and most of Canada's provinces and territories, as well as for delivering various social and economic benefit and incentive programs through the tax system.

The CRA collects federal, provincial (except in Quebec), and territorial individual income taxes.

The CRA administers and collects the GST/HST (except in Quebec), the air travellers security charge, the softwood lumber products export charge, Canada Pension Plan (CPP) contributions, employment insurance (EI) premiums, excise duties on alcohol and tobacco products, excise taxes on gasoline and fuel-inefficient vehicles, and a tax on insurance premiums (other than marine).

For all provinces and territories (except Alberta and Quebec), the CRA administers federal, provincial, and territorial corporate income taxes.

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

The CRA is committed to helping small businesses in Canada. It recognizes 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. Although these individuals will help you, you are the one who is ultimately responsible for the actions of your business. You need to stay informed so that you can work in partnership with the professionals you hire and with the CRA.

Your responsibilities are found in the following laws of Canada:

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

The CRA administers these laws. However, the Department of Finance Canada is responsible for establishing the fiscal and tax policies of the Government of Canada.

When the minister of finance introduces a budget, it includes proposed amendments to existing legislation. The Department of Finance Canada then issues budget documents to explain the reasons behind the changes. The amendments proposed in the budget bill have to be debated and approved by the Canadian House of Commons and considered by the Senate of Canada. The bill becomes law when royal assent is given by the governor general of Canada.

Chapter 2 – Setting up your business

A business includes:

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

For income tax purposes, we define a business as an activity where there is a reasonable expectation of profit and there is evidence to support that intention. However, for GST/HST purposes, a business can also include an activity whether or not it is engaged in for profit and any regular and continuous activity that involves leasing property.

The three **most common** types of business structures are:

- **sole proprietorship**;
- **partnership**; and
- **corporation**.

The type of structure you choose has a significant effect on the way you report your income, the type of returns you file each year, and many other matters.

Sole proprietorship

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

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

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

You may choose to register a business name or operate under your own name or both.

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 of 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, most partnerships are governed by a written agreement setting out rules for partners entering or leaving the partnership, the division of partnership income, and other matters.

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.

A partnership is considered to be a person for GST/HST purposes. Therefore, it is important that you structure your affairs in a clear and understandable manner, since your reporting and remittance of GST/HST will depend on the type of structure you choose. If you are a partnership, you may want to set up a separate bank account, have a written partnership agreement, and take other steps to make sure that it is clear that the business is not a sole proprietorship.

Corporation

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

A corporation may have some of the following features:

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

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

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

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

Are you responsible for your corporation's debts?

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

This applies to taxes owing as well. If your corporation owes taxes and has obtained a loan or secured a line of credit, an advance under the loan or line of credit can be intercepted on account of the corporation's tax arrears. Notwithstanding that the proceeds of the advance have been paid to the receiver general for Canada, the corporation is **deemed** to have received the advance and is liable to the lender as such. When you have personally guaranteed the loan or the line of credit for the corporation, you would be liable jointly with the corporation for the amounts intercepted.

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*, the *Employment Insurance Act*, the *Canada Pension Plan*, the *Excise Act 2001*, and the *Excise Tax Act*.

For more information on director's liability, see Information Circular IC89-2R2, *Directors' Liability – Section 227.1 of the Income Tax Act and Section 323 of the Excise Tax Act*. You can find this circular at www.cra.gc.ca/forms.

Business number

Your first step to doing business with the CRA

The first time you register a business with us, we assign it a **business number** (BN). The BN system is in place to facilitate the interactions between businesses and the CRA. This helps businesses reduce costs and be more competitive. It also increases government efficiency.

The four major CRA business program accounts and their identifiers are as follows:

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

A program account number has three parts – a BN, a program identifier and, a reference number. A whole program account number has 15 characters, which are composed as follows:

- the nine-digit BN that identifies the business;
- the two-letter program identifier; and
- the four-digit reference number.

For example, your account number might look like this:

1 2 3 4 5 6 7 8 9	RP	0 0 0 2
(BN)	(Program identifier)	(Reference number)

If you had only one account (GST/HST for example), it would be designated as follows:

1 2 3 4 5 6 7 8 9	RT 0001
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When making payments or enquiries related to your account, you have to provide the nine-digit BN and identify the type of account in question by providing the two-letter program identifier and the four-digit reference number.

You can register for a BN by Internet, telephone, fax, or mail. The Business Registration Online service at www.businessregistration.gc.ca is easy to use, convenient, and secure. It is a one-stop, self-serve application that lets you register for a BN and any of the four major CRA business program accounts. At the same time, you can register for Ontario, New Brunswick, Nova Scotia, and British Columbia programs. If your business's mailing address is in Quebec, we suggest you consult Revenu Québec's website at www.revenu.gouv.qc.ca.

Note

Not all businesses are required to have a BN. It is, therefore, important that you review the information for each type of account before registering for a BN. For more information on these accounts, including about registering for any of these accounts, go to www.cra.gc.ca/bn or call 1-800-959-5525.

Are you doing business in Quebec?

For businesses located in Quebec, you will have to register your **GST/HST accounts** with Revenu Québec instead of the CRA, unless you are a selected listed financial institution. However, to register your payroll, import-export, or corporation income tax accounts, you will have to contact the CRA.

Register for GST/HST only

If you plan to register only for GST/HST in Quebec, you do not need to register for a BN with us. For more information or to register, visit Revenu Québec's website at www.revenu.gouv.qc.ca or contact Revenu Québec at:

Revenu Québec
3800, rue de Marly
Québec QC G1X 4A5

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

Do you need a BN?

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

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

If you are registering for a GST/HST account, it is important that you provide all of the information required to register. If you register for the GST/HST and your business claims a net tax refund, the refund may not be paid if this information is inaccurate or incomplete.

Notes

If you are a sole proprietor or a partner in a partnership, you will continue to use your **social insurance number** to file your income tax and benefit return, even if you have a BN.

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

For more information about the BN, go to www.cra.gc.ca/bn, see Booklet RC2, *The Business Number and Your Canada Revenue Agency Program Accounts*, or call 1-800-959-5525.

Reasons to register

When deciding if you need to register for a BN, you must consider many factors, such as the reasons for registering for a BN. You only need to register for those business accounts for which you need a BN to fulfill your legal obligations.

For example, you do not have to register for the GST/HST if you are a small supplier. You are a small supplier if your taxable worldwide revenues (including those of your associates), were \$30,000 or less in the last four consecutive

calendar quarters combined or in any single calendar quarter. The threshold is \$50,000 if you are a public service body (such as a charity, non-profit organization, municipality, university, public college, school authority, or hospital authority). For more information on these thresholds, see "Small supplier" on page 14.

If you think your sales will be more than \$30,000, (or \$50,000 if you are a public service body), it is probably wise to register for the GST/HST sooner rather than later. Registering for the GST/HST is the same as registering for a BN. However, once you have decided to register, you must charge GST/HST on your taxable goods and services and file regular GST/HST returns whether you are a small supplier or not, and you have to stay registered for at least one year before you can deregister.

A person may incur a number of expenses in the course of establishing a business, even before any taxable supplies are made. Registering early gives you certain advantages, such as the right to claim, from the time you register, any GST/HST paid or payable on your business's start-up expenses. For more information, read "Input tax credit" on 16 and see Guide RC4022, *General Information for GST/HST Registrants*.

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

As soon as you know that you will have employees, you should open a payroll deductions account. This account will let you make regular payroll deductions for your employees and make remittances on time. For information on how to make payroll deductions, see "Chapter 5 – Payroll deductions and remittances," on page 19.

Keeping records

Five reasons why keeping records can help you

1. Complete and organized records can help you identify the sources of your income and decide whether you should charge GST/HST.

You may receive cash or property from many different sources. If you do not have records showing your income sources, you may not be able to prove that some sources are non-business or non-taxable for income tax purposes. You also need to have complete and organized records to show that your supplies are zero-rated or not subject to GST/HST.

2. Complete and organized records can mean tax savings.

Good records serve as a reminder of deductible expenses and **input tax credits** (ITCs). If you do not record your transactions, you may forget some of your expenses or ITCs when you prepare your income tax or GST/HST returns. For more information on ITCs, see Guide RC4022, *General Information for GST/HST Registrants*.

3. Complete and organized records can prevent most of the problems you might have if we audit your income tax or GST/HST returns.

If auditors cannot determine your income or taxable revenues because your records are incomplete, they will have to use other methods to establish your income and GST/HST net tax. This will cost you time. In addition, 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, as well as 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. Complete and organized records may help you get loans from banks and other creditors.

Creditors need accurate information about your financial position before they give you a loan. To give them this information, you need to keep organized records. Also, good records show potential creditors that you know what is going on with your business.

Legal requirements for keeping records

All records such as paper documents and those stored in an electronic medium (such as on computer disk), must be kept in Canada or made available in Canada at our request. The records must be in English or French. For more information on keeping records, go to www.cra.gc.ca/records.

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

What records should you keep?

Make sure you keep records of all your received income. Also, keep all receipts, invoices, vouchers, and cancelled cheques concerning outlays of money. These outlays include:

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

If you import goods into Canada, your records must show the price you paid for imported goods and list their origin and description. They must also include any paperwork 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 on request.

Your records must be permanent

Regardless of the accounting 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?

Your records must:

- let you 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.

Your records must meet the requirements of the law. Therefore, incomplete records that use approximate amounts are not acceptable.

Note

If you are required to charge GST/HST, you have to include specific information on your invoices. The information you have to include depends on the amount of the invoice. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

Retaining and destroying records

The six-year requirement

You have to keep records (other than certain documents for which there are special rules) for six years:

- from the end of the last tax year to which they relate for income tax purposes;
- from the end of the year to which they relate for GST/HST and excise **duty** purposes; and
- 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 whichever happens latest:

- the matter is resolved, and the time for filing any further appeal has expired; or
- until the six-year period mentioned above has expired.

Request for early destruction

If you want to destroy your records early, you have to get written permission from the CRA. To ask for this permission, you have to apply in writing to the director of the **tax services office** (TSO) in your area by either using Form T137, *Request for Destruction of Records*, or preparing your own written request.

In addition to our requirements, there might be other federal, provincial, and municipal laws that require you to keep records. Any permission received from the CRA for early record destruction does not extend to records you are required to keep because of these other laws.

For more information, go to www.cra.gc.ca/records and see Information Circular IC78-10R5, *Books and Records Retention/Destruction*.

Bringing assets into a business

You might 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 the assets at a price equal to their FMV at that time. If this amount is greater than your original purchase price, you must report the difference as a capital gain on your income tax and benefit return.

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 (CCA)** schedule for income tax purposes.

For income tax purposes, when you transfer the property to a Canadian partnership or a Canadian corporation, you can transfer the property 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. They allow you to change your business type from a sole proprietorship to a corporation or partnership; or from a partnership to a corporation, on a tax-free basis. For more information, see Interpretation Bulletin IT-291R3, *Transfer of Property to a Corporation Under Subsection 85(1)*, Information Circular IC76-19R3, *Transfer of Property to a Corporation Under Section 85*, and Interpretation Bulletin IT-413R, *Election by Members of a Partnership Under Subsection 97(2)*.

For GST/HST purposes, you may be able to claim an ITC for the GST/HST paid or payable on property that you transfer to your business such as capital property and inventory that you have on hand on the day you register. For more information, read "Input tax credits" on page 16, and see Guide RC4022, *General Information for GST/HST Registrants*.

Buying a business

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

When you buy a 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 business, 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 (CCA).

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 its FMV. 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 buy a business for \$480,000. The FMV of the net identifiable assets of the business is as follows:

Accounts receivable	\$ 80,000
Inventory	40,000
Land	120,000
Building	<u>200,000</u>
Total net identifiable assets	\$440,000

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

Purchase price.....	\$480,000
Minus	
Net identifiable assets.....	<u>440,000</u>
Amount attributed to goodwill.....	\$ 40,000

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

Treat the value of the inventory as a purchase of goods for resale, and include it in the calculation of **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 (at least 90%) of the property that can reasonably be regarded as necessary to carry on the business, you and the vendor may be able to jointly elect to have no GST/HST payable on the sale by completing Form GST44, *Election Concerning the Acquisition of a Business or Part of a Business*. You cannot use this **election** if the seller is a registrant and you are not a registrant. In addition, you must buy all or substantially all of the property, not only individual assets.

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

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

Another way of buying an existing business is to buy the shares of a corporation. 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. Generally, the purchase of shares of a corporation is not subject to GST/HST.

For more information on changes to your business, go to www.cra.gc.ca/tx/bsnss/tpcs/lf-vnts.

Chapter 3 – Goods and services tax/harmonized sales Tax (GST/HST)

What is the GST/HST?

The GST is a tax that applies to most **supplies** of goods and services made in Canada. The GST also applies to supplies of real property (for example, land, buildings and interests in property) and intangible property such as trademarks, rights to use a patent, and digitized products downloaded from the Internet and paid for individually.

The **participating provinces** harmonized their provincial sales tax with the GST to implement the harmonized sales tax (HST) in those provinces. Generally, the HST applies to the same base of goods and services as the GST. In some participating provinces, there are point-of-sale rebates equivalent to the provincial part of the HST on certain qualifying items. For more information, see “Point-of-sale rebates” in Guide RC4022, *General Information for GST/HST Registrants*.

GST/HST registrants that make taxable supplies (other than zero-rated supplies) in the participating provinces collect tax at the applicable HST rate. The HST rate can vary from one participating province to another. GST/HST registrants collect tax at the 5% GST rate on taxable supplies they make in the rest of Canada (other than zero-rated supplies). Specific rules apply for determining whether a supply is made in Canada and whether a supply is made in a participating province. For more information on the HST rates and the place-of-supply rules, refer to Guide RC4022, *General Information for GST/HST Registrants*.

Who pays the GST/HST?

Almost everyone has to pay the GST/HST on purchases of taxable supplies of goods and services (other than zero-rated supplies). However, Indians and some groups and organizations, such as certain provincial and territorial governments, do not always pay the GST/HST on their purchases. For more information, refer to “Supplies to diplomats, governments, and Indians” in Guide RC4022, *General Information for GST/HST Registrants*.

False GST/HST exemptions

Some individuals, businesses, and organizations are falsely claiming to be exempt from paying the GST/HST. In some cases, they may even present a fake exemption card to avoid paying the tax on their purchases.

If you do not collect the GST/HST from someone who falsely claims to be exempt from paying the GST/HST, you still have to account for the tax you should have collected.

Some provinces exempt farmers, municipalities, and certain businesses from paying the provincial sales tax. **However, these provincial exemptions do not apply to the GST/HST.**

Do you have to charge the GST/HST?

Generally, GST/HST registrants have to collect the GST/HST on all taxable (other than zero-rated) supplies of goods and services they provide to their customers. You are a GST/HST registrant if you are required to register or if you register voluntarily.

Should you register for the GST/HST?

You have to register for the GST/HST if:

- you provide **taxable supplies** in Canada; and
- you are not a small supplier.

You do not have to register if:

- you are a small supplier that does not carry on a tax business;
- your only **commercial activity** is the sale of real property, other than in the course of a business (although you do not have to register for the GST/HST in this case, your sale of real property may still be taxable and you may have to charge and collect the tax). For more information, see Guide RC4022, *General Information for GST/HST Registrants*; or
- you are a non-resident who does not carry on business in Canada (see Guide RC4027, *Doing Business in Canada – GST/HST Information for Non-Residents*).

Note

For information on registration if you are a public service body (charity, non-profit organization, municipality, university, public college, school authority, or hospital authority), see Guide RC4022, *General Information for GST/HST Registrants*.

Small supplier

You do not have to register if you are a small supplier and you meet **one** of the following conditions:

- you are a **sole proprietor** and your total revenues from taxable supplies (before expenses) from all your businesses are \$30,000 or less over the last four consecutive calendar quarters combined or in any calendar quarter; or
- you are a **partnership** or a **corporation** and your total revenues from taxable supplies (before expenses) are \$30,000 or less (or \$50,000 or less if you are a public service body) over the last four consecutive calendar quarters combined or in any calendar quarter;

Total revenues from taxable supplies means your worldwide revenues from your supplies of goods and services that are subject to the GST/HST (including zero-rated supplies), or that would be subject to the tax if supplied in Canada. It does not include goodwill, financial services, or sales of capital property. You also have to include the total revenues from taxable supplies of all of your associates in this calculation. For more information about your total revenues from taxable supplies, see Guide RC4022, *General Information for GST/HST Registrants*.

Note

If your total revenues from taxable supplies are over \$30,000 (or over \$50,000 if you are a public service body) in a calendar quarter or over four consecutive calendar quarters combined, you are no longer a small supplier and you have to register for the GST/HST.

Exception

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

Effective date of registration

The effective date of your GST/HST registration depends on when you go over the small supplier threshold of \$30,000 (or \$50,000 if you are a public service body).

If your revenues are over the threshold in a calendar quarter, you are considered a registrant and must collect the GST/HST on the supply that made you go over the threshold. Your effective date of registration will be the day you made this supply. You have 29 days from this day to register.

Example

Zuly began her business on January 1, 2014. Her total revenues from taxable supplies (sales) were \$5,000 during the first calendar quarter and \$7,000 during the second calendar quarter, meaning she was still a small supplier. In the quarter from July 1 to September 30, she had sales of \$40,000, which included an order on August 20 for \$25,000 that pushed her sales above \$30,000 for the quarter. Zuly is no longer a small supplier as of August 20 and she has to charge the GST/HST on the \$25,000 sale and any taxable sales made after this sale. She has 29 days after that day to register. In this case, although she is considered to be a GST/HST registrant as of August 20, she has up to September 18, 2014, to register.

If you are under the threshold amount in one calendar quarter, but you are over the threshold during four (or fewer) consecutive calendar quarters combined, you are considered to be a small supplier for those calendar quarters and a month after those quarters. Your effective date of registration would be the day the first supply was made after you stop being a small supplier. You have 29 days from this day to register for the GST/HST.

Example

Using the previous example, Zuly had the same sales, with the exception of the August 20 sale. Her total revenues from taxable sales were \$12,000 in the quarter that ended September 30, 2014, and \$15,000 in the quarter that ended December 31, 2014 (each less than \$30,000 but more than \$30,000 over four quarters combined). In this case, she is a small supplier until January 31, 2015. Any taxable sale she makes after January 31, 2015, is subject to GST/HST. As well, she has until March 1, 2015, to register.

Voluntary registration

If you are a small supplier and you are engaged in a commercial activity in Canada, you can **choose** to register voluntarily, even though you do not have to. If you register voluntarily, you have to charge and remit the GST/HST on your taxable supplies of goods and services. You can claim input tax credits (ITCs) for the GST/HST paid or payable on purchases for these supplies. You have to be registered for at least one year before you can ask to cancel your registration. For more information, see Guide RC4022, *General Information for GST/HST Registrants*.

If you choose not to register, you do not charge the GST/HST (other than on certain taxable supplies of real property), and you cannot claim ITCs.

How to register

You can register for a GST/HST account when you register for a business number (BN). Your BN will be your business identification for all your dealings with us. For more information, see "Business number," on page 10.

If you are incorporated, you may already have a BN and a corporation income tax account.

Note

It is the person or business entity that registers for the GST/HST. For example, it is the partnership that registers and not each partner.

If the physical location of your business is in Quebec, see "Are you doing business in Quebec?" on page 11.

Fiscal year for GST/HST purposes

Usually, your fiscal year for GST/HST purposes is the same as your tax year for income tax purposes. Generally, the tax year of the following persons is a calendar year:

- individuals and certain trusts;
- professional corporations that are members of a partnership (such as a corporation that is the professional practice of an accountant, a lawyer, or a doctor); and
- partnerships, where at least one member of the partnership is an individual, a professional corporation, or another affected partnership.

However, some persons use non-calendar tax years. If you are a person described above that uses a non-calendar tax year approved by the CRA, you may want to use that same year as your GST/HST fiscal year.

A corporation generally uses the same fiscal year for income tax purposes and GST/HST purposes. However, if a corporation has a non-calendar tax year for income tax purposes, it can elect to use a calendar year for its GST/HST fiscal year.

If you are a corporation that uses a non-calendar year for income tax purposes and GST/HST purposes, and you change to another non-calendar tax year for income tax purposes, inform us of the change as soon as possible and we will change your GST/HST fiscal year to match it.

You can change your fiscal year by using our online services at www.cra.gc.ca/mybusinessaccount, or www.cra.gc.ca/representatives, or by sending a completed Form GST70, *Election or Revocation of an Election to Change a GST/HST Fiscal Year*. If you selected an incorrect fiscal year when you became a GST/HST registrant, call us at 1-800-959-5525.

Reporting periods

Reporting periods are the periods of time for which you file your GST/HST returns. Your reporting period is determined based on the revenue from your total taxable supplies of property and services made in Canada in your immediately preceding fiscal year or in all preceding fiscal quarters ending in that fiscal year.

This revenue includes zero-rated supplies of property and services made in Canada, as well as those of your associates.

Do not include revenue from:

- supplies made outside Canada;
- zero-rated exports of goods and services;
- zero-rated supplies of financial services;
- taxable sales of capital real property; and
- goodwill.

When you register for the GST/HST, we generally assign an annual reporting period. However, you may choose a more frequent reporting period. The following chart shows the threshold revenue amounts that determine the assigned reporting periods, as well as the optional reporting periods available if you want to file a return more frequently.

Assigned and optional reporting periods		
Annual taxable supplies threshold amounts	Assigned reporting period	Optional reporting periods
\$1,500,000 or less	Annual	Monthly, Quarterly
More than \$1,500,000 up to \$6,000,000	Quarterly	Monthly
More than \$6,000,000	Monthly	Nil

You can change your assigned reporting period by using our online services at www.cra.gc.ca/mybusinessaccount, or www.cra.gc.ca/representatives, or by sending us a completed Form GST20, *Election for GST/HST Reporting Period*.

Input tax credits

As a registrant, you recover the GST/HST paid or payable on your purchases and expenses related to your commercial activities by claiming an input tax credit (ITC) on your GST/HST return. ITCs are deducted from the tax you are required to collect so that you remit only the difference, which is referred to as your net tax.

You can claim ITCs only to the extent that your purchases and expenses are for consumption, use, or supply in your commercial activities.

There are some purchases and expenses for which you **cannot** claim an ITC, such as:

- certain capital property;
- taxable supplies of goods and services bought or imported to make exempt supplies of goods and services;
- membership fees or dues to any club whose main purpose is to provide recreation, dining, or sporting facilities (including fitness clubs, golf clubs, and hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business; and
- goods or services you bought or imported for your personal consumption, use, or enjoyment.

To claim an ITC, the expenses or purchases must be reasonable in quality, nature, and cost in relation to the nature of your business.

Note

The invoices for your expenses and purchases must also contain specific information. Generally, this information would include the supplier's business number (BN), and the total amount of GST/HST paid or an indication that the amount includes the GST/HST at the applicable rate. For more information on the specific information that these invoices must contain, see Guide RC4022, *General Information for GST/HST Registrants*.

Becoming a registrant

When you become a GST/HST registrant, you may be able to claim an input tax credit (ITC) to recover the GST/HST you paid or owe on property and certain services you acquire before becoming a registrant.

In the case of property, you are considered to have purchased the property when you became a registrant if you held the property for consumption, use or supply in the course of your commercial activities right before you became a registrant. You are also considered to have paid GST/HST on the purchase. The amount of tax paid is equal to the basic tax content of the property. As a result, you may be able to claim an ITC for the tax you are considered to have paid.

In addition, certain services, such as legal and accounting fees and regulatory fees acquired to set up a corporation, may be treated as eligible capital expenditures for income tax purposes. In this case, the services would be treated as property and an ITC may be available. For more information, see Interpretation Bulletin IT-143R3, *Meaning of Eligible Capital Expenditure*.

For information on the meaning of basic tax content, and the availability of ITCs for start-up costs, see Guide RC4022, *General Information for GST/HST Registrants*, Policy Statement P-018R, *Limitation on ITC Eligibility where a Person Becomes a Registrant*, and Policy Statement P-019R, *Eligibility for ITC on start-up costs – Eligible capital property*, or call 1-800-959-5525.

Operating expenses

The following are examples of operating expenses for which you can claim an ITC:

- commercial rents;
- equipment rentals;
- advertising;
- utilities; and
- office supplies (such as postage, paper, and pens).

You **can** claim an ITC equal to 100% of the GST/HST paid or payable by you for a particular operating expense (property or service) if substantially all (90% or more) of your consumption or use of that property or service is (or is intended to be) in the course of the your **commercial activities** and all the other ITC criteria are satisfied.

You **cannot** claim an ITC for any of the GST/HST paid or payable by you for a particular operating expense (property or service) if substantially all of your consumption or use of that property or service is (or is intended to be) other than in the course of your commercial activities (for example, consumed or used to make **exempt supplies**).

If you have both commercial activities and non-commercial activities (such as exempt supplies), and at least 90% of an operating expense cannot reasonably be allocated to your commercial or your non-commercial activities, you must divide the GST/HST paid or payable for the property or service between these two activities. You can only claim ITCs for the part of the GST/HST paid or payable for the property or service that relates to its consumption or use in your commercial activities.

Home office expenses

You can claim ITCs for your home office expenses only if the work space is:

- your principal place of business; or
- used 90% or more to earn income from your business and used on a regular and continuous basis for meeting your clients, customers, or patients.

This restriction for home office expenses is similar to that used for income tax purposes. For more information, see Interpretation Bulletin IT-514, *Work Space in Home Expenses*.

Meal and entertainment expenses

You can claim an ITC for the GST/HST you pay on reasonable meal and entertainment expenses that relate to your commercial activities. When the deduction for income tax purposes is limited to 50% of the cost of meals and entertainment, you can only claim 50% of the GST/HST you pay on those expenses as an ITC.

Passenger vehicles and aircraft

Corporations follow a primary use rule (more than 50% use in commercial activities) to determine their ITCs for passenger vehicles and aircraft.

However, individuals and partnerships usually claim ITCs for passenger vehicles and aircraft based on the capital cost allowance (CCA) claimed for income tax purposes. If the use in commercial activities is 10% or less, you cannot claim any ITC. If the use in commercial activities is 90% or more, you can claim a full ITC.

You usually calculate your CCA for income tax purposes at the end of your fiscal year. Once you have calculated your CCA, you can calculate your ITC.

For more information on calculating and claiming ITCs, restrictions for ITCs, time limits for claiming ITCs, and special rules that apply to charities and financial institutions, refer to Guide RC4022, *General Information for GST/HST Registrants*.

Calculating your net tax

You have to calculate your net tax for each GST/HST reporting period and report this on your GST/HST return. To do so, calculate:

- the GST/HST collected or that became collectible by you on your taxable supplies made during the reporting period; and
- the GST/HST paid or payable on your business purchases and expenses for which you can claim an ITC.

The difference between these two amounts, including any adjustments, is called your **net tax**. It is either your GST/HST remittance or your GST/HST refund. If you charged or collected more GST/HST than the amount paid or payable on your purchases, send us the difference. If the GST/HST paid or payable is more than the GST/HST you charged or collected, you can claim a refund of the difference.

For most businesses, this calculation is straightforward. For more details on calculating your net tax, see Guide RC4022, *General Information for GST/HST Registrants*. However, to help reduce paperwork and bookkeeping costs, most small businesses can use the quick method of accounting to calculate their GST/HST remittance. For more information, see Guide RC4058, *Quick Method of Accounting for GST/HST*, or Guide RC4247, *The Special Quick Method of Accounting for Public Service Bodies*.

Note

Most charities have to use a **special net tax calculation method** for reporting the GST/HST they charge and for claiming ITCs. For more information, see Guide RC4082, *GST/HST Information for Charities*.

Chapter 4 – Excise taxes, excise duties, and the softwood lumber products export charge

Bad debt adjustments

If you already reported and remitted the GST/HST for a credit sale, on your GST/HST return, and all or part of the amount owed to you became a bad debt, you can recover all or part of the GST/HST you overpaid as a tax adjustment when you calculate your net tax.

GST/HST returns

Unless you have filed a GST/HST return electronically, we will automatically send you Form GST34, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return for Registrants*, which includes personalized pre-printed information about your account. You can stop receiving the GST/HST returns automatically by using our online service at www.cra.gc.ca/mybusinessaccount or www.cra.gc.ca/representatives.

Filing and remitting due dates

Monthly and quarterly filers

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

Annual filers

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

Exceptions

Usually, your GST/HST payment is due by April 30 if all of the following conditions are met:

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

Although your payment is due April 30, you have until June 15 to file your GST/HST return.

As well, a registrant listed financial institution (other than a corporation that is considered to be a listed financial institution because it has an election in effect to have certain supplies deemed to be exempt financial services) that has an annual reporting period has six months after its fiscal year end to file its return and remit any amount owing.

As an annual filer, you may also have to pay quarterly instalments. If so, they are due no later than one month after the last day of each fiscal quarter. For more information, see RC4022, *General Information for GST/HST Registrants*.

What are excise taxes and excise duties?

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

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

Excise taxes

Excise taxes are charged on:

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

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

When goods are made in Canada, excise tax is payable when the goods are delivered to the buyer. When they are imported, excise tax is payable by the importer at the time the goods were 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) lets you buy goods for resale without paying excise taxes. You may qualify for a W licence under certain limited circumstances. When you have this licence, you collect and remit the excise tax when you sell the goods.

For more information, go to www.cra.gc.ca/etsl or call 1-866-330-3304.

Excise duties

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

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

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

For more information, go to www.cra.gc.ca/exciseduty or contact the nearest regional excise duty office. For a listing of their offices and numbers, see Excise Duty Memoranda EDM1-1-2, *Regional Excise Duty Offices*, at www.cra.gc.ca/forms.

Softwood lumber products export charge

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

Every person who exports to the U.S. softwood products subject to the charge has to register with the Canada Revenue Agency (CRA) on or before the day on which the products are exported. To register, exporters must complete Form B253, *Softwood Lumber Products Export Charge – Registration Form*. This form must be sent to:

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

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

For more information, go to www.cra.gc.ca/softwood. For information on registration or returns and payments, call 1-800-935-0313.

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

Chapter 5 – Payroll deductions and remittances

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

You are an employer if:

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

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

Your responsibilities

As an employer, you have to:

- deduct Canada Pension Plan/Quebec Pension Plan (CPP/QPP) contributions, employment insurance (EI) premiums, and income tax from amounts you pay to your employees;
- send the deducted amounts **along with your share** of CPP/QPP contributions and EI premiums that you have to pay throughout the year for your employees to the CRA; and
- report the employees' remuneration and deductions on a T4 information return and give an **information slip** to each of your employees.

Do you need to register for a payroll program account?

You need to register for a payroll program account if you:

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

If you need a payroll program account and you already have a business number (BN), you only need to add a payroll program account to that BN. However, if you don't have a BN, you have to ask for one and register for a payroll program account before your first remittance due date. For more information, see "Business number," on page 10.

What to deduct from your employees' remuneration

You are responsible for deducting CPP or QPP contributions, **employment insurance** premiums, and income tax from your employees' remuneration.

To calculate the various deductions, you can use the Payroll Deductions Online Calculator at www.cra.gc.ca/pdoc, or see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*, Guide T4032, *Payroll Deductions Tables*, or Guide T4127-JAN, *Payroll Deductions Formulas for Computer Programs*. The calculator and these publications can help you determine how much to deduct and what type of income is pensionable, insurable or taxable.

Payroll deductions can be complicated. If you are having trouble with them, go to www.cra.gc.ca/payroll or call 1-800-959-5525.

Canada Pension Plan/Quebec Pension Plan

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, instead of CPP contributions, you deduct QPP contributions. Any deducted QPP contributions should be sent to Revenu Québec, instead of the receiver general for Canada.

Both employees and employers contribute to the CPP or the QPP. As an employer, you have to deduct CPP or QPP contributions from your employees' pensionable earnings and remit them. You also have to contribute and remit an amount equal to these contributions in the employees' respective CPP or QPP plans.

For information on the QPP, visit the Revenu Québec web site at www.revenu.gouv.qc.ca/en/entreprise/retenues/methode_calcul/rrq_employe.

Employment insurance

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

As an employer, you are responsible for deducting employment insurance (EI) premiums from your employees' insurable earnings.

The rates for EI premiums may vary from year to year. For the most current rates, go to www.cra.gc.ca/payroll.

Note

You must also make contributions to the EI program for your employees. Generally, the employer's contribution will be slightly more than the employee's.

You also have to deduct provincial parental insurance plan (PPIP) premiums such as the Quebec Parental Insurance Plan (QPIP) premiums. You must contribute employer amounts for PPIP premiums.

Income tax

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

Employees fall into various categories (such as fishers and employees who get paid commissions and claim expenses). To help you calculate the amount of income tax to deduct from the remuneration of your employees, you may need various federal and provincial forms, such as Form TD1, *Personal Tax Credits Return*. For more information on these forms, see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

Remittances

As an employer, you have to send to the CRA all CPP contributions, EI premiums, and income tax that were deducted from your employees' income, as well as your share, as an employer, of CPP contributions and EI premiums.

Remittances are considered to have been made on the day they are received by the receiver general for Canada. The date a remittance is received by the CRA is also considered to be the date the receiver general receives the remittance. You need to choose a remittance method that allows you to meet your remittance due date.

Deductions, along with your remittance form, must be received by us on or before your remittance due dates. Due dates vary depending on the type of remitter you are.

Most employers have to send the deducted amounts monthly. Large employers, however, may have to send amounts more often. As for small business employers, they may be able to send their deductions quarterly.

For more information on the remittance methods, go to www.cra.gc.ca/payroll or see Guide T4001, *Employers' Guide – Payroll Deductions and Remittances*.

You can check your payroll remittance requirements using the "View remitting requirements" service at www.cra.gc.ca/mybusinessaccount.

How to report payroll deductions

Generally, you report your employees' salary, wages, and taxable benefits, as well as any deductions, on the T4 slip, *Statement of Remuneration Paid*. You can get a copy of this slip at www.cra.gc.ca/forms, or by calling 1-800-959-5525.

You have to fill out and give your employees their copies of the T4 slip no later than the end of February after the **calendar year** to which the slip relates. There is a **penalty** for missing this deadline. For more information on this penalty, go to www.cra.gc.ca/penaltyinformationreturns.

For more information about T4 reporting requirements and filing methods, go to www.cra.gc.ca/slips or see Guide RC4120, *Employers' Guide – Filing the T4 Slip and Summary*.

Chapter 6 – 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 tells you what expenses you can deduct. It also tells you how the three most common types of business structures pay tax.

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 can 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.

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

The cash method

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

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

How to keep sales and expense journals

You should keep a day-to-day record of your receipts and expenses. Keep this record along with your duplicate deposit slips, bank statements, cancelled cheques, and receipts. This will support your sales revenue and expenditure claims.

How to record your business expenses

You can generally deduct **business expenses** if you incur them only to earn 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, as well as recording all your expenses in a journal, a computerized file, or a software accounting program.

Fiscal period for income tax purposes

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 if you are in a partnership in which all the members are individuals, you can elect to have a non-calendar-year fiscal period. To file such an election, use Form T1139, *Reconciliation of Business Income for Tax Purposes*. This form needs to be filed with the CRA by a specific date. For more information, see Guide RC4015, *Reconciliation of Business Income for Tax Purposes*.

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

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

Note

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

Income

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

Types of income

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

What is business income

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

Note

You have to report all amounts of income that are required for calculating income for tax purposes. If you do not report all your income, you may be subject to a penalty of 10% of the amount of income that you did not report.

How to account for your business income

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

Although we accept other types of financial statements, we encourage you to use any of the following forms that to you:

- Form T2125, *Statement of Business or Professional Activities*;
- Form T2042, *Statement of Farming Activities*;
- Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*;
- Form T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*; and
- Form T2121, *Statement of Fishing Activities*.

You will find instructions on how to complete these forms in the income tax guides on our website.

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

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

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

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

Bad debts

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

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

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

Reserves

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

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

Vacation trips and awards

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

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

Government grants and subsidies

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

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

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

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

For more information, see Interpretation Bulletin IT-273R2, *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 as a capital receipt or an income receipt.

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

Rental income

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

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

For more information on rental income and how to report it, see Guide T4036, *Rental Income*.

Barter transactions

A barter transaction takes place when any two persons agree to exchange goods or services between them.

If you are involved in a barter transaction, the goods or services you receive could be considered proceeds from a business operation.

If you are in a business or profession that provides goods or services, and you exchange these goods or services in a barter transaction, you have to include the value of the goods or services you exchanged in your income.

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

Selling a property

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

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

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

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

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

However, if you have a professional practice and you are an accountant, dentist, lawyer, medical doctor, notary, veterinarian, or chiropractor, you can elect to leave out 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 easy to distinguish) in the inventory, at their cost or their fair market value, whichever is lower.

After you choose a method of inventory valuation, you have to continue to use the same method in later years. For more information, see Interpretation Bulletin IT-473R, *Inventory Valuation*.

Expenses

This part gives you an overview of the business expenses that you can claim for income tax purposes. For more information, go to www.cra.gc.ca/business or see Guide T4002, *Business and Professional Income*.

What are business expenses?

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

You have to support 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.

Running a business from your home

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

- it is your main place of business; or
- you use the space only to earn your business income, and to meet your clients or customers.

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

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

Types of operating expenses

Personal or living expenses

In most cases, you cannot deduct personal or living expenses. However, you can deduct travel expenses you incur in the course of carrying on a business while away from home.

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

Prepaid expenses

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

For more information, see Interpretation Bulletin IT-417R2, *Prepaid Expenses and Deferred Charges*.

Accounting and legal fees

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

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

For more information, see Interpretation Bulletin IT-99R5-CONSOLID, *Legal and Accounting Fees*.

Advertising expenses

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

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

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

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

Business tax, fees, licences, and dues

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

You can also deduct annual dues or fees to keep your membership in a trade or commercial association. However, you cannot deduct club membership dues (including initiation fees), if 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 that you pay for buildings, machinery, and equipment that you use for your business.

Interest and bank charges

You can deduct the interest you pay 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 information, see "Motor vehicle expenses" in Guide T4002, *Business and Professional Income*.

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

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

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

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

Do not deduct the capitalized interest as a current expense. For more information, read "Interest" in Guide T4002, *Business and Professional Income*, or call 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 labour.

You cannot deduct costs you incur for capital repairs. However, you may be able to claim CCA on repaired property. A capital expense generally gives a lasting benefit or advantage. For example, the cost of putting vinyl siding on the exterior walls of a wooden house is a capital expense.

For more information about capital cost allowance, see Guide T4002, *Business and Professional Income*.

Meals and entertainment

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

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

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

Motor vehicle expenses

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

What kind of vehicle do you own?

The kind of vehicle you own can affect the expenses you deduct. For income tax purposes, there are two types of vehicles (see “Definitions” on page 5):

- **motor vehicle**
- **passenger vehicle**

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

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

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 a motor vehicle; and
- leasing costs

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

Office expenses

You can deduct office expenses for small items such as pens, pencils, paper clips, stationery, and stamps. However, you cannot deduct expenses for capital items such as calculators, filing cabinets, chairs, and desks. For more information, see Guide T4002, *Business and Professional Income*.

Salaries, including employer’s contributions

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

Can you deduct business start-up costs?

To deduct a business expense, you need to have carried on the related business in the fiscal period in which the expense was incurred. Because of this, you have to be clear about the date your business started.

Determining what you can claim as a start-up expense can be difficult. For more information, see Interpretation Bulletin IT-364, *Commencement of Business Operations*, or Guide RC4022, *General Information for GST/HST Registrants*.

How do the three most common types of business structures pay income tax?

Sole proprietor

A sole proprietor pays taxes by reporting income (or loss) on a T1 income tax and benefit return. If you are a sole proprietor, you have to file a T1 return if you:

- have to pay tax for the year;
- disposed of a **capital property** or had a taxable capital gain in the year;
- have to make **Canada Pension Plan/Quebec Pension Plan (CPP/QPP)** payments on self-employed earnings or pensionable earnings for the year;
- want to access **employment insurance (EI)** special benefits for self-employed persons. For more information, see Guide T4002, *Business and Professional Income*; or
- received a demand from us to file a return.

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

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

Note

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

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

- Form T2125, *Statement of Business or Professional Activities*;
- Form T2042, *Statement of Farming Activities*;
- Form T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*;
- Form T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*;
- Form T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*; and
- Form T2121, *Statement of Fishing Activities*.

We will also accept a computer-generated version of these forms.

Partnership

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, corporation, or trust income tax return. You do this whether or not you received your share in money or as a credit to your partnership's capital account.

Each partner also has to file financial statements or one of the forms referred to above in the section on sole proprietorship. A computer-generated version of any of these forms is acceptable.

A partnership that carries on a business in Canada, or a Canadian partnership with Canadian or foreign operations or investments, has to file Form T5013, *Statement of Partnership Income*, for each of the fiscal periods of the partnership where:

- at the end of the fiscal period, the partnership has an absolute value of revenues plus an absolute value of expenses of more than \$2 million, or has more than \$5 million in assets; or
- at any time during the fiscal period:
 - the partnership is a tiered partnership (has another partnership as a partner or is itself a partner in another partnership);
 - the partnership has a corporation or a trust as a partner;
 - the partnership invested in flow-through shares of a principal-business corporation that incurred Canadian resource expenses and renounced those expenses to the partnership; or
 - the minister of National Revenue asked in writing for a completed Form T5013, *Statement of Partnership Income*.

For more information, go to www.cra.gc.ca/partnership or see Guide T4068, *Guide for the T5013 Partnership Information Return (T5013 Forms)*.

Corporation

A corporation has to file a T2 corporation income tax return no later than six months after the end of every **tax year**, even if it does not owe taxes. It also has to attach complete financial statements and the necessary schedules to the return. A corporation usually pays its taxes in monthly or quarterly instalments. For more information about due dates, see "Important dates for businesses," on page 32. For more information on instalment payments and the filing requirements for corporations, see Guide T4012, *T2 Corporation – Income Tax Guide*, or Guide T7B-CORP, *Corporation Instalment Guide*, or go to www.cra.gc.ca/payments.

The tax year for a corporation is its fiscal period. For more information on corporations, go to www.cra.gc.ca/t2return.

What is an audit?

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

How we choose returns to audit

Your return is recorded in a computer system that lets us choose returns to be audited and sort them into different groups.

In some cases, we compare selected financial information for current and previous years of taxpayers involved in similar businesses or occupations.

The four common ways of choosing returns are:

1. Computer-generated lists

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

2. Audit projects

In some cases, we test the compliance of a particular group of taxpayers. If the test results show 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 returns

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

How we conduct audits

If your return is selected, an auditor will review your records at a CRA office (office audit) or at your place of business (field audit).

The auditor will examine books and records, documents, and information (collectively referred to as records) such as:

- information available to the CRA (such as tax returns previously filed, credit bureau searches, or property database information);
- your business records (such as ledgers, journals, invoices, receipts, contracts, and bank statements);

- your personal records (such as bank statements, mortgage documents, and credit card statements); and
- the personal or business records of other individuals or entities not being audited (for example, a spouse, family members, corporations, partnerships, or a trust [settlor, beneficiary, and trustee]).

The auditor will contact you and ask 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 needed, 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 request information and help from your employees, particularly those who do your accounting.

Your personal records and the personal or business records of other individuals or entities are legally considered to be part of the items that relate, or may relate, to the business being audited. An auditor can also examine the records of family members

Delays in the audit, and how to avoid them

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

Well-kept records will reduce the time needed to complete the audit. For more information, see the record-keeping guidelines on page 11 of this guide.

Finalizing an audit

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

If the auditor finds that your return has to be reassessed (which means you will have to pay more taxes or you are entitled to a refund), you will receive a proposal letter explaining the reason for the reassessment. You will have 30 days to agree or disagree with the proposed reassessment. The auditor can further explain the reassessment if necessary.

If you provide more 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 tell you this when the audit is completed.

If there are changes, you will be issued a notice of assessment or a notice of reassessment.

Note

The auditor's role is to determine the correct amount of duty or **tax payable**. This may result in your taxes being reduced and you receiving a refund.

What are your rights?

To learn more about your rights and what you can expect when you deal with the CRA, see Guide RC17, *Taxpayer Bill of Rights Guide: Understanding your rights as a taxpayer*.

You also have the right to file a complaint if you are not satisfied with the service you received from the CRA. For more information, go to www.cra.gc.ca/resolvingdisputes.

What are your responsibilities?

By law, you have to keep adequate books and records to determine your tax obligations and your entitlements. Generally, books and records must be kept for a minimum of six years.

If you use a computer for your accounting records, you must keep your books and records in an electronically readable format, even if you also keep them on paper. Using the service of a tax professional does not relieve you of your responsibilities.

For an audit, please make available to the auditor your records (both paper and electronic), any supporting documents, and explanations to the questions the auditor will have.

Underground economy

The underground economy typically involves commercial activity that is unreported for tax purposes. It is of concern to the CRA, provincial, territorial and municipal governments, and all law-abiding businesses and individuals across the country.

The underground economy hurts all Canadians. Those who participate in the underground economy avoid their tax responsibilities at your expense, and they place an unfair burden on all law-abiding taxpayers. Unpaid taxes mean less money for things, such as health care, childcare, employment insurance and, pensions.

Know the businesses and individuals with whom you are dealing, and use the information at your disposal, including our website to recognize those who are participating in the underground economy. For more information, go to www.cra.gc.ca/undergroundeconomy.

Tax alert

Protect yourself!

We know that most taxpayers, given the proper information and tools, will voluntarily meet their tax obligations.

Our website contains information that will help taxpayers understand how to protect themselves against tax schemes, and understand the consequences they might face.

For example, some taxpayers don't realize the financial and personal risks they are exposed to by paying cash for home renovations. Other taxpayers don't know that participating in certain tax shelter schemes to avoid paying taxes could not only mean a loss of their principal, the repayment of taxes owed, and penalties and interest, but it could also lead to fines and imprisonment.

Information is the key! For more information about how to protect yourself against tax schemes, go to www.cra.gc.ca/alert.

Chapter 8 – 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 1-800-959-5525. You can also write to the **tax centre** that dealt with your return. We resolve many problems with assessments in this way. If you employ the services of a tax professional, you may want to consult with that person. If you disagree with the assessment, you have the right to file an objection.

The objection process

Under the legislation for income tax, GST/HST, and excise, you can file an objection if you disagree with your notice of assessment or notice of reassessment and you think that the law has not been applied correctly.

Income tax – For an income tax objection, you have three options:

- you can use the “Register my formal dispute” option in My Account by going to www.cra.gc.ca/myaccount;
- you can send a signed letter addressed to the chief of appeals at your appeals intake centre; or
- you can send us a completed Form T400A, *Objection – Income Tax Act*.

Residents of the provinces west of Ontario and the three territories can send their objection to the following address:

Western Intake Centre
Fraser Valley and Northern Tax Services Office
9755 King George Boulevard
Surrey BC V3T 5E1

Residents of Ontario and the provinces east of it can send their objection to the following address:

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

For more information, go to 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 – To file an objection, you have to use Form GST159, *Notice of Objection (GST/HST)*. You must send this form to the chief of appeals at your designated appeals

intake centre within 90 days of the day we mailed your notice of assessment or notice of reassessment.

When we receive your objection, the Appeals Division will do an independent impartial review of the assessment. If the chief of appeals agrees with you in whole or in part, we will adjust your return and send a notice of reassessment. However, if the chief of appeals disagrees, we will send you a notice confirming that the assessment was correct.

In the province of Québec, Revenu Québec administers the GST/HST. To get information on time limits and how to file an objection to a GST assessment or reassessment completed by Revenu Québec, contact them directly. For more information, visit the Revenu Québec website at www.revenu.gouv.qc.ca/en/entreprise/taxes/tvq_tps/default.aspx.

Excise – You can file a notice of objection within 90 days of the day we mailed your notice of assessment or notice of reassessment using:

- the “Register a formal dispute (Notice of Objection)” service at www.cra.gc.ca/mybusinessaccount, or at www.cra.gc.ca/representatives; or,
- Form E680, *Notice of Objection (Excise Act, 2001)*.

Other taxes – You can file a notice of objection using:

- the “Register a formal dispute (Notice of Objection)” service at www.cra.gc.ca/mybusinessaccount, or at www.cra.gc.ca/representatives;
- Form E413, *Notice of Objection (Excise Tax Act)*
- Form RC45, *Notice of Objection (Softwood Lumber Products Export Charge Act, 2006)*; or
- Form E676, *Notice of Objection (Air Travellers Security Charge Act)*.

If you are using one of these forms, send it to the address given on the back of the form.

Canada Pension Plan and employment insurance – If you think we have misinterpreted the facts or not applied the law correctly, you have the right to **appeal** assessments and rulings related to the Canada Pension Plan (CPP) and employment insurance (EI).

To file an appeal to the minister of National Revenue, you can:

- use the online services at www.cra.gc.ca/mybusinessaccount or at www.cra.gc.ca/representatives;
- mail your appeal to the CPP/EI appeals office located in your region or to any tax services office;
- use Form CPT100, *Appeal of a Ruling under the Canada Pension Plan and/or Employment Insurance Act* (to appeal a **ruling** of CPP and/or EI); or
- Form CPT101, *Appeal of an Assessment under the Canada Pension Plan and/or Employment Insurance Act* (to appeal an **assessment** of CPP and/or EI).

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

Tax Court of Canada

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

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

Informal procedure

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

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

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

General procedure

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

This is a more formal process that includes:

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

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

Federal Court of Appeal

If you or the minister of National Revenue wants 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 ask that the Federal Court of Appeal review a decision the Tax Court of Canada made under the informal procedure. The Federal Court review will be restricted to questions of law and jurisdiction. An application for this type of review has to be filed no later than 30 days after the decision of the Tax Court of Canada.

Supreme Court of Canada

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

Collection of disputed amounts

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

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

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

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

Chapter 9 – At your service

Electronic services for businesses

Electronic services help businesses by streamlining communications with the Canada Revenue Agency and simplifying the preparation and submission of tax information. For more information, go to www.cra.gc.ca/businessonline.

Registering your business

Business Registration Online is a one-stop registration service that lets you apply for a business number (BN) with us, as well as register for programs administered by British Columbia, Nova Scotia, and Ontario.

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

Filing returns

File your income tax and benefit return using NETFILE

NETFILE is one of our electronic tax-filing options. This service lets you file your income tax return with us using the Internet. You can only send your own return to us using NETFILE. Authorized representatives cannot send returns for their clients through NETFILE. When you use this service, you cannot change any of your personal information such as your name, address, date of birth, or direct deposit information.

If you have registered with the My Account service, you can change your address before using NETFILE by going to www.cra.gc.ca/myaccount. If you are not registered, call 1-800-714-7257 to make the necessary changes to your address before using NETFILE.

File your corporation income tax return over the Internet

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

For tax years ending after 2009, all corporations with annual gross revenue of more than \$1 million have to file their corporation income tax return over the Internet. Businesses can use our corporation Internet filing service or file through My Business Account, and authorized representatives can file through Represent a Client without a web access code. For tax years ending after 2010, a penalty for non-compliance will be charged if a corporation that has to file over the Internet does not comply with this requirement.

After a corporation income tax return has been prepared using our certified commercial software, simply access the corporation Internet filing website, follow the easy-to-use instructions, and send the return. You will receive immediate confirmation that the return has been accepted for processing. If you have problems sending the return over the Internet, online messages will help you solve them.

When you register with the CRA for direct deposit by sending us Form RC366, *Direct Deposit Request for Businesses*, your refund will be in your account the same day we would have mailed your cheque. To take advantage of this service, simply complete and send us Form RC366, available at www.cra.gc.ca/dd-bus.

For more information, go to www.cra.gc.ca/mybusinessaccount or to www.cra.gc.ca/representatives or call our Corporation Internet Filing Help Desk at 1-800-959-2803.

Mandatory electronic filing for GST/HST registrants

Most GST/HST registrants have to file their GST/HST return electronically. Your filing options, however, depend on your reporting circumstances. For more information on options for the electronic filing of GST/HST returns, go to www.cra.gc.ca/gsthst-filing.

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

Note

Eligible corporation income tax, GST/HST, and information returns can be filed electronically by business owners through My Business Account, at www.cra.gc.ca/mybusinessaccount, or by authorized representatives through Represent a Client at www.cra.gc.ca/representatives.

The GST/HST Registry

The GST/HST Registry is an online service that lets you validate the GST/HST number of a business. This ensures that claims submitted for input tax credits only include GST/HST charged by GST/HST registrants.

For more information, go to www.cra.gc.ca/gsthstregistry.

You can validate a Quebec sales tax (QST) registration number by accessing the QST registry on the Revenu Québec website at www.revenu.gouv.qc.ca/en/sepf/services/sqp_validation_tvq/default.aspx.

Getting help

To get help using My Business Account, GST/HST NETFILE, GST/HST TELEFILE, Information Returns, Electronic Filing, Represent a Client, and the Payroll Deductions Online Calculator, you can call the e-Services Helpdesk at 1-877-322-7849 or for clients using a teletypewriter (TTY), call 1-888-768-0951. The following table shows their hours of service:

Hours of service	
Time zone	Monday to Friday
Pacific time	3:45 a.m. to 6:00 p.m.
Mountain time	4:45 a.m. to 7:00 p.m.
Central time	5:45 a.m. to 8:00 p.m.
Eastern time	6:45 a.m. to 9:00 p.m.
Atlantic time	7:45 a.m. to 10:00 p.m.
Newfoundland and Labrador time	8:15 a.m. to 10:30 p.m.
Outside Canada and the U.S. (Eastern time)	6:45 a.m. to 9:00 p.m.
Teletypewriter (TTY) (Eastern time)	6:45 a.m. to 9:00 p.m.

Note

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

For help with corporation Internet filing, call 1-800-959-2803.

For general business enquiries, call 1-800-959-5525.

For more information about our electronic services for businesses, go to www.cra.gc.ca/businessonline.

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 says how we will interpret and apply Canadian income tax law to transactions a taxpayer is considering. For more information, see Information Circular IC70-6R5, *Advance Income Tax Rulings*.

Asking for a Canada Pension Plan (CPP) or employment insurance (EI) ruling

You can ask for a ruling on the status of a worker or workers under the *Canada Pension Plan* or the *Employment Insurance Act*, using the "Request a CPP/EI ruling" service at www.cra.gc.ca/mybusinessaccount, or if you are an authorized representative at www.cra.gc.ca/representatives. To ask for a ruling for a given year, you have to send your request by June 29 of the next year.

GST/HST rulings and interpretations

You can ask for a written ruling or interpretation on how the GST/HST applies to your operations or transactions. We will provide guidance, and as much certainty as possible, about how the GST/HST applies and the consequences of your transactions or proposed transactions. If you need general information about GST/HST, go to www.cra.gc.ca/gsthst or call 1-800-959-5525.

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

For more information, go to www.cra.gc.ca/gsthstrulings or see Guide RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*.

Excise duty rulings and interpretations

You can ask for a written ruling or interpretation on how excise duties apply to certain goods (such as alcohol and tobacco products). For more information, contact a regional excise duty office. For a listing of their numbers, see Excise Duty Memoranda EDM1-1-2, *Regional Excise Duty Offices*, at www.cra.gc.ca/forms.

Service Canada

We work with other federal agencies and departments to serve Canadians in smaller communities by offering a variety of government services in single locations called Service Canada centres. For the centre nearest you, visit www.servicecanada.gc.ca.

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 hold public information sessions to explain the meaning of SR&ED, describe eligible activities, explain what expenditures qualify for the credit, and describe the documentation needed for a claim. You can get information about our sessions at www.cra.gc.ca/sred or by calling 1-800-959-5525.

For more information on SR&ED, see Brochure RC4472, *Overview of the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program*.

Canada business service centres

These centres provide businesses with access to information about the programs and services of various federal departments and agencies, including the Canada Revenue Agency, Industry Canada, and economic development agencies such as the Atlantic Canada Opportunities Agency, Western Economic Diversification Canada, and Canada Economic Development for Quebec Regions. Other partners include provincial and non-government agencies.

On the Canada site, www.canada.ca, you can find a list of links to the websites of Government of Canada

departments, agencies, and Crown corporations. You can also find links to websites maintained by organizations for which federal departments and agencies are responsible.

Industry Canada

To access Industry Canada's extensive expertise and information resources, visit www.ic.gc.ca.

Your rights, entitlements, and obligations

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

Although we want to make sure you are aware of your obligations, we also want to make sure that you understand and can exercise your rights. For more information on taxpayer rights, go to www.cra.gc.ca/rights, or see Guide RC17, *Taxpayer Bill of Rights Guide: Understanding Your Rights as a Taxpayer*.

What is the Voluntary Disclosures Program?

The Voluntary Disclosures Program (VDP) lets you come forward to correct inaccurate or incomplete information, as well as disclose information on a voluntary basis.

You will not be penalized or prosecuted if you make a full disclosure before we start any enforcement action or investigation against you. You will only have to pay the taxes owing plus interest.

The VDP accepts information that is less than one year overdue, except when disclosures are being made to avoid late-filing charges.

For more information, go to www.cra.gc.ca/voluntarydisclosures, see Information Circular IC00-1, *Voluntary Disclosures Program*, or call 1-800-959-5525.

Taxpayer relief provisions

The taxpayer relief provisions give the minister of National Revenue the discretion to cancel or waive penalties or interest; accept certain late, amended, or revoked income tax elections; and, in certain situations, issue refunds or reduce amounts payable beyond the normal reassessment period.

The minister may grant relief from penalties or interest when the following types of situations prevent a taxpayer from meeting their tax obligations:

- extraordinary circumstances;
- actions of the CRA;
- inability to pay or financial hardship; or
- other circumstances.

For more information about these provisions, including the limitation period for requesting relief and how to submit a request, see Information Circular IC07-1, *Taxpayer Relief Provisions*, or go to www.cra.gc.ca/taxpayerrelief.

Important dates for businesses

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

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

Note

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

To help you remember important business dates, you can use the Business Tax Reminders mobile app. For more information, go to www.cra.gc.ca/mobileapps.

For more information on important dates, go to www.cra.gc.ca/importantdates.

Addresses on our website

Visit our website at www.cra.gc.ca. Below is a list of some useful addresses for small businesses:

Topic	website
Aboriginal peoples	www.cra.gc.ca/aboriginalpeoples
AgriInvest Program	www.agr.gc.ca/agriinvest
AgriStability Program	www.agr.gc.ca/agristability
Business home page	www.cra.gc.ca/business
Business number (BN) registration	www.cra.gc.ca/bn
Business Tax Reminders mobile app	www.cra.gc.ca/mobileapps
Conducting business on the Internet (e-commerce)	www.cra.gc.ca/ecommerce
Contact us	www.cra.gc.ca/contact
Contract payment reporting	www.cra.gc.ca/contract
Corporation income tax	www.cra.gc.ca/t2return
Corporation Internet filing	www.cra.gc.ca/corporation-internet
Direct deposit – Business	www.cra.gc.ca/dd-bus
Electronic payments	www.cra.gc.ca/payments
Electronic mailing lists	www.cra.gc.ca/lists
Electronic services	www.cra.gc.ca/electronicsservices
E-services for businesses	www.cra.gc.ca/businessonline
Events and seminars	www.cra.gc.ca/events
<i>Excise and GST/HST News</i>	www.cra.gc.ca/formspubs/typ/gsthstnws-eng.html
Frequently asked questions	www.cra.gc.ca/faqs
Filing information returns electronically	www.cra.gc.ca/iref
Forms and publications	www.cra.gc.ca/forms
Forms and publications – Online order forms	www.cra.gc.ca/orderforms
GST/HST electronic filing and remitting	www.cra.gc.ca/gsthst-edi
GST/HST NETFILE	www.cra.gc.ca/gsthst-netfile
GST/HST TELEFILE	www.cra.gc.ca/gsthst-telefile
My Business Account	www.cra.gc.ca/mybusinessaccount
Payroll	www.cra.gc.ca/payroll
Payroll Deductions Online Calculator	www.cra.gc.ca/pdoc
Prescribed interest rates	www.cra.gc.ca/interestrates
Public holidays and due dates	www.cra.gc.ca/duedates
Represent a Client	www.cra.gc.ca/representatives
Security options – Taxable benefit	www.cra.gc.ca/stockoptions
Service Complaints	www.cra.gc.ca/complaints
Small businesses	www.cra.gc.ca/smallbusiness
T4 information returns (how to file)	www.cra.gc.ca/slips
Taxpayer Bill of Rights	www.cra.gc.ca/rights
Taxpayers' Ombudsman	www.oto-boc.gc.ca
Taxpayer relief provisions	www.cra.gc.ca/taxpayerrelief
Tax services offices and tax centres	www.cra.gc.ca/tso
Tax myths	www.cra.gc.ca/myths
What's new	www.cra.gc.ca/whatsnew

Forms and publications

Guides

- RC17, *Taxpayer Bill of Rights Guide: Understanding Your Rights as a Taxpayer*
- RC4015, *Reconciliation of Business Income for Tax Purposes*
- RC4022, *General Information for GST/HST Registrants*
- RC4027, *Doing Business in Canada – GST/HST Information for Non-Residents*
- RC4033, *General Application for GST/HST Rebates - Includes Forms GST189, GST288, and GST507*
- RC4058, *Quick Method of Accounting for GST/HST - Includes Form GST74*
- RC4082, *GST/HST Information for Charities*
- RC4110, *Employee or Self-Employed?*
- RC4120, *Employers' Guide – Filing the T4 Slip and Summary*
- RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*
- T4001, *Employers' Guide – Payroll Deductions and Remittances*
- T4002, *Business and Professional Income*
- T4003, *Farming Income*
- T4004, *Fishing Income*
- T4008, *Payroll Deductions Supplementary Tables*
- T4012, *T2 Corporation – Income Tax Guide*
- T4032, *Payroll Deductions Tables*
- T4036, *Rental Income*
- T4037, *Capital Gains*
- T4068, *Guide for the T5013 Partnership Information Return*
- T4127-JAN, *Payroll Deductions Formulas for Computer Programs*
- T4130, *Employers' Guide - Taxable Benefits and Allowances*
- T7B-CORP, *Corporation Instalment Guide*

Pamphlets, brochures, and slips

- P110, *Paying Your Income Tax by Instalments*
- P148, *Resolving Your Dispute: Objections and Appeal Rights Under the Income Tax Act*
- RC2, *The Business Number and Your Canada Revenue Agency Program Accounts*
- RC4247, *The Special Quick Method of Accounting for Public Service Bodies*
- RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*
- RC4420, *Information on CRA – Service Complaints*

- RC4472, *Overview of the Scientific Research and Experimental Development (SR&ED) Tax Incentive Program*
- T4, *Statement of Remuneration Paid*
- T4A, *Statement of Pension, Retirement, Annuity and Other Income*

Forms

- B253, *Softwood Lumber Products Export Charge – Registration Form*
- B275, *Softwood Lumber Products Export Charge Return*
- CPT100, *Appeal of a Ruling under the Canada Pension Plan and/or Employment Insurance Act*
- CPT101, *Appeal of an Assessment under the Canada Pension Plan and/or Employment Insurance Act*
- E413, *Notice of Objection (Excise Tax Act)*
- E676, *Notice of Objection (Air Travellers Security Charge Act)*
- E680, *Notice of Objection (Excise Act, 2001)*
- GST20, *Election for GST/HST Reporting Period*
- GST44, *Election Concerning the Acquisition of a Business or Part of a Business*
- GST159, *Notice of Objection (GST/HST)*
- RC1, *Request for a Business Number (BN)*
- RC45, *Notice of Objection (Softwood Lumber Products Export Charge Act, 2006)*
- RC59, *Business Consent*
- RC193, *Service-Related Complaints*
- RC257, *Request for an Information Return Program Account (RZ)*
- RC366, *Direct Deposit Request for Businesses - GST/HST, Payroll and/or Corporation Income Tax*
- RC4288, *Request for Taxpayer Relief- Cancel or Waive Penalties or Interest*
- T137, *Request for Destruction of Records*
- T400A, *Objection – Income Tax Act*
- T1013, *Authorizing or Cancelling a Representative*
- T1139, *Reconciliation of Business Income for Tax Purposes*
- T1163, *Statement A – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*
- T1164, *Statement B – AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*
- T1273, *Statement A – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Individuals*

- T1274, *Statement B – Harmonized AgriStability and AgriInvest Programs Information and Statement of Farming Activities for Additional Farming Operations*
- T2042, *Statement of Farming Activities*
- T2121, *Statement of Fishing Activities*
- T2125, *Statement of Business or Professional Activities*
- T5013, *Statement of Partnership Income*
- TD1, *Personal Tax Credits Return*
- T2, *Corporation Income Tax Return*
- T4SUM, *Summary of Remuneration Paid*

Interpretation bulletins

- IT-99R5-CONSOLID, *Legal and Accounting Fees*
- IT-154R, *Special Reserves*
- IT-200, *Surface Rentals and Farming Operations*
- IT-273R2, *Government Assistance – General Comments*
- IT-291R3, *Transfer of Property to a Corporation Under Subsection 85(1)*
- IT-364, *Commencement of Business Operations*
- IT-413R, *Election by Members of a Partnership Under Subsection 97(2)*
- IT-417R2, *Prepaid Expenses and Deferred Charges*
- IT-442R, *Bad Debts and Reserves for Doubtful Debts*
- IT-459, *Adventure or Concern in the Nature of Trade*
- IT-473R, *Inventory Valuation*
- IT-518R, *Food, Beverages, and Entertainment Expenses*

Information circulars

- IC00-1, *Voluntary Disclosures Program*
- IC07-1, *Taxpayer Relief Provisions*
- IC70-6R5, *Advance Income Tax Rulings*
- IC76-19R3, *Transfer of Property to a Corporation Under Section 85*
- IC78-10R5, *Books and Records Retention/Destruction*
- IC89-2R2, *Directors' Liability – Section 227.1 of the Income Tax Act and Section 323 of the Excise Tax Act*

Excise duty memoranda

- EDM1-1-1, *The Excise Duty Program*
- EDM1-1-2, *Regional Excise Duty Offices*
- EDM2-1-1, *Licence Types*
- EDM2-3-1, *Registration Types*

Excise tax and special levies memoranda

- X2-1, *Licences*
- X2-2, *Small Manufacturers*
- X2-3, *Bonds Given as Security by Licensed Wholesalers*

Excise taxes and special levies notices

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

My Account

Using the CRA's My Account service is a fast, easy, and secure way to access and manage your tax and benefit information online, seven days a week.

You can use either your CRA user ID and password, or the same sign-in information you use for other online services (for example, online banking) to log in to My Account.

For more information, go to www.cra.gc.ca/myaccount.

Handling business taxes online

Save time using the CRA's online services for businesses. You can do many things online, including:

- authorize a representative for online access to your business accounts;
- authorize the CRA to send you an email to let you know that your notice of assessment is available online, instead of getting it in the mail;
- change mailing and physical addresses, as well as the address where you keep your books and records;
- adjust a GST/HST return;
- request additional remittance vouchers;
- transfer payments and immediately view updated balances, without having to calculate interest;
- stop or restart the mailing of the GST/HST return for registrants package;
- submit account-related enquiries and get the responses online within 10 business days;
- view mail (for example, a notice of assessment);
- view the account balance and instalment balance, including the corresponding transactions (for example, payments); and
- view answers to common enquiries using the "Enquiries" service.

To register or log in to our online services, go to:

- www.cra.gc.ca/mybusinessaccount, if you are a business owner; or
- www.cra.gc.ca/representatives, if you are an authorized representative or employee.

For more information, go to www.cra.gc.ca/businessonline.

Authorizing online access for employees and representatives

You can authorize your employees and representatives to have online access to your business accounts. First, they have to register at www.cra.gc.ca/representatives and give you their representative identifier (RepID) or their business number.

Then, to give them online access to your business accounts, you can:

- use the "Authorize or manage representatives" service at www.cra.gc.ca/mybusinessaccount, which may give instant access; or
- fill out Form RC59, *Business Consent*, and send it to us.

You can do **one authorization** for a group of employees. For more information, go to www.cra.gc.ca/representatives.

Receive your CRA mail online

You can choose to receive some of your CRA mail online.

When you register for this service, we will no longer mail you some correspondence items. Instead, we will send you an email to notify you when there is new mail in your secure online account.

To register, select the "Manage online mail" service and the accounts for which you would like to receive online mail.

Using our online mail service is faster and easier than managing paper correspondence.

Electronic payments

Make your payment online using your financial institution's telephone or Internet banking services, or the CRA's My Payment service at www.cra.gc.ca/mypayment. For more information on electronic payments and other payment methods, go to www.cra.gc.ca/payments or contact your financial institution.

For more information

What if you need help?

If you need more information after reading this guide, go to www.cra.gc.ca/smallbusiness or call 1-800-959-5525.

Direct deposit

The Government of Canada is switching to direct deposit for payments it issues.

Direct deposit is a faster, more convenient, reliable, and secure way to get your refunds and rebates deposited directly into your account at a financial institution in Canada.

You can choose to have all amounts deposited into one account or to have refunds and rebates from different programs deposited into different accounts.

To start direct deposit or to change the banking information you have already given us, complete Form RC366, *Direct Deposit Request for Businesses*, and send it to your tax centre.

You can view your direct deposit information and online transactions at www.cra.gc.ca/mybusinessaccount.

For more information, go to www.cra.gc.ca/directdeposit.

Forms and publications

To get our forms or publications, go to www.cra.gc.ca/forms or call 1-800-959-5525.

Electronic mailing lists

We can notify you by email when new information on a subject of interest to you is available on our website. To subscribe to our electronic mailing lists, go to www.cra.gc.ca/lists.

Tax Information Phone Service (TIPS)

For personal and general tax information by telephone, use our automated service, TIPS, by calling 1-800-267-6999.

Teletypewriter (TTY) users

TTY users can call 1-800-665-0354 for bilingual assistance during regular business hours.

Our service complaint process

If you are not satisfied with the **service** that you have received, contact the CRA employee you have been dealing with or call the telephone number that you were given. If you are not pleased with the way your concerns are addressed, you can ask to discuss the matter with the employee's supervisor.

If the matter is not settled, you can then file a service complaint by completing Form RC193, *Service-Related Complaint*. If you are still not satisfied, you can file a complaint with the Office of the Taxpayers' Ombudsman.

For more information, go to www.cra.gc.ca/complaints or see Booklet RC4420, *Information on CRA – Service Complaints*.

Tax information videos

We have a number of tax information videos for small businesses on topics such as business income and expenses, GST/HST, and payroll. To watch our videos, go to www.cra.gc.ca/videogallery.

Your opinion counts

If you have comments or suggestions that could help us improve our publications, send them to:

Taxpayer Services Directorate
Canada Revenue Agency
395 Terminal Avenue
Ottawa ON K1A 0L5