

A primer on keeping your tax records



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Tax season is quickly coming to an end for most. Yet, after you've filed your tax return, the story isn't quite over because you have obligations to keep tax records for some time – although many people don't.

I always get a chuckle from the story of a family in Sandown, N.H., where, folklore has it, their home was ransacked by their pet pygmy goats while they were away on vacation. As it turns out, the goats ate the family's income tax records (along with some toilet bowl cleaner and a lampshade) and so the tax authorities made special concessions for them.

I wouldn't count on the Canada Revenue Agency being as helpful. You're better off protecting your tax records from your pets, children and curious neighbours. Here's a primer on who should keep records, what to keep, where to keep it, and for how long.

KEEPING RECORDS

If you're a person who carries on business in Canada, pays taxes here or collects taxes (including GST/HST), you've got obligations to keep tax records. By the way, a "person" can include an individual, corporation, trust, partnership, registered charity or non-profit organization. So, very few will escape the requirement to keep information handy that the taxman may want to review.

What records should you be keeping? Although our tax law doesn't require you to keep any particular set of books and records, you're required to keep adequate records to support the calculation of your taxable income and the amount of tax owing.

What this means, generally, is that you should be holding onto receipts, vouchers, cheques, invoices, tax slips and other documents to support your taxable income and taxes owing. What about credit card statements – will they suffice? Maybe. You're likely fine as long as the statement precisely displays the amount and vendor name to substantiate your claim. The problem with a credit card statement, however, is that it doesn't break out any GST/HST you might have paid, so for purposes of calculating GST/HST input tax credits, those statements won't cut it.

TIME FRAME

How long should you keep your records? Six years. Specifically, you need to hold onto your tax information for six years from the end of the last tax year to which those records relate. So, for the 2018 tax year, any records should be kept until the end of 2024.

Having said this, some records should be kept longer. If, for example, you bought an asset in 2018 and end up selling it in, say, 2028 for a profit, you should keep your purchase documentation around until you sell, so that you have evidence of your adjusted cost base and capital gain in 2028 when you'll need to report that sale.

And by the way, if you file a tax return late, the six-year clock won't start ticking until the day the tax return is filed.

LOST INFORMATION

It's interesting that the requirement to produce receipts is imposed by the taxman, but not by our tax law. In the case of *Page v. The Queen* (1994), Mr. Page claimed \$2,007 of moving expenses, but only had receipts for some of those costs. The taxman disallowed \$1,400 not supported by receipts. Mr. Page testified in court that he had lost the receipt from the movers and tried to contact them to get another copy, but was unable to locate them. Mr. Page's oral testimony was sufficient evidence for the judge; a physical receipt was not required.

Now, the CRA doesn't have to live by this court decision because it was tried under the "informal procedure" at the tax court. But if you clearly incurred a deductible expense and simply cannot find or obtain a receipt, be aware that our tax law doesn't specifically require a receipt – although receipts will make your dealings with CRA much easier if the taxman asks questions. (Note: For GST/HST purposes, the Excise Tax Act does specifically require receipts).

LOCATION OF RECORDS

It has been possible, since 1998, to store your records in an electronic format, as long as the records are accessible and usable. If technology changes, it's your responsibility to make sure your records continue to be accessible and usable. Make sure you backup your data if they are stored electronically, and it's important to share the location and access to this information with your executors and/or family in case something happens to you and they need to deal with the CRA on your behalf.

You're also required to keep your tax records in Canada (unless the CRA authorizes another storage location). Specifically, the CRA says electronic documents should be stored inside Canada, not just accessible from Canada.

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