MoneySense

Think twice before tossing old tax records

They could come in handy for future tax relief

by Stephanie Dietz, Advisor.ca
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You may be itching to get rid of tax records once the typical six-year retention period has passed. But this can cause issues down the road. Documents may be needed years later, particularly if requested by the CRA. So, keep them handy.

Gifts and inheritances

You may think the tax cost of a property is the $1 consideration noted on a legal document. However, when a gift is given, the donor is deemed to have realized proceeds equal to fair market value. This amount will be the tax cost to the gift recipient. Similarly, when a person passes away, they are deemed to dispose of their capital property at the fair market value on the date of their death (unless the property is left to a spouse). If you inherit property in these circumstances, the fair market value becomes your cost amount for tax purposes. While not mandated, it's best practice for you to keep a copy of the schedule from the donor's or deceased's return indicating the reported proceeds for as long as you own the property.

Adjusted Cost Base

You may not realize that old documents can become relevant many years later. For example, a purchase agreement for a property purchased in 1985 and sold in 2015 should be kept until the end of 2021 (six years after the sale), since the sale proceeds affect tax calculations for 2015. You may also not realize that adjustments can be made to the tax cost of a property for items like capital improvements. So, keep renovation and construction receipts.

Similarly, T3 slips, which show a return of capital, contain relevant information for calculating a capital gain or loss on a future disposition.

You should maintain a continuity schedule (ideally in a spreadsheet or other digital format) for investments and other assets, along with supporting documents that prove the original purchase amount and adjustments to the cost amount for tax purposes.

Election forms

Tax elections filed in the past can affect your taxes in the future. For example, a one-time election (Form T664) could be made for the 1994 tax year to allow you to bump up the tax cost of property by a maximum of $100,000. If Form T664 was previously filed with respect to a property, and you later want to claim that property under the principal residence exemption, CRA requires that you file Form T2091 (even if no tax would be payable). Without the bump-up information, you could report an incorrect capital gain. It is wise to keep a copy of a tax election filed until all properties related to the election are disposed of.

CPP benefits

These benefits are based on your pensionable earnings. Before you pitch your tax returns, consider confirming your contribution history online with Service Canada. You can make sure all contributions have been counted towards your future pensions.

Allowable Business Investment Losses (ABILs)

If you've made a loan to, or an investment in, shares of a small company and the company is now insolvent, you may be able to claim half of the loss on your tax return as an ABIL. These claims are under increasing scrutiny by CRA and are likely to be audited. Retain all documentation relating to the investment or loan for at least six years after making the claim. This includes items such as promissory notes, loan agreements, and share certificates, but you should also keep financial statements, press releases and any other supporting information regarding the company.

Taxpayer relief provisions

It's possible to ask CRA to waive interest and penalties, permit a late-filed election, accept an amended return, or issue a refund beyond the typical three-year period (for individuals and testamentary trusts only). So, you should keep supporting documentation for 10 years (the limitation period for relief claims). For example, if you missed a deduction for 2006, you have until December 31, 2016 to make a request to CRA for a refund.

Corporate capital gains

Capital gains realized after 1971 are subject to tax, so it is often helpful (even critical) to keep corporate tax returns from 1972 onwards. Consider the capital dividend account. Under certain circumstances, an election can be filed to pay out the tax-free portion of capital gains realized by a private corporation to its shareholders. All of the capital gains and losses realized after 1971 must be detailed on a schedule attached to the election form.

Or, consider that certain transactions between corporations can be subject to income tax, except to the extent of safe income, which is conceptually equal to after-tax retained earnings (the actual calculation can be complex). As safe income is cumulative (and corporate tax returns have many inter-related schedules), financial statements and tax returns for corporations should be kept for all years after 1971. Safe income can be calculated on a consolidated basis, so keep this information for all companies in the corporate group, as well.

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