

Guide for Canadian Small Businesses

The success of small business is an essential part of Canada's economic growth. At the Canada Customs and Revenue Agency (CCRA), our goal is to provide all the support we can. We work in partnership with small businesses to improve services, reduce the burden of compliance, and maintain confidence in Canada's tax system.

We created this publication in co-operation with the members of the Small Business Advisory Committee. This committee provides advice and comments on administrative concerns and initiatives to CCRA officials from the perspective of small business. The committee members are small business owners from all parts of Canada, from diverse backgrounds, and represent all sectors of the Canadian economy.

Visually impaired persons can order publications in braille or large print, or on audio cassette or computer diskette, by calling 1-800-267-1267 weekdays from 8:15 a.m. to 5:00 p.m. (Eastern Time).

This guide uses plain language to explain the most common situations. We regularly revise our publications to take into account changes in the law.

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

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How This Guide Can Help You

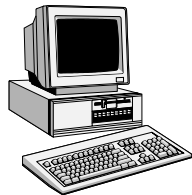
Are you starting a new small business in Canada? Are you operating one already? Then this guide is for you. It will introduce you to the Canada Customs and Revenue Agency (CCRA) programs you need to know about, and give an overview of your obligations and entitlements under the laws that we administer. 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 the different kinds of business structures, income tax reporting and payment, payroll deductions, importing and exporting, and how to prepare for and handle an audit.

Taxes can sometimes be difficult and complex. In such cases, we will refer you to more detailed publications—all free of charge.

If you aren't familiar with some of the terms used in this guide, refer to the Glossary of Terms which starts on page 45.

Internet access



Many of our publications are available on the Internet. Our Web address is:

www.ccra.gc.ca

You can also get copies of the guides and forms mentioned in this publication by calling us at **1-800-959-2221**. If, after reading this guide, you need more information about businesses or professional activities, call our Business Enquiries line at **1-800-959-5525**.

About the CCRA

The CCRA is the federal government agency responsible for administering Canadian tax, border, and trade policy, and we play a fundamental role in supporting Canada's social and economic progress. We oversee various tax credit programs, and collect federal and provincial individual income taxes (except in Quebec). We also administer federal and provincial corporate income taxes for all provinces except Alberta, Ontario, and Quebec, and collect the goods and services tax/harmonized sales tax (GST/HST) (except in Quebec), Canada Pension Plan contributions, Employment Insurance premiums, customs and excise duties, tariffs, and excise taxes on gasoline and tobacco products.

The CCRA also administers the North American Free Trade Agreement (NAFTA), Canada's trade laws, and Canada's international tax agreements with other countries. We therefore have a key role in helping Canadian business and industry compete in world markets by ensuring they have a fair environment in which to trade. Finally, we are responsible for protecting Canadian society against the illegal movement of goods and people across Canada's borders.

We are committed to helping small businesses in Canada. We recognize 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. While these individuals are professionals and will help you, you are the one who is ultimately responsible for the actions of your business. You need to keep informed so that you can work in partnership with the professionals you hire and with the CCRA.

Chapter 1: Setting Up Your Business

A business is an activity that you conduct for profit or with a reasonable expectation of profit. There are three types of businesses: sole proprietorships, partnerships, and corporations. The way your business is taxed has a lot to do with the way your business is set up.

Sole proprietorship

A sole proprietorship is an unincorporated business that is owned by one person. It's 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're a sole proprietor, you pay personal income tax on all revenue generated by your business. You also assume all the risk of the business. This risk extends even to your personal property and assets.

As a sole proprietor, you have to register for the goods and services tax / harmonized sales tax (GST / HST) if your worldwide annual taxable revenues are more than \$30,000.

It's easy to set up a sole proprietorship. Simply operate as an individual or as a registered, unincorporated business. If you operate as an individual, just bill your customers or clients in your own name. If you operate under a registered business name, bill your clients and customers in the business's name. If your business has a name other than your own, you'll need a separate bank account to process cheques payable to your business.

How does a sole proprietor pay taxes?

A sole proprietor pays taxes by reporting income (or loss) on a personal income tax and benefit return (T1). The income (or loss) forms part of the sole proprietor's overall income for the year.

If you're a sole proprietor, you must file a personal income tax and benefit return if you:

- have to pay tax for the year;
- disposed of a capital property or had a taxable capital gain in the year;
- are required to make Canada Pension Plan / Quebec Pension Plan (CPP / QPP) payments on self-employed earnings or pensionable earnings for the year; or
- received a demand from us to file a return.

The list above does not include every situation where you may be required to file. If you're unsure, call us at 1-800-959-5525.

As a sole proprietor, your income tax and benefit return must include financial statements or one or more of the following forms, as applicable:

- Form T2124, *Statement of Business Activities*;
- Form T2032, *Statement of Professional Activities*;
- Form T2042, *Statement of Farming Activities*;
- Form T1163, *Statement A – NISA Account Information and Statement of Farming Activities for Individuals*, and Form T1164, *Statement B – NISA Account Information and Statement of Farming Activities for Additional Farming Operations*; or
- Form T2121, *Statement of Fishing Activities*.

We will also accept a computer-generated version of the applicable form.

Note

As a sole proprietor, you may have to pay your income tax by instalments. You may also need to make instalment payments for Canada Pension Plan contributions on your own income. Remember to budget for these payments. For more information, see our publication called *Paying Your Income Tax by Instalments*.

For GST / HST, sole proprietors have reporting periods for which they have to file a return. For more information, see the section "Reporting periods" on page 15.

Partnership

A partnership is an association or relationship between two or more individuals, corporations, trusts, or partnerships who 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 in 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. But if money and property are at stake, you should have a written agreement.

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.

How does a partnership pay taxes?

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, corporate, or trust income tax return.

Each partner also has to file either financial statements or one of the forms referred to in the section on sole proprietorship (or a computer-generated version of one of these forms). You do this whether or not you actually received your share in money or in credit to your partnership's capital account.

A partnership has to file a partnership information return if, throughout the fiscal period, it has six or more members or if one of its members is a member of another partnership. Our publications called *Guide for the Partnership Information Return* and Information Circular 89-5, *Partnership Information Return*, and its Special Release, have more details.

For GST/HST purposes, a partnership is considered to be a separate person and must file a GST/HST return and remit tax where applicable.

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.

Since a corporation has a separate legal existence, it has to pay tax on its income, and therefore must file its own income tax return. It must also register for the GST/HST if its taxable worldwide annual revenues (including those of associates) are more than \$30,000.

You set up a corporation by filling out an article of incorporation, and filing it with the appropriate provincial, territorial, or federal authorities.

How does a corporation pay taxes?

A corporation must file a corporation income tax return (T2) within six months of the end of every taxation year, even if it doesn't owe taxes. It also has to attach complete financial statements and the necessary schedules to the T2 return. A corporation pays its taxes in monthly instalments. Our publication called *T2 Corporation – Income Tax Guide* has more details on instalment payments and the filing requirements for corporations.

For GST/HST, corporations have reporting periods for which they have to file a return. For more information on reporting periods, see the section "Reporting periods" on page 15.

The taxation year for a corporation is its fiscal period. For more information on fiscal periods, see the section "Fiscal period" on page 29.



For more details, visit our Web site at:

www.ccra.gc.ca/t2return/

Are you responsible for your corporation's debts?

As a shareholder of your corporation, you have limited liability. In the strict sense, this means 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'll 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 you have personally guaranteed any loan on behalf of your corporation, we will claim the amount of the taxes owing up to the limit of the loan guarantee.

Keeping records

Five reasons why keeping records can benefit you

1. Good records can help you identify the sources of your income.

You may receive cash or property from many different places. If you don't have records showing your income sources, you may not be able to prove that some sources are non-business or non-taxable.

2. Well-kept records can mean tax savings.

Good records serve as a reminder of deductible expenses and input tax credits. If you don't record your transactions, you may forget some of your expenses or input tax credits when you prepare your income tax or GST/HST returns. For more information on input tax credits, see page 16.

3. Well-kept records can prevent most of the problems you might encounter if we audit your income tax or GST/HST returns.

If your records are so incomplete that auditors cannot determine your income from them, the auditors will have to use other methods to establish your income. This will cost you time. 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, and 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. Proper books and records may help you get loans from banks and other creditors.

Creditors need accurate information about your current financial position before they give you a loan. You can't give them this information if you don't keep organized records. Also, good records show potential creditors that you know what's going on with your business.

Legal requirements for keeping records

All records such as paper documents, as well as those stored in an electronic medium (e.g., on computer disk), must be kept in Canada or made available in Canada at our request. You can keep these documents outside Canada if you get written permission from us.

What records should you keep?

Make sure you keep orderly records of all income you receive. Also, keep all receipts, invoices, vouchers, and cancelled cheques indicating outlays of money. Such outlays include:

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

If you import goods into Canada, your records must substantiate the price you paid for imported goods, and list their origin and description. They must also include any documentation about the reporting, release,

and accounting of the goods, as well as the payment of duties and taxes. For more information, see the chapter called “Importing / Exporting” on page 23.

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 if you’re asked to do so.

Your records must be permanent

Whichever accounting or record-keeping 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?

It’s not hard to keep records that meet the requirements of the law. However, sketchy or incomplete records that use approximate instead of exact amounts, are not acceptable.

Your books and records must:

- allow you to 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.

Retaining and destroying records

The six-year requirement

You must retain books and records (other than certain documents for which there are special rules) for six years after the goods are imported or exported, for six years from the end of the last taxation year to which they relate for income tax, or for six years from the end of the year to which they relate for GST / HST purposes.

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 books and records is usually measured from the last year you used the records, not the year the transaction occurred or the record was created. For example, let’s say you bought some restaurant equipment in 1999 and sold it in 2001. In this case, even though the records relating to the purchase of the equipment were created in 1999, you need them to calculate the gain or loss on the sale in 2001. Therefore, you must keep the records until 2007.

You have to keep every book and supporting record necessary for dealing with an objection or appeal until it is resolved and the time for filing any further appeal has expired, or until the six-year period mentioned above has expired, whichever is later.

Request for early destruction

If you want to destroy your books or records before the six years are up, you must apply in writing to the director of the tax services office in your area to obtain written permission from the Minister of National Revenue. To do this, either use Form T137, *Request for Destruction of Books and Records*, or prepare your own written request. In addition to our requirements, there are other federal, provincial, and municipal laws that require you to keep books and records. We have no authority to approve destruction of books and records that these other laws require you to keep.

For more information on keeping books and records for income tax purposes, refer to Information Circular 78-10, *Books and Records Retention/Destruction*. For GST / HST, refer to Chapter 15, “Books and Records,” of the GST / HST Memoranda series.

Bringing assets into a business

Fair market value

You may find yourself in a situation where you would like to 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 these assets at a price equal to their FMV at that time. If the FMV at the time of the transfer to the business is greater than your original purchase price, you must report the difference as a capital gain on your income tax and benefit return.

You can claim a GST/HST input tax credit based on the **basic tax content** of the assets you transfer to your business. For more information on basic tax content, call us at 1-800-959-5525.

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 schedule for income tax purposes.

For income tax purposes, when you transfer the property to a Canadian partnership or a Canadian corporation, you may transfer the property to the partnership or the corporation 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 in nature. For more detailed information, please refer to Interpretation Bulletin IT-291, *Transfer of Property to a Corporation under Subsection 85(1)*, Information Circular 76-19, *Transfer of Property to a Corporation under Section 85*, and Interpretation Bulletin IT-413, *Election by Members of a Partnership under Subsection 97(2)*.

Buying an existing business

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

When you buy an existing 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 company 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. 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 the fair market value (FMV) of the asset. 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 purchase a business for a total purchase price of \$120,000. The FMV of the net identifiable assets of the business is as follows:

Accounts receivable.....	\$ 20,000
Inventory.....	10,000
Land.....	30,000
Building.....	<u>50,000</u>
Total net identifiable assets.....	\$110,000

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

Purchase price	\$120,000
Minus net identifiable assets.....	<u>110,000</u>
Amount attributed to goodwill	\$ 10,000

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

Treat the value of the inventory as a purchase of goods for resale, and include it in the 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 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 must be GST/HST registrants, and you both have to agree that the sale will not be subject to GST/HST. In addition, you must buy all or substantially all of the property, and not only individual assets.

Usually, 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.

Another way of buying an existing business is to buy the shares of an incorporated business. 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.

The Business Number (BN)

Your first step to doing business with the CCRA

The BN is a numbering system that simplifies and streamlines the way businesses deal with us. It is based on the idea of “one business, one number.” This helps businesses reduce costs and be more competitive. It also increases government efficiency. You get your BN the first time you register to do business with us. Eventually, businesses will be able to use their BN for other government programs.

The BN consists of two parts—the registration number and the account identifier. The four major CCRA business accounts and the account identifiers are as follows:

- corporate income tax (RC);
- import/export (RM);
- payroll deductions (RP); and
- GST/HST (RT).

Businesses that register for the BN will get one-stop business services from us, including integrated new business registration, a consolidated approach for updating account information, and integrated business account enquiries.

Your BN, and all information relating to it, are confidential.

Note

There are other types of CCRA accounts that the BN does not yet include. For example, some manufacturers and wholesalers need an excise tax licence for excise tax purposes, and some businesses need a filer identification number for filing information returns. Contact us at 1-800-959-5525 if you want to find out about these other accounts and register for them.

Are you doing business in Quebec?

For businesses in Quebec, the BN does not include GST/HST accounts. The ministère du Revenu du Québec administers the GST/HST on behalf of the CCRA. If you plan to register for the GST/HST in Quebec, please contact the ministère du Revenu du Québec for more information at this address:

Ministère du Revenu du Québec
3800 de Marly Street
Ste-Foy QC G1X 4A5

Telephone: 1-800-567-4692
Outside Canada: (514) 873-4692

Do you need a BN?

If you need at least one of the four CCRA business accounts listed before, you will need a BN.

However, before you register for the BN, you need to know a few things about the business you plan to operate. For instance, you should know the name of the business, its location, its legal structure (sole proprietorship,

partnership, or corporation), and its fiscal period end. You should also have some idea of what the sales of your business will be. Without this information, you won't be able to complete the BN registration form.

Note

If you are a sole proprietor or a partner in a partnership, you will continue to use your social insurance number (SIN) to file your individual income tax and benefit return, even though you may have a BN for your GST/HST, payroll deductions, and import/export accounts.

For more information on the BN, please see our publication called *The Business Number and Your Canada Customs and Revenue Agency Accounts*, or call us at 1-800-959-5525.

Why it pays to plan ahead

In considering when to register for your BN, keep several things in mind.

Remember your legal obligations. For example, you become a registrant who must register for GST/HST when your taxable worldwide revenues (including those of your associates) exceed \$30,000 over four consecutive calendar quarters, or in one calendar quarter. This threshold is \$50,000 if you are a public service body. If you think your sales will exceed \$30,000 (or \$50,000 if you are a public service body), it's probably wise to register for the GST/HST sooner rather than later. Remember, registering for the GST/HST is the same as registering for the BN.

Registering early gives you certain advantages, such as the right to claim the GST/HST you pay on your business's start-up expenses from the time you register. For more information, see the section "Input tax credits" on page 16 in the chapter on GST/HST. Also see the section "Can you deduct business start-up costs?" on page 35.

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

You should open a payroll deductions account as soon as you know when you will have employees. This account will allow you to make regular payroll deductions for your employees and make remittances on time. For information on how to make payroll deductions, see the chapter called "Payroll Deductions" on page 20.

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

For more information

- *Guide for Partnership Information Return*
- *T2 Corporation – Income Tax Guide*
- *Information Circular 78-10, Books and Records Retention/Destruction*
- *Interpretation Bulletin IT-291, Transfer of Property to a Corporation under Subsection 85(1)*
- *Information Circular 76-19, Transfer of Property to a Corporation under Section 85*
- *Interpretation Bulletin IT-413, Election by Members of a Partnership under Subsection 97(2)*
- *Form GST44, Election Concerning the Acquisition of a Business or Part of a Business*
- *The Business Number and Your Canada Customs and Revenue Agency Accounts*
- *Form RC1, Request for a Business Number (BN)*
- Web sites:

www.ccra.gc.ca

www.ccra.gc.ca/t2return/

Chapter 2: The Goods and Services Tax (GST) and Harmonized Sales Tax (HST)

What is the GST/HST?

The GST is a tax that applies at a rate of 7% to the supply of most goods and services in Canada. Three provinces (Nova Scotia, New Brunswick, and Newfoundland) harmonized their provincial sales tax with the GST to create the harmonized sales tax (HST). The HST applies to the same base of goods and services as the GST, but at a rate of 15%. Of this, 7% is the federal part and 8% is the provincial part.

Although the consumer ultimately pays the GST/HST, generally businesses are responsible for collecting and remitting it to the government. Businesses that must register or that register voluntarily for the GST/HST are called **registrants**.

Registrants collect the GST/HST on most of their sales, and pay the GST/HST on most purchases they make to operate the business. Registrants can claim a credit, called an **input tax credit (ITC)**, to recover the GST/HST they paid or owe on the purchases they will use in their commercial activities. They do this by deducting the amount of the credit from the GST/HST they collected. If they pay more than they collect, they can claim a refund.

On which goods and services do you charge GST/HST?

As a GST/HST registrant, you charge 7% GST or 15% HST on the taxable goods and services (other than zero-rated) you sell, lease, transfer, or provide in some other way. You can claim an input tax credit to recover the GST/HST you paid or owe on purchases and expenses you use, consume, or supply in your commercial activities.

Examples of goods and services taxable at **7%** or **15%** include:

- commercial real property and newly constructed residential property;
- rentals of commercial real property;
- clothing and footwear;

- car repairs; and
- hotel accommodation.

Certain goods and services are subject to GST/HST, but at a rate of 0%. These goods and services are referred to as zero-rated supplies. You do not charge tax on these supplies, but you are still able to claim an ITC to recover the GST/HST you paid or owe on purchases made to provide them.

Examples of **zero-rated** goods and services include:

- basic groceries such as milk, bread, and vegetables;
- most farm livestock;
- medical devices such as hearing aids and artificial teeth;
- prescription drugs and drug dispensing fees; and
- exports (most goods and services taxable at 7% or 15% in Canada are zero-rated when exported).

Which goods and services are tax-exempt?

Some goods and services are exempt from the GST/HST. You do not collect GST/HST on these goods or services. You cannot claim an ITC to recover the GST/HST you pay or owe on purchases and expenses relating to such supplies.

You cannot register for the GST/HST if you're selling or providing **only** tax-exempt goods and services.

Tax-exempt goods and services include:

- sales of previously owned residential housing;
- residential rents of one month or more and residential condominium fees;

- most health, medical, and dental services that are performed by licensed physicians or dentists for medical reasons;
- day-care services provided for less than 24 hours per day primarily to children 14 years of age and younger;
- bridge, road, and ferry tolls;
- legal aid services;
- many educational services such as those courses supplied by a vocational school that lead to a certificate or diploma and allow the practice of a trade or a vocation, or tutoring services made to an individual in a course that follows a curriculum designated by a school authority;
- most services provided by financial institutions (e.g., arrangements for a loan or mortgage);
- arranging for and issuing insurance policies by insurance companies, agents, and brokers;
- most goods and services provided by charities; and
- certain goods and services provided by non-profit organizations, governments, and other public-sector organizations such as municipal transit services and standard residential services such as water.

Who registers for the GST/HST?

You have to register for and charge GST/HST if:

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

You do not have to register if your only commercial activity is the sale of real property otherwise than in the course of a business or if you are a non-resident who does not carry on business in Canada. If you are a non-resident, see our guide called *Doing Business in Canada – GST/HST Information for Non-Residents*.

Small supplier

You are a small supplier if you meet one of the following conditions:

- if you are a sole proprietor, your total taxable revenues (before expenses) from all your businesses are \$30,000 or less in the last four consecutive calendar quarters and in a single calendar quarter;
- if you are a partnership or a corporation, the total taxable revenues of the partnership or corporation are \$30,000 or less in the last four consecutive calendar quarters and in a single calendar quarter; or
- if you are a public service body (charity, non-profit organization, municipality, university, public college, school authority, or hospital authority), the total taxable revenues from all the activities of your organization are \$50,000 or less in the last four consecutive calendar quarters and in a single calendar quarter. A gross revenue threshold also applies to charities and public institutions. For more information, see the guide *GST/HST Information for Charities*.

In all cases, total taxable revenues means your worldwide revenues from your sales of goods and services subject to GST/HST at a rate of 7% and 15% respectively, and your zero-rated sales. However, it does not include goodwill, financial services, and sales of capital property. You also have to include the total taxable revenues of all your associates in this calculation. Contact us if you need help to determine if you are associated to another person.

If your total taxable revenues exceed \$30,000 (\$50,000 for public service bodies) in a single calendar quarter or in four consecutive calendar quarters, you will no longer be considered a small supplier and you have to register for the GST/HST. Contact us if this occurs.

Exception

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

Voluntary registration

Although you do not have to register for the GST/HST if your taxable worldwide revenues are less than \$30,000 (or \$50,000 if you are a public service body), you can register voluntarily.

How to register for the GST/HST

If you have to register, or if you are a small supplier and wish to do so, call us or visit your nearest tax services office. You may provide the necessary information to us over the telephone or by facsimile transmission. Alternatively, you can complete Form RC1, *Request for a Business Number (BN)* and return it to us. For more information, call us at 1-800-959-5525.

Remember that if your business is in Quebec, you should contact the ministère du Revenu du Québec at 1-800-567-4692. Their address is on page 11.

Reporting periods

We will assign you a reporting period for filing your GST/HST returns when you register for the GST/HST. For each reporting period, you must file a GST/HST return.

The GST/HST reporting period is based on your estimated total annual taxable revenues in Canada as well as the annual taxable revenues of all your associates, if applicable.

The following chart shows the assigned GST/HST reporting periods based on your annual taxable revenues.

Annual Taxable Revenues	Reporting/Filing Period
\$500,000 or less	annually
more than \$500,000 to \$6,000,000	quarterly
more than \$6,000,000	monthly

If your annual taxable revenues are \$500,000 or less, you may elect to file your GST/HST return quarterly or monthly.

If your annual taxable revenues are more than \$500,000, but less than \$6,000,000, you may elect to file your GST/HST return monthly.

For more information, refer to our publication called *General Information for GST/HST Registrants*.

How to collect GST/HST on the taxable goods and services you provide

As a GST/HST registrant, you generally charge 7% GST or 15% HST on the taxable supplies you make (other than zero-rated supplies).

Note

If you make taxable supplies (other than zero-rated) to customers in Nova Scotia, New Brunswick, or Newfoundland, including supplies shipped or mailed to recipients in these provinces, you are required to collect and remit the 15% HST.

Provincial sales tax

When you have to charge both GST and the provincial sales tax (PST), calculate GST on the price before you calculate the PST. For more information on how to calculate PST in relation to GST, contact your provincial tax office. You'll find the phone numbers of the provincial tax offices in the government section of your telephone book.

Informing your customers

As a GST/HST registrant, you must show your customers the total tax payable or let them know that the amount payable includes the tax. You can show this to your customers on the invoice, receipt, or contract, or by displaying acceptable signs. If you show the tax on your invoice, receipt, or contract, you must show the total tax or the total of the tax rate, that is, 7% or 15%.

What to put on your invoices

At the request of your customers who are GST/HST registrants, you must provide them with specific information that will allow them to support their input tax credit claim. The following chart shows what information you should put on your invoices, sales receipts, or other documentation.

Information required	Total sale under \$30	Total sale of \$30 to \$149.99	Total sale of \$150 or more
Your business or trading name	✓	✓	✓
Invoice date or, if you do not issue an invoice, the date on which the GST/HST is paid or payable	✓	✓	✓
Total amount paid or payable	✓	✓	✓
An indication of items subject to GST at 7% or HST at 15%, or that the items are exempt. Also, an indication of either the total amount of GST/HST charged, or a statement that the GST/HST is included and the total rate of tax.		✓	✓
Your Business Number		✓	✓
The purchaser's name or trading name			✓
Terms of payment			✓
A brief description of the goods or services			✓

Input tax credits

As a GST/HST registrant, you can get back the GST/HST you paid or that you owe on purchases and expenses related to your commercial activities. You do this by claiming an input tax credit.

You can recover the GST/HST you pay or owe on goods and services such as:

- merchandise to resell;
- advertising services;
- real property and capital property, such as office furniture, vehicles, and other equipment; and
- general operating expenses such as office rent, utilities, office supplies, and the rent of equipment such as computers, vehicles, photocopy machines, and other office appliances.

Where goods or services are used partly for personal use or for making exempt supplies, you are entitled to a partial input tax credit to the extent that they are for use in commercial activities.

In addition, you can claim input tax credits for purchases of land and purchases eligible for capital cost allowance under the *Income Tax Act*, such as buildings, computers, vehicles, and other large machinery and equipment.

Expenses for which you cannot claim an input tax credit include the following:

- employee wages;

- interest and dividend payments;
- most federal, provincial, and municipal taxes;
- most fees, fines, and levies;
- tax-exempt goods and services;
- items for your personal use or enjoyment;
- capital property that is not primarily for use in your commercial activities; and
- membership fees or dues to any club that provides recreational, dining, or sporting facilities (e.g., fitness clubs, golf clubs, hunting and fishing clubs), unless you acquire the memberships to resell in the course of your business.

How to claim an input tax credit

To find out the total input tax credits you're entitled to claim for a reporting period, simply add up the GST/HST that you paid or owe on your business purchases made during the reporting period.

Most registrants claim their input tax credits when they file their GST/HST return for the reporting period in which the related purchases were made. However, you can generally claim your input tax credit in any return filed by the due date of the return for the last reporting period that ends within four years after the end of the reporting period in which the tax became payable on the purchase that qualifies for the credit.

Simplified accounting methods

There are two simplified accounting methods available for small businesses to calculate the GST/HST they owe. They are the Quick Method and the simplified input tax credit method.

The Quick Method

The Quick Method is an easy way to calculate the amount of GST/HST you owe. Generally, if your worldwide taxable annual sales (including zero-rated sales and sales of associates) are \$200,000 or less (including GST/HST), you can use the Quick Method.

Certain persons, such as accountants, bookkeepers, and financial consultants, cannot use the Quick Method.

How do you use the Quick Method?

You collect GST at 7% or HST at 15% on taxable supplies to your customers in the usual manner. To find out how much GST/HST to remit to us, multiply your total GST/HST-included sales for the reporting period by the Quick Method remittance rate that applies to those sales. The remittance rate will depend on whether you provide services or goods for resale, where your business is located, and whether you charged GST at 7% or HST at 15% on your taxable sales.

When using the Quick Method, you do not have to separately track the GST/HST you paid or owe on most of your business purchases. The remittance rates take into account the tax payable on general operating expenses. Therefore, you do not claim an input tax credit on your operating expenses (such as utilities, rent, and telephone), meal and entertainment expenses, and inventory purchases.

If you are using the Quick Method at the beginning of a fiscal year or on the day you become a registrant, you are entitled to a credit equal to 1% of your first \$30,000 of supplies that are taxable at 7% or 15%. For more information, see the booklet called *Quick Method of Accounting for GST/HST*.

The simplified input tax credit method

The simplified input tax credit (ITC) method is an alternative way of determining the input tax credit part of your GST/HST return. You can use this method if you are registered for GST/HST and you and your associates have worldwide annual taxable sales totaling \$500,000 or less in your immediately preceding fiscal year. You do not include supplies of financial services or sales of capital real property in the calculation of total sales.

To use the simplified ITC method, your taxable purchases (excluding zero-rated purchases) in Canada must also not exceed \$2 million in the immediately preceding fiscal year.

If you qualify, you can begin using the simplified ITC method at the beginning of any reporting period in a fiscal year. You do not have to file a separate form with us to use the simplified ITC method. With the simplified ITC method, you do not have to separate the amount of GST/HST payable on each invoice. Instead, you only need to track the total amount of your taxable purchases. You will, however, need to separate your purchases that are taxable at 7% from those that are taxable at 15%. To calculate your ITC, you simply multiply your total taxable purchases by 7/107 for GST purchases and 15/115 for HST purchases. For audit purposes, you will also have to keep the usual documents to support your input tax credit claims.

For more information on the simplified ITC method refer to our publication *General Information for GST/HST Registrants*.

How to calculate the GST/HST you owe and file your return

For each reporting period, you calculate:

- the GST/HST collected or collectible on your taxable supplies during the reporting period; **and**
- the GST/HST paid or payable on your purchases for which you can claim an input tax credit.

The difference between these two amounts, plus or minus any adjustments, is your GST/HST payment or your refund. If you charge more GST/HST than you paid or owe, you pay us the difference. Make cheques payable to the Receiver General. If you paid or owe more GST/HST than you charged, you can claim a refund.

For more information

- *General Information for GST/HST Registrants*
- *Quick Method of Accounting for GST/HST*
- *Form T1124, GST and Income Tax Reconciliation Form*
- Web site:

www.ccra.gc.ca

Chapter 3: Excise Taxes and Excise Duties

What are excise taxes and excise duties?

They are two types of federal levies on products manufactured or produced in Canada.

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 the goods before the GST/HST is added on.

Excise taxes

Excise taxes are charged on goods such as:

- tobacco;
- wine;
- jewellery;
- some heavy automobiles;
- automobile air conditioners; and
- gasoline, diesel fuel, aviation gasoline and aviation fuel.

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

When goods are manufactured in Canada, excise tax is payable at the time the goods are delivered to the purchaser. When goods are imported, excise tax is payable by the importer, at the time the goods are 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) allows you to buy goods for resale without paying excise taxes. You may qualify for a “W” licence under certain limited circumstances, thereby enabling you to buy goods exempt of excise tax and to collect and remit the excise tax at the time you sell the goods.

For information on licensing, returns, and refunds, contact us and explain your situation.

Excise duties

Excise duties are charged on spirits, beer, and tobacco products manufactured in Canada. The *Excise Act* sets out the rates of duty for these goods.

Duty is charged on goods at the point of manufacture rather than sale. It is based on the quantity of goods you produce.

All manufacturers of these goods must be licenced and are subject to the bonding provisions set out in the *Excise Act* and Regulations.

For more information, contact us. You will be referred to the excise duty manager in your area.

For more information

- Excise Taxes and Special Levies Memoranda
- Excise Taxes and Special Levies Information Program (1.1)
- Definitions (1.4)
- Licences (2.1)
- Small Manufacturers (2.2)
- Bonds Given as Security by Licenced Wholesalers (2.3)
- Web site:

www.ccra.gc.ca

Chapter 4: Payroll Deductions

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

You are an employer if:

- you pay salaries, wages (including advances), bonuses, vacation pay, or tips to the people working for you; or
- you provide certain taxable benefits or allowances such as board and lodging to the people working for you.

Payroll deductions can be complicated. If you're having trouble with them, give us a call. One of our representatives will come to your business and help you get started. Just call the nearest tax services office.

What to deduct from your employees' paycheques

You're responsible for deducting income tax, Canada Pension Plan (CPP) or Quebec Pension Plan (QPP) contributions, and Employment Insurance (EI) premiums from your employees' paycheques. You are also responsible for remitting this money to us at regular intervals, usually on or before the 15th day of the month following the month in which you deducted it. For example, if you make your deductions from an employee's paycheque on the 10th of May, you then have to remit the money to us on or before the 15th of June. If the 15th of June falls on a Saturday, Sunday, or holiday, the remittance is due on the next business day after the 15th.

It's a good idea to remit payroll deductions on time. If your payment is late, you will have to pay a penalty.

Canada Pension Plan (CPP)/Quebec Pension Plan (QPP)

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, you deduct Quebec Pension Plan (QPP) contributions instead of CPP. You remit the payments to the ministère du Revenu du Québec instead of to the Receiver General for Canada.

Both employees and employers contribute to the CPP or the QPP. But you, as an employer, are responsible both for deducting CPP/QPP contributions from your employees' paycheques and for matching those contributions yourself.

Employees fall into many different categories, which determine how and when you should deduct CPP/QPP. To learn more about this, see our guide called *Payroll Deductions (Basic Information)* and the *Payroll Deductions Tables* for your province or territory.

How to deduct CPP/QPP contributions

To deduct CPP/QPP contributions, you consult the payroll deductions publications mentioned above. These publications indicate how much CPP/QPP to deduct from your employees' paycheques, depending on their salaries and pay periods.

The rates for CPP/QPP deductions may vary from year to year. Each edition of the payroll deductions publications gives information on current rates. Make sure you have an up-to-date edition.

Remember—you must match each employee's contribution. This means that if you deduct \$100 from an employee's paycheque, you must also contribute \$100. You must then send us \$200 for that employee.

To find out when you should deduct CPP/QPP contributions from your employees' paycheques and remit them to us, see our guide *Payroll Deductions (Basic Information)* and the *Payroll Deductions Tables* for your province or territory.

Employment Insurance

Employment insurance (EI) is a federally administered insurance program that gives financial assistance to people who are unemployed. It also helps people get training for jobs.

How to deduct EI premiums

As an employer, you are responsible for deducting EI premiums from your employees' paycheques. To deduct EI premiums, consult the payroll deductions publications. These publications indicate how much EI to deduct from your employees' paycheques, depending on their salaries.

The rates for EI premiums may vary from year to year. Each edition of the payroll deductions publications gives information on current rates. Make sure you have an up-to-date edition.

Remember—you must also make your own contributions to EI on behalf of your employee. Generally, the employer's contribution will be slightly more than the employee's.

To find out when you should deduct EI premiums from your employees' paycheques and remit them to us, see our guide called *Payroll Deductions (Basic Information)* and the *Payroll Deductions Tables* for your province or territory.

Types of employment for which you do not deduct EI premiums

There are certain types of employment which are not considered insurable and for which you do not deduct EI premiums.

For example, you do not deduct EI premiums when you and your employee do not deal with each other at arm's length. This includes individuals connected by blood relationship, marriage, or adoption. However, an employee who does not deal with you at arm's length can be in insurable employment if you would have negotiated a similar contract with a person that you deal with at arm's length. This decision is based on the terms and conditions of employment, and the remuneration paid for the work done.

For more information, see our publication called *Payroll Deductions (Basic Information)*.

Income tax

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

Since employees fall into various categories, you need various forms, such as federal and provincial TD1 forms, to help you decide what to deduct from their paycheques. For more information on these forms, please see our guide called *Payroll Deductions (Basic Information)*.

How to make income tax deductions

To deduct income tax from your employees' paycheques, consult the payroll deductions publications for your province or territory. These publications indicate you how much income tax to deduct from your employees' paycheques, depending on their salaries and pay periods.

Workers' Compensation

As an employer, you may be required to make payments, and be subject to certain regulations under Workers' Compensation legislation. For more information, see the guide called *Payroll Deductions (Basic Information)*.

How to report payroll deductions

The T4

You report your employees' salary, wages, and taxable benefits, as well as any deductions, on the T4 form. You can get this form from your nearest tax services office.

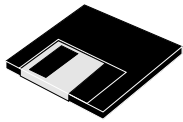
You have to fill out and give your employees their copies of the T4 no later than the end of February following the calendar year to which the form relates.

Quarterly remittances

Most employers are required to remit withholding amounts on a monthly basis; large employers remit more frequently. As a small business employer, you may be able to make quarterly remittances of taxes and payroll deductions. We will automatically notify you if

you qualify for this program. No application is required. You can continue to remit monthly if you prefer.

Do you have a computer?



If you have a computer, you can use it instead of the paper tables to calculate your employees' payroll deductions. We provide a

computerized version of the *Payroll Deductions Tables* (T4032) and *Payroll Deductions Supplementary Tables* (T4008) called *Tables on Diskette* (TOD) (T4143). This diskette contains the information you need to calculate deductions from your employees' pay for all pay periods.

Tables on Diskette (T4143) are available on the Internet. For more information, see the *Payroll Deductions Tables* (T4032) or call us at 1-800-959-5525.

If you'd like to create your own payroll deduction calculations, a publication containing the formulas you need (except for Quebec provincial tax and QPP), is available. You can get the publication called *Payroll Deductions Formulas for Computer Programs* (T4127) from us, or download the publication from our Web site. A printed version is also available.

You can use any version of the tables to calculate your employees' payroll deductions for CPP, EI, and federal / provincial (except Quebec) income tax. The *Payroll Deductions Tables* (T4032) and *Payroll Deductions Supplementary Tables* (T4008) are available for each province and territory, and also for employees working outside Canada.

In summary, your responsibilities as an employer are to:

- deduct CPP / QPP contributions, EI premiums, and income tax from amounts you pay to your employees;
- remit these deductions **along with your share** of CPP / QPP contributions and EI premiums that you have to pay throughout the year on your employees' behalf; and
- report the employees' income and deductions on the appropriate information return and give information slips to your employees by the last day of February following the calendar year to which the information return applies.

? For more information

- Form TD1, *Personal Tax Credits Return*
- *Payroll Deductions (Basic Information)*
- *Payroll Deductions Tables* (T4032)
- *Payroll Deductions Supplementary Tables* (T4008)
- *Tables on Diskette* (TOD) (T4143)
- *Payroll Deductions Formulas for Computer Programs* (T4127)
- Web sites:

www.ccra.gc.ca
www.ccra.gc.ca/t2return/

Chapter 5: Importing/Exporting

Before you import commercial goods...

Before you import commercial goods into Canada, you need to know the answers to the following questions:

- Are the goods admissible to Canada?
- What will it cost to import the goods to Canada?
- How will you account for the goods and pay the duties and taxes?
- Must the goods be marked?
- What are the tariff classification, value for duty, and origin of the goods?
- Should you get a National Customs Ruling or an Advance Ruling before importing?

Importing and exporting can sometimes be complicated. Some businesses use customs brokers to help them.

Are the goods admissible to Canada?

Before you import anything to Canada, make sure it is admissible. For information, contact your nearest customs office, listed in the government section of your telephone book.

What will it cost to import the goods to Canada?

There are three different costs that go along with importing.

First, there is the purchase cost—what you pay for the goods in their country of origin, converted to Canadian dollars.

Second, there are **duties**, which are taxes that may be associated with importing. The taxes could include customs duty, excise tax, excise duty, and the goods and services tax (GST) or the harmonized sales tax (HST). To find out what duties and taxes apply to what you're importing, contact your customs office, listed in the government section of your telephone book.

Third, there are the costs of other services, such as transportation, brokerage, and insurance.

Also, you may incur additional costs, such as examination charges, to have the goods you import loaded or unloaded so that we may examine them.

How will you account for the goods and pay the duties and taxes?

In most cases, you'll need to fill out Form B3, *Canada Customs Coding Form*. You will need to provide information such as your importer name, your Business Number, a description of the goods, shipment dates, tariff treatment, country of origin, tariff classification, value for duty, and the duty and taxes owing.

You can't account for or pay duties and taxes on your goods unless you know their tariff classification, the country of origin, and their value for duty. Value for duty is usually the amount of money, converted to Canadian dollars, that you pay for the goods you import. In cases where there is no purchase price, you can contact your customs office for help in determining the value for duty.

Must the goods be marked?

There are a number of categories of goods that must be marked with their country of origin before they will be permitted entry into Canada. We require country of origin markings such as "Made in...". You can find more information on the marking program in the D11-3 series of departmental Memoranda.

What are the tariff classification, value for duty, and origin of the imported goods?

The tariff classification, value for duty, and origin determine the duty you pay on the imported goods. That's why it's necessary to know the classification, value for duty, and origin before you calculate any costs. An incorrect tariff classification, value for duty, and origin will result in an incorrect duty.

Should you get a National Customs Ruling before importing?

You can make sure you are working with the correct information if you obtain a National Customs Ruling (NCR) from us that verifies the tariff classification, country of origin, and value for duty on imported goods. Getting an NCR is not required, but might save you time and paperwork in the future. For more information on National Customs Rulings, see Memorandum D11-11-1, *National Customs Rulings*.

You can also make sure you are working with correct free trade information if you obtain an advance ruling from the customs administration of a free trade country. For more information on advance rulings, see Memorandum D11-4-16, *Advance Rulings*.

Introduction to importing Form B3, Canada Customs Coding Form

In most cases, you have to document the importation of commercial goods on Form B3, *Canada Customs Coding Form*.

If you are a new importer, you may need help completing Form B3. For more information or clarification, contact your customs office before you import the goods. Also see the brochure called *Importing Commercial Goods into Canada*, or Memorandum D17-1-10, *Coding of Customs Accounting Documents*.

Commercial Cash Entry Processing System (CCEPS)

The Commercial Cash Entry Processing System (CCEPS) is used by small commercial importers to generate Form B3, *Canada Customs Coding Forms*. Using a personal computer located at the front counter, clients enter customs importation data (e.g., vendor name, value for currency conversion, and date of direct shipment) into CCEPS. CCEPS automatically calculates the duties and taxes owing. Form B3 is then entered into the Customs Commercial System (CCS) for validation and cash collection. CCEPS has been implemented at 33 locations across Canada.

For more information on CCEPS, contact your local customs office.

Import permits, health certificates, and other forms that government departments require

Some goods are subject to the requirements of other federal government departments. In these cases, you may need permits, certificates, and examinations to import the goods. We administer the import portions of some legislation on behalf of these departments. You should know that we refer many importations to the appropriate department for processing before we release them.

For more details on the import/export documents you need for other government departments, see the Memoranda D10-18 and D19 series.

Setting up your import/export account

To set up your import/export account, you need a copy of Form RC1, *Request for a Business Number (BN)*, which is available from any CCRA office. You'll receive an account as soon as we process your application. If you already have a BN for GST/HST, payroll deductions, or corporate income tax, call us at 1-800-959-5525. We will update the BN system with your import/export account.

Use your BN on release documents and final accounting packages for most shipments that enter Canada.

You will need an exporter number for shipments valued at more than \$2,000, if they are destined to a country other than the United States.

You can report shipments in two ways: by using an approved cargo control document (CCD), or by transmitting the cargo data via electronic data interchange (EDI). The CCD controls the shipments until we release them. Cargo reporting and completion of the CCD are generally the responsibilities of the carrier or freight forwarder.

You do not need to use a CCD when you personally transport the shipment and you obtain its release by accounting for the goods and paying any duties at the customs office where they enter Canada.

For complete details on cargo reporting, see the Memoranda D3 series.

Examining your goods

To verify that shipments are acceptable, we occasionally select shipments for examination. Some shipments are selected on a random basis and some are selected on the basis of compliance risk. The frequency of examinations will depend on your compliance record and the type of goods you are importing. Examinations may be done at the point of arrival or where the goods are released, depending on the circumstances.

Release, accounting, and payment: your options

There are several ways to obtain release of your goods. You can get:

- release with full accounting and payment (cash option);
- release on minimum documentation;
- release of goods imported by mail; or
- release of goods imported by courier.

Accounting for goods

The following sections describe several elements of the accounting process, many of which appear on Form B3, *Canada Customs Coding Form*.

Value for duty, tariff classification, origin of goods, and applicability of other duties are subject to strict legal interpretation. If you need help, contact the nearest regional customs client services office listed in the government section of your telephone book, or check the section called “How To Get Information From the CCRA” on page 41.

Tariff classification

Each good has a unique tariff classification number. The tariff classification number determines the duty rate you pay when you import the goods into Canada. As you can see, it's important for you to have the correct classification. You don't want to pay any more duty than is necessary.

You can obtain a National Customs Ruling (NCR) on the tariff classification of the goods by requesting one in writing from your regional customs client services office. These rulings are binding on both parties. For more information, contact the nearest customs client services office, listed in the government section of your telephone book.

Value for duty

You as an importer are responsible for determining and reporting an accurate value for duty. The value for duty is the amount on which percentage duties are calculated. There are six methods provided in the value for duty sections of the *Customs Act* (Sections 44 to 53). However, the primary method, and the method that is most often applicable, bases the value for duty on the price you pay for the goods (your purchase price). Certain additions or deductions to this price may be required to arrive at the value for duty you report. You must report the value for duty in Canadian funds, so you may need to convert the amount from foreign currency. Only one valuation method will be used for an importation and each has requirements and rules for its use. The methods must be applied in the proper order. Further information is provided in the D13 series Memoranda. Also, for more detailed information on how to determine the value for duty for your shipments, contact your nearest customs office.

Origin

The country of origin of your goods also affects the duty payable. Depending on the country of origin and whether it has signed a trade agreement with Canada, some goods may receive a lower rate of customs duty.

If certain conditions are met, we do give preferential rates of duty to goods originating in developing countries.

For more information on the rules of origin and tariff treatments, see the Memoranda D11-4 and D11-5 series.

Certificates of origin

As an importer, you can benefit from lower rates of customs duty under several trade

agreements, such as the North America Free Trade Agreement (NAFTA), Canada-Israel Free Trade Agreement (CIFTA), and the Canada-Chile Free Trade Agreement (CCFTA).

You should get a certificate of origin from the American or Mexican manufacturer or vendor of any goods you import from the U.S. or Mexico.

For more details on the origin of goods and the certificate of origin, see the Memoranda D11 series.

Trade incentives – how to reduce or eliminate the duty

You can reduce or eliminate customs duty on qualifying goods through duties relief incentives. The following programs are examples of these incentives.

Duty deferral program

The duty deferral program includes three components enabling companies to defer or be relieved of the payment of customs duties: the duties relief program, the drawback program, and the bonded warehouse program.

Duties relief program

The duties relief program enables eligible companies to import goods without having to pay customs duties, as long as they eventually export the goods. These companies can further manufacture the goods before exporting them or export them in their unaltered state without having to pay customs duties. The North American Free Trade Agreement (NAFTA) regulates the amount of relief where the goods are exported to NAFTA-participating companies. For more information, please refer to Memoranda in the D7 series.

Drawback program

With the drawback program, customs duties are refunded on imported goods when these goods have been exported. You may export these goods in the same condition as they were at the time of import, or you may further their manufacture before exporting them, without affecting the amount of the refund. NAFTA regulates the amount of relief where goods are

exported to NAFTA participating companies. For more information, please refer to memoranda in the D7 series.

Note

Most goods are subject to the GST/HST at the time of importation. While the GST/HST is considered a duty payable under the *Customs Act*, it cannot be exempted under the duties relief program or the drawback program.

Bonded warehouse program

A customs bonded warehouse is a facility operated by the private sector and regulated by the Customs Branch of the CCRA. In this warehouse, you may store imported goods without having to pay duties and taxes. Duties and taxes will only become payable if the goods enter the Canadian domestic market. If imported goods are to be exported, you can avoid having to pay duties or taxes by placing them in a bonded warehouse on their arrival in Canada.

Also, if you are an exporter and wish to claim a drawback for customs duties you paid when you imported goods, you may stock the goods in a customs bonded warehouse while waiting to export them. As soon as they enter the warehouse, the goods are considered exported and you may therefore claim a drawback. For more information, please refer to Memoranda in the D4 and D7 series.

Memorandum D4-1-2, *Customs Bonded Warehouse Regulations*

Memorandum D7-4-1, *Duty Deferral Program*

Memorandum D7-4-2, *Duty Drawback Program*

Memorandum D7-4-3, *NAFTA Requirements for Drawback and Duty Deferral*

Remissions

Under remissions programs, some goods can enter Canada duty-free.

For more information on remissions, see the Memoranda D8 series, or contact your nearest customs office.

Refunds

We can grant refunds of full or partial duties you paid on exported or destroyed goods, defective goods, shortages, or equipment you removed from the goods and returned to the manufacturer for credit. You can also use the refund process to claim the benefit of relief programs you didn't know about at the time of importation, or in other situations where you may have overpaid duties in error. For more information on refunds, see the Memoranda in the D6 series.

Review, assessment, and appeals

Our review of your accounting package

We review your final accounting package no later than 30 days after you give it to us. If your final accounting package is found to be incorrect, a refund or reassessment can be issued, or we may ask you to provide more information or documentation to substantiate your claims.

Your reassessment rights

As the importer, you have the right to a review of the value for duty, tariff classification, or origin of imported goods (subject to some exceptions) either because you wish to make changes, or because you don't agree with the changes we made. You may request a review at any customs office in the region where the goods were released within one year of our initial review.

For more information on the redetermination and reappraisal process, see Memorandum D11-6-1, *Determination / Re-determination and Appraisal/Re-appraisal of Goods*.

Your appeal rights

If you don't agree with the CCRA's decision, you have the right to appeal it to the Canadian International Trade Tribunal (CITT). To do so, you file a written appeal notice with the Commissioner of the CCRA and the Secretary to the CITT no later than 90 days after we issue our decision.

For more information about your appeal rights, contact your customs office.

Seizures and forfeitures appeal process

If you do not report goods, or report goods falsely to customs, the *Customs Act* allows us to seize the goods. In most cases where the goods can't be found, we can assess an amount in lieu of seizure.

If you disagree with a seizure or an assessment in lieu of seizure, you can request a ministerial review. You do this by writing to the CCRA office where the seizure took place, or to the following address:

Adjudications Division
Appeals Branch
Canada Customs and Revenue Agency
Ottawa ON K1A 0L5

You must request a CCRA review within 30 days of the date of the seizure or the date we mailed you the notice of assessment.

We'll review your request and give you the opportunity to provide us with additional information. We will let you know whether we will uphold or overturn the seizure or notice of assessment, and whether we will maintain, eliminate, or reduce the amount of the assessment.

If you don't agree with our decision, you can appeal to the Federal Court of Canada – Trial Division, within 90 days of the date we mail our decision.

Exporting

You have to file an export declaration when exporting goods that are:

- valued at CAN \$2,000 or more; and
- the final destination of the goods is a country other than the United States, Puerto Rico, or U.S. Virgin Islands. This includes goods travelling through the United States (U.S.) to a foreign destination or directly to a non-U.S. destination.

You **do not** need to file an export declaration for :

- goods you are exporting for domestic consumption in the U.S.; or
- any foreign, in-bond goods that are in transit through Canada for export to a foreign destination.

If you are exporting goods that are controlled, prohibited, or regulated, you have to submit the appropriate permit, certificate, or licence before you export them, regardless of the goods' destination or value. To obtain more information on controlled exports, contact the Export Controls Division of Foreign Affairs and International Trade at (613) 996-2387 or by fax at (613) 996-9933.

Exporters may use one of the following three methods to provide export declarations:

- The Canadian Automated Export Declaration program (CAED);
- Form B13A, *Export Declaration*; or
- Summary reporting.

Exporters are required to keep records in Canada in paper or electronic format for six years after the goods have been exported.

For more information on export requirements and records maintenance, refer to the brochure called *Exporting Goods from Canada*.

For more information

- *Importing Commercial Goods into Canada*
- *Guide to Importing Commercial Goods*
- *Memoranda D17-1-10, Coding of Customs Accounting Documents*
- *Memorandum D4-1-2, Customs Bonded Warehouse Regulations*
- *Memorandum D11-6-1, Determination/Re-determination and Appraisal/Re-appraisal of Goods*
- The D Series Memoranda contains more specific technical information on each part of the importing and exporting process. Reference copies are available from all customs offices.
- *Form B3, Canada Customs Coding Form*
- *Form B13A, Export Declaration*
- *Form RC1, Request for a Business Number (BN)*
- Web site:

www.ccra.gc.ca

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 also tells you what expenses you're allowed to deduct.

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 may 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.

Similarly, you deduct allowable expenses in the fiscal period in which you incur them, whether or not you pay for them in that period.

The cash method

Under the cash method, you report income as it is received and you deduct allowable expenses as they are paid. 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 the tax guides called *Farming Income*, *Fishing Income*, or *Business and Professional Income*.

How to keep sales and expense journals

You should keep a day-to-day record of your receipts and expenses. A book with columns and separate pages for income and expenses is good for this. Keep this record along with your duplicate deposit slips, bank statements, cancelled cheques, and receipts. This will support your expenditure claims.

How to record your business expenses

You can generally deduct business expenses if you incur them for the sole purpose of producing 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, and recording all your expenses in a journal.

The simplest method of recording these expenses is a basic sheet with columns that list the common categories of expenses. At the end of each month, total each column, and then start a new sheet for the next month.

Fiscal period

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 proprietorship or in a partnership in which all the members are individuals, you can elect to have a non-calendar year fiscal period. To do this, use Form T1139, *Reconciliation of Business Income for Tax Purposes* (revised annually) to file your election. You need to file this form by a certain date. For more information, see the guide called *Reconciliation of Business Income for Tax Purposes*.

A corporation can choose a fiscal period that ends on any date. The corporation has to file its income tax return within six months of the end of its fiscal period.

The rules governing fiscal periods are complicated. It's a good idea to get familiar with them before you get into business. For more information, see our income tax guide called *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, call us at 1-800-959-5525 or see our publication called *General Information for GST/HST Registrants*.

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 actual 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 or with a reasonable expectation of profit. For example, income from a service business is business income. However, business income does not include employment income, i.e., wages or salaries received from an employer.

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 the following forms if they apply to you:

- Form T2124, *Statement of Business Activities*;
- Form T2032, *Statement of Professional Activities*;
- Form T2042, *Statement of Farming Activities*; and
- Form T2121, *Statement of Fishing Activities*.

While they are not meant to be standard financial statements, these forms include optional balancing fields so that you can use them as financial statements. You'll find instructions on completing them in the

appropriate income tax guides available at your tax services office or on our Web site.

We have designed these 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 records of account. You may use the categories included on these forms when you establish your records of account.

You must 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, income from property, investments, taxable capital gains, estates, trusts, employment, and pensions.

Bad debts

If you received any amount during the year 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.

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

Reserves

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

Vacation trips and awards

If you received vacation trips or other awards of any kind (e.g., 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 the GST/HST guide called *General Information for GST/HST Registrants*.

Government grants and subsidies

If you get a grant or subsidy from a government or government agency, you'll have to report it either 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 which receives a government employment grant to let you 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, in the case of depreciable property, you reduce the capital cost of the property by the amount of the assistance you received. In the case of other capital property, reduce the adjusted cost base accordingly.

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

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

Rental income

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

To determine the type of rental income you have, and how to report it, refer to our guide called *Rental Income*.

Barter transactions

A barter transaction takes place when any two persons agree to an exchange of goods or services, and carry out that exchange without using money.

If you are involved in a barter transaction, the goods or services you received could be considered proceeds from a business operation. If you are in a business or profession that provides goods or services, and you offer these goods or services in a barter transaction in exchange for other goods or services, you have to include the value of the goods or services you provided in your income.

Barter transactions may also have GST/HST implications. For more information, 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 as a result. Similarly, if you sell the land for less than it cost, you have a capital loss.

For more information on capital gains and capital losses, see the income tax guide called *Capital Gains*. For special rules relating to farmers, see the income tax guide called *Farming Income*.

Also, there may be GST/HST implications when you sell a property. For more information, see the guide called *General Information for GST/HST Registrants*.

Inventory and cost of goods sold

To match expenses with income, you need to prepare 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, and finished goods that you have on hand.

However, if you have a professional practice and you are an accountant, dentist, lawyer, medical doctor, notary, veterinarian, or chiropractor, you may elect to exclude 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 readily distinguishable) in the inventory, at either their cost or their fair market value, whichever is lower.

Once you choose a method of inventory valuation, you must continue to use this method in subsequent years. For more information about valuing inventory, see Interpretation Bulletin IT-473, *Inventory Valuation*, and its Special Release.

Expenses

This section gives you an overview of the business expenses that you can claim for income tax purposes.

What are business expenses?

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

You must back up 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.

Remember to keep your cancelled cheques if you receive them from the bank. This is part of your proof that the bill was paid or the asset purchased. Keep the cancelled cheques in an orderly manner so we can easily review them.

Running a business from your home

You can deduct expenses for the business use of a work space in your home, if the work space is either:

- your principal place of business; or
- you use the space only to earn your business income, and you use it on a regular and ongoing basis to meet your clients or customers.

You can deduct a portion of your maintenance costs, such as heating, home insurance, electricity, and cleaning materials. You can also deduct a portion of your property taxes, mortgage interest, and capital cost allowance (CCA). To calculate the portion 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 the income tax guide called *Business and Professional Income*.

Types of operating expenses

Personal or living expenses

In most cases, you cannot deduct personal and living expenses, except for travelling 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 aren't 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-417, *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 books and records. You can also deduct fees you incur for preparing and filing your income tax and GST/HST returns.

Advertising expenses

You can deduct expenses for advertising. This includes printed materials, as well as ads in Canadian newspapers and on television or radio.

However, you cannot deduct expenses for advertising directed mainly to a market in Canada when you advertise:

- with a foreign broadcaster; or
- in an issue of a non-Canadian newspaper or periodical.

This second restriction does not apply to ads in a special issue of a newspaper published twice a year or less, and devoted to news or features mainly about Canada.

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. You cannot deduct club membership dues (including initiation fees) where 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 you incur on any buildings, machinery, and equipment that you use for your business.

Interest and bank charges

You can deduct the interest you incur 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 detailed information, see the section “Motor vehicle expenses” in the income tax guide called *Business and Professional Income*.

There is also a limit on the amount of interest you can deduct for vacant land. See the section “Interest” in the income tax guide called *Business and Professional Income*. If you need more information, call us at 1-800-959-5525.

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

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

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

Do not deduct the capitalized interest as a current expense.

For more detailed information about capitalizing interest, see Interpretation Bulletin IT-121, *Election to Capitalize Cost of Borrowed Money*.

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. You cannot deduct the value of your own labour.

You cannot deduct costs you incur for repairs that are capital in nature. However, you may be able to claim capital cost allowance on the repaired property. For more information about capital cost allowance, see the income tax guide called *Business and Professional Income*.

Meals and entertainment

You can deduct up to 50% of the cost of meals and entertainment that you incur to earn income in your business.

The 50% limit also applies to the cost of your meals when you travel or go to a convention, conference, or similar event. However, special rules can affect your claim for meals in these cases. For more details, see the sections “Meals and Entertainment,” “Convention expenses,” and “Travel” in the income tax guide called *Business and Professional Income*.

For more information, see Interpretation Bulletin IT-518, *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 things 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 three types of vehicles.

1. *Motor vehicle* – Any automotive vehicle designed or adapted for use on highways and streets.
2. *Automobile* – A motor vehicle designed or adapted primarily to carry people on highways and streets. It seats a driver and no more than eight passengers.
3. *Passenger vehicle* – An automobile you bought after June 17, 1987. A passenger vehicle is also an automobile that you leased under a lease you entered into, extended, or renewed after June 17, 1987.

With certain exceptions, most cars, station wagons, vans, and some pick-up trucks are considered passenger vehicles. If you own or lease a passenger vehicle, there may be a limit on the amounts you can deduct for capital cost allowance, interest, and leasing costs.

For definitions and more detailed information about capital cost allowance limits, interest limits, and leasing costs, see the income tax guide called *Business and Professional Income*.

How to record motor vehicle expenses

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

To get the full benefit of your claim for each vehicle, keep a record of the total kilometres you drove, and the kilometres you drove to earn business income. For each business trip, list the date, destination, purpose, and the number of kilometres you drove.

Be sure to write down the odometer reading of each vehicle at the start and end of the year. If you change motor vehicles during the year, write down the odometer reading at the time you buy, sell, or trade the vehicle.

Record the dates of these readings.

What kind of vehicle expenses can you deduct?

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 the motor vehicle; and
- leasing costs.

Joint ownership

If you and another person own or lease a passenger vehicle together, the limits on capital cost allowance, interest, and leasing still apply.

Business use of a motor vehicle

If you use a motor vehicle for both business and personal use, you can deduct only the portion of the expenses that relates to earning income.

To support the amount you deduct, keep a record of both the total kilometres you drove, and the kilometres you drove to earn income.

The following chart shows you how to keep this type of record.

Jay owns a stereo retail business and has a van that he uses for the business. In keeping his records, Jay wrote down the following information for the current year:

Kilometres driven to earn business income.....	27,000
Total kilometres driven	30,000
Gas and oil	\$2,400
Capital cost allowance	4,500
Insurance	800
Licence and registration fees.....	100
Maintenance and repairs.....	200
Total expenses for the van	\$8,000

Jay calculates the expenses he can deduct for his van in the current year as follows:

$$\frac{27,000 \text{ (business kilometres)}}{30,000 \text{ (total kilometres)}} \times \$8,000 = \$7,200$$

Note

When you use more than one motor vehicle to earn income, calculate the expenses for each vehicle separately.

Interest expenses on vehicle loans

You can deduct interest on money you borrow to buy a motor vehicle, automobile, or passenger vehicle that you use to earn income.

Include the interest as an expense when you calculate your allowable motor vehicle expenses. However, when you use a passenger vehicle to earn income, there's a limit on the amount of interest you can deduct.

The income tax guide called *Business and Professional Income* has more information on claiming this kind of expense.

Vehicle leasing expenses

You can deduct the leasing costs of a motor vehicle that you use to earn income.

Include the leasing costs when you calculate your allowable motor vehicle expenses.

However, when you use a passenger vehicle to earn income, there is a limit on the amount of leasing costs you can deduct.

To calculate your eligible leasing costs, see the income tax guide called *Business and Professional Income*.

Office expenses

You can deduct the cost of office expenses, i.e., small items such as pens, pencils, paper clips, stationery, and stamps. Office expenses do not include items such as calculators, filing cabinets, chairs, and desks, which are capital items. For more information, see the income tax guide called *Business and Professional Income*.

Salaries, including employer's contributions

You can deduct salaries you pay to employees. You report these salaries by the end of February on a T4 or T4A slip. For more details on how to complete these forms, see the chapter "Payroll Deductions" in this guide, or the publication called *Payroll Deductions (Basic Information)*.

Can you deduct business start-up costs?

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

Determining exactly what you can claim as a start-up expense can be difficult. For more information, see Interpretation Bulletin IT-364, *Commencement of Business Operations*.



For more information

- *Fishing Income*
- *Farming Income*
- *Business and Professional Income*
- *Rental Income*
- *Capital Gains*
- *Form T2124, Statement of Business Activities*
- *Form T2032, Statement of Professional Activities*
- *Form T2042, Statement of Farming Activities*
- *Form T2121, Statement of Fishing Activities*
- *General Information for GST/HST Registrants*
- *IT-200, Surface Rentals and Farming Operations*
- *IT-473, Inventory Valuation, and its Special Release*
- *IT-417, Prepaid Expenses and Deferred Charges*
- *IT-121, Election to Capitalize Cost of Borrowed Money*
- *Payroll Deductions (Basic Information)*
- *IT-218, Profit, Capital Gains and Losses from the Sale of Real Estate, Including Farmland and Inherited Land and Conversion of Real Estate from Capital Property to Inventory and Vice Versa*
- *IT-364, Commencement of Business Operations*
- Web site:
www.ccra.gc.ca

Chapter 7: Audits

What is an audit?

Auditing is a way for the CCRA to monitor and inspect GST/HST and income tax returns, customs import documents, 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 select files to audit

Your tax return is recorded in a computer system that enables us to select returns to be audited. The system also lets us sort returns into various groups to help with our selection.

In some cases, we compare selected financial information for current and previous years of clients engaged in similar businesses or occupations. From computer-generated lists of returns for potential audit, we then choose specific returns.

Most returns are selected in this way. But there are three other common ways of selecting files.

1. Audit projects

In some cases, we test the compliance of a particular group of clients. If the test results indicate that there is significant non-compliance within the group, we may audit its members on a local, regional, or national basis.

2. Leads

Leads include information from other audits or investigations, as well as information from outside sources.

3. Secondary files

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

How we conduct audits

If you are selected, an auditor will contact you to arrange a convenient date and time to start the audit. The auditor will then review the following records:

- the return or customs documents selected for audit;
- financial statements;
- audit reports from previous audits, if any; and
- any other information in the file.

On arriving at your place of business, the auditor will present an identification card. Before examining your books and 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.

The audit usually includes an examination of your ledgers, journals, bank accounts, sales invoices, purchase vouchers, and expense accounts. Throughout the process, the auditor may need to get information and assistance from your employees, particularly those who do your accounting.

Delays in the audit, and how to avoid them

Audits usually take only one or two weeks, but could be delayed for a number of reasons. For instance, you may want to consult with advisers, or you may be called out of town on other business before the audit is completed. Similarly, the auditor may ask for an interpretation from CCRA Headquarters on a particularly complex or contentious point of law.

Well-kept records will reduce the time required to complete the audit. Refer to the record-keeping guidelines on page 8 of this guide.

Finalizing an audit

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

Initially, the auditor will discuss this with you or your representative. If you request it, or if it is reasonable to expect that you will need some time to analyze the proposed adjustments, the auditor will confirm the proposal in writing and allow a reasonable time for your reply.

If you provide additional 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 inform you of this when the audit is completed.

Once the audit assessment is finalized, you will be issued a *Notice of Assessment* or *Notice of Reassessment*.

Note

The auditor's role is to determine the correct amount of duty or tax payable. This may mean that your taxes are adjusted downward and you get a refund as a result.

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 or visit the Client Assistance Section of your tax services office or write to the tax centre that processed your return. We resolve many problems with assessments in this way. If you employ the services of a tax professional, you may wish to consult with that person.

Extraordinary circumstances

We can waive or cancel interest or penalties when they result from things that are beyond your control. Such things could include an illness which prevents you from filing an income tax or GST/HST return by the required deadline.

Fairness provisions in the *Income Tax Act* and *Excise Tax Act* (with respect to GST/HST) help us administer the legislation fairly. These provisions apply to individuals, testamentary trusts, small business owners, and corporations. All requests for relief under fairness legislation should be submitted in writing to your tax services office.

Problem Resolution Program

Most questions and concerns can be resolved quickly through our general enquiries service. However, from time to time, some people have concerns that need special attention.

Our Problem Resolution Program handles—on a priority basis—cases that cannot be resolved through regular channels. The program co-ordinators examine any concerns brought to their attention, trace the problem to its source, and determine whether the case is isolated or part of a larger trend that needs attention.

The objection process

Under income tax and GST/HST legislation, you can file an objection if you disagree with your *Notice of Assessment* or *Notice of Reassessment* and you think that the law has been applied incorrectly.

Income Tax – Send a letter, or complete and send Form T400A, *Objection*, to the Chief of Appeals at your tax services office or tax centre.

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 – You must use form GST159, *Notice of Objection (GST/HST)*, to file your objection. Send it to the Assistant Director of Appeals at your tax services office within 90 days of the day we mail the *Notice of Assessment* or *Notice of Reassessment*.

When we get your objection, the Appeals Division will conduct an independent review of the assessment. If the Assistant Director of Appeals agrees with you in whole or in part, we will adjust your return and send you a *Notice of Reassessment*. However, if the Assistant Director of Appeals disagrees, we will send you a *Notice of Confirmation* confirming that the assessment was correct.

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 objection.

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 taxes you had to withhold and remit.

If you lose your appeal to the Tax Court, 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 may post acceptable security while we are reviewing your objection.



For more information

- Form T400A, *Objection*
- Form GST159, *Notice of Objection (GST/HST)*
- *Your Appeal Rights Under the Income Tax Act*
- Information Circular 92-2, *Guidelines for the Cancellation and Waiver of Interest and Penalties*
- Web site:

www.ccra.gc.ca

Chapter 9: How To Get Information From the CCRA

You can get information and publications, and conduct other types of business, at most CCRA offices across Canada.

Some of these publications and services are also available at Government of Canada Info Centres. You can contact these offices for written information on income tax, customs duties and tariffs, and GST/HST programs.

Tax services offices

The tax services offices are your main points of contact with the CCRA. From your tax services office, you can get the forms and publications you need to complete your income tax returns, as well as GST/HST forms, publications, and information.

Employees at tax services offices answer telephone and over-the-counter enquiries about individual, employer, and corporate tax. They can give you information on refunds, assessment notices, paying tax in arrears, and late-filed returns.

Tax services offices also provide Business Number registration services.

Tax centres

Staff members at the tax centres not only process and store income tax returns, but also provide a complete range of client services. They send assessment notices, arrange for refund cheques, and provide written explanations of tax assessments. They also process tax payments.

Each tax centre also has an enquiries counter to offer services similar to those offered by the tax services offices.

The International Tax Services Office

Canada's International Tax Services Office (ITSO), located in Ottawa, serves the special needs of clients whose income tax returns or information returns involve non-residents.

Staff members at the ITSO process non-resident individual and corporate tax returns, respond to written client enquiries, process requests for adjustments, and provide telephone and counter enquiry services.

The office also maintains the accounts of those individuals and institutions that issue payments to non-residents of Canada.

Customs information

You can get information on most customs-related matters by contacting the Automated Customs Information Service (ACIS). This service provides information on many topics, and also offers you the opportunity to speak with a customs official directly.

You can call ACIS toll free in Canada by dialing 1-800-461-9999 for service in English or 1-800-959-2036 for service in French.

Customs offices

You can get customs forms, publications, and information on importing and exporting goods from any of our customs offices across Canada. Our employees handle enquiries and offer assistance on tariff classification, customs duty rates, accounting documentation, assessing the value of imported goods, methods of payment, import quotas and permits, customs assessments, refunds, duties relief, and appeals of customs seizures. You can enquire in writing, by phone, or in person.

Small business information seminars

The CCRA provides small business information seminars to inform new or prospective businesses about their rights and obligations regarding customs, GST/HST, income tax, and about the services we offer to them.

These seminars are free of charge and cover many important topics, such as keeping adequate books and records, income and expenses, and business filing requirements.

To register for a seminar, simply contact the Business Enquiries Section of your tax services office.

New employer visit program

If you operate a small business, you may be too busy to attend an information seminar. If so, our staff are available on request to visit you at your place of business.

This will give you a chance to ask questions about recording, withholding, or reporting employee earnings, tax, Canada Pension Plan contributions, or Employment Insurance premiums. We do not charge for this service. If you are interested, call your tax services office to make arrangements.

Tax clinics

Every year during the filing season, the CCRA sets up tax clinics in various communities. These clinics are located in convenient places, such as shopping malls and public buildings, that are easily accessible to people who need information and advice about their tax returns. The clinics also have available a variety of forms, guides, and pamphlets that clients may need.

For the convenience of individual taxfilers in Quebec, whose provincial income taxes are administered by the Quebec government, the CCRA operates clinics jointly with the ministère du Revenu du Québec.

Government of Canada Info Centres may also host tax clinics in some smaller communities.

Government of Canada Info Centres

The CCRA is working with other federal government departments and agencies to provide improved service to Canadians in smaller communities, by offering a variety of government services from a single location. These new sites are called Government of Canada Info Centres and are usually located in Canada Employment Centres.

Canada Business Service Centres

The CCRA is also an active partner in the Canada Business Service Centre initiative, designed to help business clients through a single point of contact. These centres offer businesses access to information about the programs and services of various federal departments and agencies, including Industry Canada, and the CCRA, and economic development agencies such as the Atlantic Canada Opportunities Agency, Western Economic Diversification Canada, and the Federal Office of Regional Development (Quebec). Other partners include provincial and non-government agencies.

Twelve Canada Business Service Centres operate across the country. They are in Charlottetown, Edmonton, Fredericton, Halifax, Montréal, Saskatoon, St. John's, Toronto, Vancouver, Whitehorse, Winnipeg, and Yellowknife.

Business windows

Business windows are single-window service sites for our business clients and are located in 45 tax services offices across the country. They are the initial point of contact for business clients who are looking for general information on programs and services or who would like to get a Business Number.

Publications



In addition to the services mentioned above, we offer numerous tax guides, pamphlets, bulletins, and circulars. You can get information on any tax-related matter from these publications.

Many of them are available on our Web site at: **www.ccra.gc.ca**

You can also order copies of these publications by calling us at 1-800-959-2221.

The following publications may also be of interest:

- *Our Programs and Services* – An excellent way to find out about other CCRA services that meet your needs. This publication is available from the CCRA.
- *Your Guide to Government of Canada Services and Support for Small Business* – This publication lists every government resource for small businesses. If you're going to deal with government, you'll want to get this guide from Industry Canada.
- *Strategis* – Provides you with easy, direct access to Industry Canada's extensive expertise and information resources. You will find *Strategis* at: **www.strategis.ic.gc.ca**

Important Dates for Income Tax

Sole proprietorships and partnerships	
Monthly, by the 15th	Remit the payroll deductions from your employees' paycheques, along with your portion of Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums, to us by the fifteenth of the following month.
Last day of February	File your T4 and T4A slips along with the related Summary form. Distribute the slips to your employees.
March 15	If you are self-employed, make your first instalment payment of tax and CPP contributions.
March 31	Partnerships (except those made up of corporations, or a combination of individuals, corporations, or trusts with different filing dates) must file a partnership information return.
April 30	File your T1 personal 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	If you are self-employed, make your second instalment payment. Self-employed individuals (and their spouses or common-law partners) must file their T1 personal income tax and benefit returns. However, you have to pay any balance owing by April 30, to avoid interest charges.
September 15	If you are self-employed, make your third instalment payment of tax and CPP contributions.
December 15	If you are self-employed, make your fourth instalment payment of tax and CPP contributions.
December 31	For farmers and fishers, calculate and pay the amount of your current-year instalment payment.

Corporations	
Last day of February	File your T4 and T4A slips along with the related Summary form. Distribute the slips to your employees.
Monthly	Remit the payroll deductions from your employees' paycheques to us, along with your portion of Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums, by the fifteenth of the following month.
Monthly	Corporations have to pay instalments of their current-year taxes, by the last day of each month.
Two months from your taxation year-end	The balance of the corporation tax payable is due.
Three months from your taxation year-end	For corporations claiming the small business deduction, the balance of the corporation tax payable is due.
Six months from your taxation year-end	Corporations must file a <i>T2 Corporation Income Tax Return</i> no later than six months after the corporation's year-end.

It is important that you file any required returns and remit payments on time. Penalties apply if you don't, and interest is charged on unpaid taxes and penalties.

Glossary of Terms

Terms appearing in the glossary in upper case letters have their own listings elsewhere in the glossary.

Account – A formal record of transactions involving a particular item or person.

Accounts payable – Debts you have as a result of purchasing assets or receiving services on an open account or on credit. You have accounts payable when you have not yet paid for the assets or services you have received.

Accounts receivable – Amount of money you are owed. Generally, you are owed this amount because you sold assets or provided services.

Accrual method of accounting – With this method, income is reported in the fiscal period it is earned, regardless of when it is received. The expenses are also deducted in the fiscal period they are incurred, whether they are paid or not. This method is generally used by businesses or professionals.

Appeal – A process by which you ask a Court to review the decision the Appeals Division made on behalf of the Minister of National Revenue.

Articles of incorporation – 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 to be paid or refunded. An assessment includes 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, or other valuables that belong to a person or business. They also may include intangibles such as GOODWILL.

Bad debt – Money owed to you that you can't collect.

Balance – The amount remaining in an ACCOUNT after recording all deposits and withdrawals.

Balance sheet – Statement of the financial position of a business. It states the assets, liabilities, and owners' equity at a particular point in time.

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) – A number you get when you register to do any business with us. It is a single number which replaces the numbers that Canadian businesses previously needed to deal with the federal government.

Calendar year – The twelve-month period beginning January 1 and ending December 31. Depending on your business circumstances, you may or may not use the calendar year as your FISCAL PERIOD.

Canada Pension Plan (CPP) – An insurance program 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) – A yearly deduction or depreciation on the cost of certain assets. You can claim CCA for tax purposes on the assets of a business such as buildings or equipment, as well as on additions or improvements, if these assets are expected to last for some years.

Capital gains – The amount by which PROCEEDS OF DISPOSITION less outlays and expenses exceed the adjusted cost base of CAPITAL PROPERTY.

Capital loss – The amount by which the adjusted cost base and outlays and expenses of CAPITAL PROPERTY exceeds PROCEEDS OF DISPOSITION.

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.

Cash method of accounting – With this method, you report income in the year it is actually received. Similarly, expenses are deducted in the year they are actually paid. Farmers, fishers, and certain salespeople who work on commission may use the cash method.

Confidentiality – The privacy of income tax and GST/HST returns and other related tax information. The only people with access to this information are those who are authorized by law or those to whom the taxpayer has given permission in writing.

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 ARTICLE OF INCORPORATION. A corporation may be owned by one or more persons.

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

Customs duties – Taxes you pay when you bring foreign goods into the country.

Debt – An amount which is owed. If you borrow money or purchase 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 that wears out as it is used over the years. For example, cars, farm equipment, and business machines are depreciable. See CAPITAL COST ALLOWANCE.

Depreciation – A decrease in the value of an asset through age, use, and deterioration. In accounting terminology, depreciation is a deduction or expense claimed for this decrease in value.

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

Election – A formal choice among specific options on how tax laws are applied to a taxpayer's financial affairs. Usually you make an election on your tax return.

Employment income – See SALARY.

Employment Insurance (EI) – A federal program that provides financial assistance to people who are temporarily out of work. It is an insurance program, with employers and employees making payments into the Employment Insurance Fund.

Employment Insurance premiums – Deductions that an employer must make from employees' paycheques and forward to the Receiver General for Canada. Employers must also contribute Employment Insurance payments.

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

Fiscal period – This is 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. The business usually establishes its fiscal period when it files its first income tax return.

Goodwill – The excess of the purchase price of a business over the fair market value of the net assets of the business.

Gross profit – Sales minus COST OF GOODS SOLD.

Half-year rule – A provision in the *Income Tax Act* that allows you to claim only half of the capital cost allowance available on an asset in the year you purchased the asset.

Income – The sum of revenues earned in a specific period of time. It includes revenues from salaries, wages, benefits, tips, and 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 given period of time. Sometimes called a PROFIT AND LOSS STATEMENT.

Income tax payroll deductions – Employers must deduct income tax from their employees' salaries or wages. They must base these deductions on the income tax deductions tables, which reflect each province's rates.

Information circulars – Publications that we issue to give detailed explanations on a variety of tax subjects.

Information slips – Forms that employers, trusts, and businesses use to tell taxpayers and the CCRA how much income was earned, and how much tax was deducted.

Input tax credit – A credit GST/HST registrants may claim for GST/HST paid or payable on purchases relating to a commercial activity.

Instalment – A partial payment of a tax debt. The debt is divided into parts that are paid at different times within a certain period.

Interpretation bulletins – Publications that give our interpretation of parts of the *Income Tax Act*.

Inventory – Generally, the total value of the goods on hand that a business intends to sell, use for manufacture, or use to render a service. In certain cases, inventory can also include services.

Investment – An expenditure to acquire property that yields or is expected to yield revenue or 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 – DEBT owed by a person or business.

Loss – The amount by which expenses exceed revenues.

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

Notice of Assessment – A form that we send to all taxpayers 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 informs 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 or registrant 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 are expected to last for several years. See CAPITAL COST ALLOWANCE.

Payroll deductions – Income tax deductions, CANADA PENSION PLAN or QUEBEC PENSION PLAN contributions, and EMPLOYMENT INSURANCE premiums which are deducted from an employee's wages or SALARY and sent regularly to us. Employers also make their own contributions to the Canada Pension Plan or Quebec Pension Plan, and Employment Insurance.

Penalties – Amounts taxpayers or registrants 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 in their returns, and by those who do not provide the information required on a prescribed form.

Personal tax credit return (Form TD1) – The first income tax form a person has to complete when starting a new job. It tells an employer how much income tax to deduct from the employee's pay.

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; amounts you pay in interest, income taxes, municipal taxes, rent, dues, or insurance for later fiscal periods. These amounts are included as assets on the balance sheet at the end of a fiscal period.

Proceeds of disposition – Usually, the selling price of property when it is disposed of.

Proceeds of disposition also include compensation received for property that has been destroyed, expropriated, stolen, or damaged. It is also the fair market value of property when it is transferred to another person, or when there is a change in its use.

Professional dues – Membership fees paid to maintain a professional status recognized by law, such as lawyers' annual law society fees.

Profit and loss statement – Same as an INCOME STATEMENT.

Proprietorship – A non-incorporated business entirely owned by one person. Same as a SOLE PROPRIETORSHIP.

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

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

For GST/HST purposes, the GST rate is 7%, while the HST rate is 15%.

Records – Documents such as account books, sales and purchase invoices, contracts, bank statements, and canceled cheques. You must keep records in an orderly manner at your business or residence in Canada for at least six years from the end of the last taxation year to which the records relate. You must make these books and other documents available to our officers for audit purposes.

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

Registrant – A person who is registered or required to be registered under GST/HST legislation.

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.

Research grants – Amounts of money given to individuals to explore areas in various fields of study. The grants cover the cost of research plus the researcher's income. These amounts are taxable but some of the researcher's expenses may be deductible for tax purposes. For more specific information, refer to Interpretation Bulletin IT-75, *Scholarships, Fellowships, Bursaries, Prizes, and Research Grants*.

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. Same as EMPLOYMENT INCOME and wages.

Self-employment – The operation of your own business.

Social insurance number (SIN) – A number given to each contributor to the Canada Pension Plan, Quebec Pension Plan, and Employment Insurance Plan. It helps record the contributions and premiums paid into and the benefits paid out of the plans. Since these social insurance programs 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 one person. Same as a PROPRIETORSHIP.

Spouse – For purposes of the *Income Tax Act*, starting in 2001, the term **spouse** will mean only a married partner. The term **common-law partner** will include partners of the same sex or opposite sex, who meet certain conditions. For more information, see your General Income Tax and Benefit guide.

Statement of income and expenses – Form that summarizes revenue, income, and expenses for a specific period.

Statement of remuneration paid (T4 slip) –

Information slip that shows the income that an employer pays to an employee. Taxable allowances and benefits, such as payments made on the employee's behalf to a provincial health care plan, are included as income. A T4 slip also shows how much the employer deducted for income tax, CPP or QPP contributions, EMPLOYMENT INSURANCE premiums, and contributions to the employer's pension plan.

Supply – For GST/HST purposes, this generally means the provision of property or a service in any manner, including sale, transfer, barter, exchange, licence, rental, lease, gift, or 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, *Employment Insurance Act* and several other acts. The Tax Court maintains four offices (Vancouver, Ottawa, Toronto, and Montréal) 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 taxation year. It is also the amount of tax payable on a taxable supply (for GST/HST purposes).

Tax services offices – Offices across the country that provide tax guides and forms, as well as consultation services.

Tax treaties – Government agreements signed between countries. They help citizens who earn foreign income avoid double taxation.

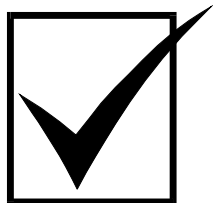
Taxable benefits – Amounts of money, or the value of goods or services, that an employer pays or provides in addition to salary. For example, the part of a health insurance plan that the employer pays is a taxable benefit.

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.

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

Workers' compensation – Money paid to compensate a person injured on the job. It is an insurance plan paid for by employers and administered by the Workers' Compensation Board.

Your opinion counts!



We review our income tax guides and pamphlets each year. If you have any comments or suggestions to help us improve our publications, we would like to hear from you!

Please send your comments to:

**Your Opinion Counts
Canada Customs and Revenue Agency
Place Vanier, Tower A
Ottawa ON K1A 0L5**

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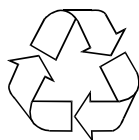
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