

## Records Retention: How Long Is Long Enough?

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The following article, written by Diane Gaudon of Robert Brakel and Associates, Brampton, Ontario, provides practical guidance on records retention requirements in various Canadian jurisdictions. The article appeared in CCH Canadian's [Ontario Tax Reporter](#) Newsletter No. 497, October 2003, [Alberta and Territories Tax Reporter](#) Newsletter No. 359, October 2003, and [Manitoba and Saskatchewan Tax Reporter](#) Newsletter No. 358, September 2003.

"When can I get rid of this stuff?" Time requirements for retaining books and records vary by jurisdiction. Compliance issues may also arise regarding the method of retention and location of books and records. In the modern age, organizations must consider the following when it comes to maintaining both hard copy and electronic accounting information:

- backup and storage of records (on-site and off-site);
- readability of the records;
- availability of the records for an auditor; and
- in some cases, an auditor's reimbursable costs to travel to the location where records are stored.

The following provides an overview of the commodity tax issues concerning the timing, method, and location for the retention of books and records.

### General retention rules

The general rule requires taxpayers to retain adequate records and books of account (including electronic records even when a hard copy is retained) for at least six years from the end of the last taxation year to which the records relate in Canada. The taxation year is the fiscal period for corporations and the calendar year for all others.

Most of the provinces specify what constitutes "adequate records" in their legislation or related regulations. If it is not specified, it is understood that the records to be kept are the same as those retained for federal income tax purposes.

Before disposing of records, it is important to remember some records must be kept indefinitely, as per other statutes (for example, under the *Income Tax Act* (Canada)) or other specified purposes. These include shareholder and director minute books, share registers, general ledgers, tax returns, and special contracts and agreements. Fixed asset and investment records should be retained on a permanent basis. Fixed asset and depreciation records are necessary to establish the capital cost of assets and may be important to establish the base for capital gains tax purposes.

### Maintaining records outside the jurisdiction

An organization's books and records must be stored at a Canadian location available for audit. Where books and records are maintained elsewhere, the Canada Customs and Revenue Agency must grant written permission. Also, non-residents maintaining records at a specific location outside Canada should contact the agency for approval. Approval may be subject to certain terms and conditions as specified in writing by the CCRA.

If an organization's books and records are maintained outside Canada (or a particular province) with approval and are not able to be returned to Canada (or a particular province) for audit as and when required, the authorities may require that the organization reimburse all travel costs incurred by its audit staff to visit the organization's location(s) outside the relevant jurisdiction.

### Goods and services tax

The *Excise Tax Act* requires registrants to maintain adequate records for six years from the end of the last taxation year to which they relate. Records necessary for dealing with an objection or appeal must be retained until the objection or appeal is resolved and the time for filing any further appeal has expired. The Minister may demand in writing that a taxpayer retain records for a longer period of time, or give written permission to advance the normal disposal date for certain records.

Electronic records and users of commercial accounting packages are also required to keep adequate electronic records (even when a hard copy is available). These records must be generated and retained in an electronically "readable" format at all times.

Loss, destruction, or damage of electronic records must be reported to the Canada Customs and Revenue Agency (CCRA) and the records must be recreated within a reasonable period. It is recommended that backups be retained both on-site and off-site. Organizations that utilize a service bureau or time-sharing service are not relieved of any of these retention requirements.

The following information designed to establish an audit trail for data stored electronically must be retained and made available to the CCRA:

- system documentation that provides a complete description of the EDP operation for the accounting system, and a description of the files that feed into the accounting system;
- file documentation including record formats, flow charts, label descriptions, source program listings of programs that created the retained files, and detailed charts of accounts for specific periods; and
- details of major systems changes.

In addition, books and records, including source documents, may be retained on microfilm, microfiche or electronic image format when created, controlled, updated and retained in accordance with the National Standard of Canada (CAN/CGSB-72.11-93).

For further details, businesses should refer to GST Memoranda (New Series) 15.1, "General Requirements for Books and Records" and GST Memoranda (New Series) 15.2, "Computerized Records" .

## British Columbia

Organizations must keep financial statements, general ledgers with associated sub-ledgers, source documents (whether for consumption or supply) and other records that may contain information pertaining to a tax issue. These records must be retained until written permission for their destruction is obtained from the Consumer Taxation Branch.

## Saskatchewan

Every vendor or registered consumer must retain all books, accounts, records and documents for at least six years after the last taxation year to which they relate.

## Manitoba

General ledgers must be kept indefinitely and not destroyed. Other records must be retained until written permission for their destruction is obtained from the Taxation Division or until all of the following conditions are met:

1. the records relate to a fiscal year that ended more than six years before the beginning of the current fiscal year;
2. the records relate to a period for which there are no tax amounts outstanding or in dispute; and
3. written notice has not been given by the Taxation Division requiring the retention of the records.

## Ontario

Adequate records must be retained to support the amount of retail sales tax payable, charged, collected and remitted for at least seven years (earlier destruction requires written permission from the Minister) and may not be destroyed unless *all* of the following conditions have been met:

1. the records relate to a fiscal year that ended more than six years before the beginning of the current fiscal year;
2. the records relate to a period for which no tax amounts are outstanding or in dispute;
3. the time limit for filing a Notice of Objection for the period has expired; and
4. any demands by the Ministry for the production or retention of the records have been satisfied.

Records may be kept in manual or electronic format. However, electronic records must be retained in a format that is an exact copy of the original record.

Ontario Sales Tax Information Bulletin, "Retention/Destruction of Books and Records" , provides further details.

## Quebec

Records, registers (including an annual inventory) and supporting documents must be retained for six years from the end of the last taxation year to which they apply, with some exceptions. Where a return has been filed late, records relating to that taxation year are to be retained for six years from the day the return is filed. Records necessary for dealing with an objection or appeal must be retained until the objection or appeal is disposed of and the time for filing any further appeal has expired. The Ministère du Revenu may demand in writing that a taxpayer retain records for a longer period of time, as well as give written permission to advance the normal disposal date for certain records.

In addition, records preserved on an electronic or computerized medium must be kept in a readily intelligible format.

### **New Brunswick**

Prior to August 1, 2003, the Act required records to be retained until written permission for their destruction was obtained from the Minister of Finance. However, effective August 1, 2003, the Minister requires taxpayers to retain records for a period of six years after the end of the fiscal period to which the records relate (calendar year for individuals), or for destruction before this date, written permission must be obtained from the Commissioner. For corporations or partnerships that are dissolved, the records must be maintained for a period of two years after the dissolution date, or for a shorter period, the Commissioner's permission must be obtained in writing.

### **Nova Scotia**

Retail vendors' records must be retained until the expiration of 72 months (6 years) after the end of the year to which they relate, or for such other period as required by the Commissioner. Wholesale vendors must obtain written permission before disposal of records. If a vendor serves a Notice of Objection, the vendor must retain every record that pertains to the subject matter of the appeal completed.

### **Prince Edward Island**

Vendors are responsible to retain books of account, records, and documents until written authorization for their destruction is obtained from the Provincial Tax Commissioner.

### **Newfoundland and Labrador**

Records must be retained until written permission for their destruction is received from the Minister of Finance.

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