



NO.: **IC78-10R3**

This circular cancels and replaces Information Circular 78-10R2 dated July 14, 1989, and Information Circular 78-10R2(SR) dated February 10, 1995. This update adds information about new legislation that requires computer records to be kept in an electronically readable format even when a paper copy of the record(s) has been kept.

1. The circular gives information and guidance to persons who are required by law to keep records and books of account according to sections 230 and 230.1 of the *Income Tax Act*, section 87 of the *Employment Insurance Act*, and section 24 of the Canada Pension Plan. It does not reflect the requirements imposed by other statutes, whether federal, provincial, or municipal, to maintain adequate records and books of account.

2. The sections and subsections referred to in this circular are from the *Income Tax Act*. Parallel provisions for most of these matters exist in the *Employment Insurance Act* and Canada Pension Plan. Where significant differences do exist, they are indicated.

Who has to keep books and records?

3. For the purpose of this circular, **person** has the meaning assigned by subsection 248(1) of the *Income Tax Act* (the Act). Therefore, a person in this context includes a corporation, a trust, and any exempt entity listed in subsection 149(1) of the Act such as a registered charity, a registered Canadian amateur athletic association, and a non-profit organization.

4. Books and records must be kept by every:

- person carrying on a business;
- person who is required to pay or collect taxes or other amounts according to the Acts mentioned in 1 above;
- registered charity or registered Canadian amateur athletic association; and
- registered agent of a registered political party or an official agent for a candidate in a federal election.

Records to be kept

5. For the purpose of this circular, a **record** has the meaning assigned by subsection 248(1) of the Act. A “‘record’ includes an account, an agreement, a book, a chart or table, a diagram, a form, an image, an invoice, a letter, a map, a memorandum, a plan, a return, a statement, a telegram, a voucher, and any other thing containing information, whether in writing or in any other form.”

6. As a general rule, the Department does not specify the records and books to be kept. However, records and books of account have to:

- permit the taxes payable or the taxes or other amounts to be collected, withheld, or deducted by a person to be determined;
- substantiate the qualification of registered charities or registered Canadian amateur athletic association for registration under the Act;
- permit the verification of all charitable, athletic, and political donations received for which a deduction or tax credit is available; and
- be supported by source documents that verify the information in the records and books of account.

7. A **source document** includes items such as sales invoices, purchase invoices, cash register receipts, formal written contracts, credit card receipts, delivery slips, deposit slips, work orders, dockets, cheques, bank statements, tax returns, and general correspondence.

Location of records

8. The records and books of account have to be kept at the person's place of business or residence in Canada or another place designated by the Minister and have to, upon request, be made available to officers of Revenue Canada for audit purposes at all reasonable times. Records and books of account kept outside Canada and accessed electronically from Canada are not records and books of account in Canada. Access to electronic records means direct, physical contact to the medium on which the record is stored (e.g., tape, disc, CD-ROM).

Methods of keeping records

9. **Keeping records and books of account** pertains to a system of recording financial and other information. For example, records are considered to be kept electronically when information is directly entered into any device for electronic processing, manipulation, and/or storage on electronic or optical media and reproduction to paper.

10. Revenue Canada recognizes as records and books of account:

- the traditional records and books of account (including supporting source documents) produced and retained in paper format; and
- records and books produced and retained in an electronically readable format that can be related back to the supporting source documents and which are supported by a system capable of producing accessible and readable copy.

Ways of keeping records

11. A person who is required to keep records and books is responsible for keeping the records and books in a way that will ensure the trustworthiness and readability of the information recorded.

12. All records and books of account (including source documents) that originate in paper format have to be kept except where an acceptable imaging or microfilming program, as discussed in the following section, is in place. Paper format includes paper source documents from which data is entered into an electronic record-keeping system.

13. A person who is required to keep records and who records them electronically has to keep the records in an electronically readable format. This means that a person who uses computerized systems to generate records and/or books of account must keep the electronic records, even when a hard copy is kept.

14. This person should ensure that proper back-up records are maintained at all times. If any electronic records required to be maintained are lost, destroyed, or damaged, the person must report this situation to the Director of the local tax services office and recreate the files within a reasonable period of time.

Imaging

15. Source documents and records that are in an electronically readable format must be kept in addition to the microfilm and/or electronic image.

16. **Electronic image** means the representation of a source record that can be used to generate an intelligible reproduction of that record, or the reproduction itself, where:

- the reproduction is made with the intention of standing in place of the source record;
- the interpretation of the reproduction, for the purposes for which it is being used, gives the same information as the source record; and
- the limitations of the reproduction (e.g., resolution, tonal, or hues) are well defined and do not obscure significant details.

Paper source documents may be disposed and their images kept as permanent records.

17. Imaging and microfilm (including microfiche) reproductions of books of original entry and source documents have to be produced, controlled, and maintained according to the national standard of Canada, as outlined in the publication called *Microfilm and Electronic Images as Documentary Evidence*. This publication, identified as CAN/CGSB-72.11-93, is available from:

Canadian General Standards Board
Sales Centre

Phase 3, 6B1
Place du Portage
11 Laurier St.
Hull QC K1A 0S5

Telephone number for calls from the Ottawa area:
(819) 956-0425

Toll-free telephone number for calls from other parts
of Canada: 1-800-665-2472

Fax number: (819) 956-5644

18. **An acceptable imaging program** requires that:

- (a) someone in the organization has confirmed in writing that the program will be part of the usual and ordinary activity of the organization's business;
- (b) systems and procedures are established and documented;
- (c) a logbook is kept showing:
 - the date of imaging;
 - the signatures of the persons authorizing and performing the imaging;
 - a description of the records imaged; and
 - whether source documents are destroyed or disposed of after imaging, and the date a source document was destroyed or disposed of;
- (d) the imaging software maintains an index to permit the immediate location of any record, and the software inscribes the imaging date and the name of the person who does the imaging;
- (e) the images are of commercial quality and are legible and readable when displayed on a computer screen or reproduced on paper;
- (f) a system of inspection and quality control is established to ensure that c), d), and e) above are maintained; and
- (g) after reasonable notification, equipment in good working order is available to view, or where feasible, to reproduce a hard copy of the image.

Electronic records

19. Documentation describing physical, environmental, and system controls that exist or existed to prevent unauthorized alteration or loss of the records have to be maintained. This would also include flow charts and policy/procedure manuals or instructions to document the flow and treatment of transactions through the accounting system from initiation to closure and storage.

20. The electronic records must show an audit trail from the source document(s), whether paper or electronic, to the financial accounts. Where no paper source document(s) exist, as in a transaction covered by a trading partner agreement of electronic data interchange (EDI), the electronic record(s) including functional acknowledgments have to be kept. It is

the record keeper's responsibility to ensure the trustworthiness and readability of EDI transaction records.

21. Retained records should be stored in a way that is appropriate to the media on which the information is recorded. Information recorded on rewritable media such as computer hard disks should be backed up on tape or other suitable medium to avoid accidental deletion or erasure of the recorded information. The media containing the recorded information should be stored in an environment free from magnetic fields, direct light, and excessive heat.

22. A person who keeps records electronically is not relieved of any of the record keeping, readability, retention, and access responsibilities because he or she contracts out the record keeping function to a third party such as through a time share, service bureau, or other such arrangements. Therefore, the person must ensure that these requirements are met in the event of system changes by the third party, bankruptcy of the third party, or a change from one third party to another third party or from a third party to an in-house record keeping system. The record keeper is also responsible for keeping electronic records and providing access to authorized persons when a value added network (VAN) is used as an intermediary/mailbox, regardless of where the VAN is located.

23. A person who uses turnkey or packaged software to keep books and records electronically is not relieved of the responsibility to keep adequate electronic records because of deficiencies in the software. In cases where the software backup procedures are deficient, additional specific backup procedures may be required to retain adequate electronic records. Documentation must be kept at a level of detail that will describe the data entry procedures, reports produced, and any features that alter standard reports or create new reports.

24. Where electronically kept records are converted from one format to another, it is the record keeper's responsibility to ensure that the converted records are trustworthy and readable. The conversion must not result in a loss, destruction, or alteration of information and data relevant to the determination of taxes payable, collected, or withheld.

25. The Department is prepared to offer advice on keeping, maintaining, retaining, and storing electronic records. You can get this advice from your tax services office. This advice should not be considered or viewed as an audit, inspection, or a ruling issued by the Department. The record keeper is responsible for keeping, maintaining, retaining, and safeguarding records.

26. Subsection 230(4.2) of the *Income Tax Act* provides that the Minister may exempt a person or a class of persons from the requirement to keep electronic records under terms and conditions that are acceptable to the Minister.

27. The Department occasionally enters into agreements to keep specific files of electronic records to be used during subsequent audits. These agreements are referred to as **record retention agreements**. The files under these agreements should be kept for the statutory period referred to in paragraph 30 below.

Retention period

28. Records and books of account have to be kept for the period or periods provided by subsections 230(4) to (7) and Part 5800 of the *Income Tax Regulations* or until the Minister gives written permission for their disposal. Failure to comply with this requirement could result in prosecution by the Department.

29. Subsection 230(4.1) requires every person who keeps records electronically to retain them in an electronically readable format for the retention period outlined in subsection 230(4).

30. Under the Act, books, records, and their related accounts and source documents, other than those referred to in paragraphs 31 and 32 below, have to be kept for a minimum of six years from the end of the last tax year to which they relate. The tax year is the fiscal period for corporations and the calendar year for all other taxpayers. Under the *Employment Insurance Act* and Canada Pension Plan, the retention period begins at the end of the calendar year to which the books and records relate.

31. The prescribed retention periods for certain books, records, and their related accounts and source documents are specified in Regulation 5800 (see Appendix). The required retention periods can be summarized as follows:

- for a corporation, two years from the date of the dissolution of the corporation (in the case of corporations that amalgamate or merge, books and records have to be retained on the basis that the new corporation is a continuation of each amalgamating corporation);
- for any non-incorporated business, six years from the end of the tax year in which the business ceased;
- for the duplicate donation receipts of a registered charity or registered Canadian amateur athletic association, other than receipts for donations of property to be held for a period of not less than ten years, two years from the end of the calendar year in which the donations were made;
- for other specified records of registered charities and registered Canadian amateur athletic associations, two years from the date the registration is revoked; and
- for records relating to political contributions, two years from the end of the calendar year to which they relate.

There are no similar provisions in the *Employment Insurance Act* or Canada Pension Plan.

32. Exceptions to the rules outlined in paragraphs 28 and 29 above are:

- The Minister may exempt a person or class of persons from the requirement to keep records electronically according to subsection 230(4.2).
- Books of account and records may be destroyed at an earlier time than outlined elsewhere in this circular if the Minister gives written permission for their disposal. To get such permission, a person can use Form T137, *Request for Destruction of Books and Records*, or can apply in writing to the Director of his or her tax services office. A written request, signed by the person or an authorized representative, should provide the following information:
 - a clear identification of books, records, or other documents to be destroyed;
 - the tax years for which the request applies;
 - details of any special circumstances which would justify destroying the books and records at an earlier time than that normally permitted; and
 - any other pertinent information.
- The Minister may, by registered letter or by a demand served personally by a representative of the Department, require specific records to be kept for an additional period of time stipulated in the letter or demand.
- If a return required by section 150 of the Act is filed late, the books and records referred to in paragraph 30 above must be kept for six years from the day the return is filed.
- Every book and record necessary for dealing with a notice of objection or appeal must be kept until the notice of objection or appeal is disposed of and the time for filing any further appeal has expired.
- In the case of paragraph 31 above, only the books and records of a deceased taxpayer or a trust can be destroyed upon receipt of a clearance certificate issued according to subsection 159(2) concerning the distribution of all property.

When Revenue Canada gives permission to destroy records and books, this permission applies only to information required to be kept under the legislation administered by Revenue Canada, and does not imply permission to destroy any books and records required to be kept under any other legislation, or by any other department or government agency.

33. The minimum retention period for the records referred to in paragraph 30 above is generally determined by the last tax year when a record may be required for purposes of the Act, and not the year when the transaction occurred and the record was created. For example, records supporting the acquisition and capital cost of investments and other capital property held by a person (including registered charities and registered Canadian amateur athletic associations) should be maintained until the day that is six years from the end of the last tax year in

which such an acquisition could enter into any calculation for income tax purposes.

Inadequate records

34. If a person has failed to keep adequate records and books of account, subsection 230(3) provides that the Minister can specify what records or books of account shall be kept.

35. If Revenue Canada finds that records and books of account are inadequate, the Department will ordinarily request a written agreement that books and records be maintained as required. Within a reasonable period of time, usually not less than a month, the Department will follow up the request by letter or visit to ensure compliance.

36. If there has been no compliance within the time allowed, the Department will issue a formal requirement letter. The letter describes the information to be recorded in the books and describes the legal consequences and penalties for failing to comply. Failure to comply with the letter within a specified period of time may result in prosecution by the Department. On summary conviction, and in addition to any penalty otherwise payable, a taxpayer is liable to a fine of not less than \$1,000, or both the fine and imprisonment. No such minimum is required under the *Employment Insurance Act* or the Canada Pension Plan.

37. A person who destroys or otherwise disposes of records or books of account to evade the payment of tax is subject to prosecution according to section 239. Information Circular 73-10, *Tax evasion*, discusses Department policies on tax evasion.

APPENDIX**Part LVIII – Keeping books and records**

5800. (1) For the purposes of paragraph 230(4)(a) of the Act, the required retention periods for records and books of account of a person are prescribed as follows:

- (a) in respect of
- (i) any record of the minutes of meetings of the directors of a corporation,
 - (ii) any record or the minutes of meetings of the shareholders of a corporation,
 - (iii) any record of a corporation containing details with respect to the ownership of the shares of the capital stock of the corporation and any transfers thereof,
 - (iv) the general ledger or other book of final entry containing the summaries of the year-to-year transactions of a corporation, and
 - (v) any special contracts or agreements necessary to an understanding of the entries in the general ledger or other book of final entry referred to in subparagraph (iv),

the period ending on the day that is two years after the day that the corporation is dissolved;

- (b) in respect of all records and books of account that are not described in paragraph (a) of a corporation that is dissolved and in respect of the vouchers and accounts necessary to verify the information in such records and books of account, the period ending on the day that is two years after the day that the corporation is dissolved;
- (c) in respect of
- (i) the general ledger or other book of final entry containing the summaries of the year-to-year transactions of a business of a person (other than a corporation), and
 - (ii) any special contracts or agreements necessary to an understanding of the entries in the general ledger or other book of final entry referred to in subparagraph (i),

the period ending on the day that is six years after the last day of the taxation year of the person in which the business ceased;

- d) in respect of
- (i) any record of the minutes of meetings of the executive of a registered charity or registered Canadian amateur athletic association,

- (ii) any record of the minutes of meetings of the members of a registered charity or registered Canadian amateur athletic association,
- (iii) all documents and by-laws governing a registered charity or registered Canadian amateur athletic association, and
- (iv) all records of any donations received by a registered charity that were subject to a direction by the donor that the property given be held by the charity for a period of not less than 10 years,

the period ending on the day that is two years after the date on which the registration of the registered charity or the registered Canadian amateur athletic association under the Act is revoked;

- (e) in respect of all records and books of account that are not described in paragraph (d) and that relate to a registered charity or registered Canadian amateur athletic association whose registration under the Act is revoked, and in respect of the vouchers and accounts necessary to verify the information in such records and books of account, the period ending on the day that is two years after the date on which the registration of the registered charity or the registered Canadian amateur athletic association under the Act is revoked;
- (f) in respect of duplicates of receipts for donations (other than donations referred to in subparagraph (d)(iv)) that are received by a registered charity or registered Canadian amateur athletic association and are required to be kept by that charity or association pursuant to subsection 230(2) of the Act, the period ending on the day that is two years from the end of the last calendar year to which the receipts relate; and
- (g) notwithstanding paragraphs (c) to (f), in respect of all records, books of account, vouchers and accounts of a deceased taxpayer or a trust in respect of which a clearance certificate is issued pursuant to subsection 159(2) of the Act with respect to the distribution of all the property of such deceased taxpayer or trust, the period ending on the day that the clearance certificate is issued.

(2) For the purposes of subsection 230.1(3) of the Act, with respect to the application of paragraph 230(4)(a) of the Act, the required retention period for records and books of account that are required to be kept pursuant to section 230.1 of the Act is prescribed to be the period ending on the day that is two years after the end of the last calendar year to which the records or books of account relate.

