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the newsletter of Prentice Yates & Clark

Taxes, Documents and Records

With the tax season over or just wrapping up, what are your responsibilities for maintaining the documents, records and copies of submitted forms that you gathered to support the preparation of your return? What records do you have to keep and how long must you keep them before they can be destroyed?

FOR TAX PURPOSES, books and records, including computerized and e-business records, must be kept by:

- Every person who is carrying on a business; and
- Every person who is required to pay or collect taxes or other amounts according to federal and provincial statutes, such as the Income Tax Act, Canada Pension Plan, Employment Insurance Act and other statutes, whether federal, provincial or municipal.

A "person" in this context includes not only individuals, but also corporations, charitable organizations and trusts.

PAPER FORMAT BOOKS AND RECORDS

Records and books must be kept in a way that will ensure the trustworthiness and readability of the information recorded. Records and books of account (including source documents) that originate in paper format have to be kept in that format except where an acceptable imaging or micro-filming program is in place in accordance with the national standard. Note that paper format also includes paper source documents from which data is entered into an electronic recordkeeping system.



ELECTRONIC BOOKS AND RECORDS

If you keep records of business transactions or business information on a computerized system, (including e-business records), make sure:

- Your computerized system is capable of providing the correct information you need to calculate your tax obligations.
- Your computerized records are retained and easily converted into an electronically readable format that can be made available to the CRA on request.

.....continued on next page >

In This Issue

Taxes, Documents and Records	1
E-mail Attachments	3
PYC Briefs	3
PYC Contact Information	4

Season's Greetings

From the partners and staff of Prentice Yates & Clark.

Holiday Donations

In lieu of seasonal gifts to individual clients Prentice Yates & Clark made donations to the following charities:

Homes First Society	Mainstay Housing
Homeward Family Shelter	Society of St. Vincent de Paul
Jessie's Centre for Teenagers	St. Hilda's Towers Foundation

- Computerized records (electronic data files) are kept even when hardcopy is available.
- Encrypted records can be decrypted and produced in an accessible and electronically readable format.
- Appropriate back-ups are kept of all electronic records.

If you change your computerized record-keeping system - either hardware or software - you must maintain the capability to retrieve the data already stored on the former system and be able to provide the data in a readable format to the CRA upon request.

If your records are stored on a Web server outside of Canada, you are responsible for making arrangements for the records to be made available upon request.

Your obligations for maintaining, retaining and safeguarding books and records when conducting business over the Internet are the same as for any other type of business. If you use a third party to run your e-commerce business, it is still your responsibility to ensure that the electronic records are complete, are retained, are readable and will be made available to the CRA if required.

RETENTION OF BOOKS AND RECORDS

Your books and records must be sufficient to determine and verify your tax obligations. They must:

- Be maintained in Canada, unless permission is granted to maintain them elsewhere.
- Be made available to the CRA upon request.
- Include electronic records that are maintained and created by computerized record-keeping systems.

Generally, books and records (including business transactions or business information on a computerized system) should be kept for a minimum of six years from the date of the last taxation year to which they relate. The taxation year is the fiscal year for incorporated entities and the calendar year for the individual taxpayers. Keep in mind, though, that other federal or provincial statutes may extend this period for the same records.

If a tax return is filed late, the corresponding books and records must be maintained for six years from the date the return is filed. Further, if a federal Notice of Objection is filed, every book and record necessary for dealing with the notice of objection or appeal must be retained until that process is completed.

If a business closes, a non-incorporated entity must retain certain records until six years after the end of the taxation year in which the business ceased. Similarly, a corporation that is dissolved must keep certain records until the day that is two years after the day the corporation is legally dissolved. However, records for corporations that are amalgamated with, or wound-up into, another corporation must be retained for the time period of the amalgamated or parent corporation.

The records referred to above need to be retained for six years after the year to which they relate. This may be much longer than it originally appears. Records for security purchases or the pur-

chase of other capital assets will also relate to the year in which the asset is sold and, therefore, must be kept much longer.

Certain records, such as all shareholder and director minutes and a general ledger containing summaries of the year-to-year transactions, must be kept until after the corporation is dissolved.

DESTRUCTION OF RECORDS AT AN EARLIER DATE

In some circumstances, individuals and companies may apply for permission to destroy records at an earlier date than that prescribed by the Income Tax Act. However, if the CRA gives permission to destroy records and books, this permission does not extend to books and records that you are required to keep under any other legislation or by any other department or governmental agency.

SAFEGUARDS AND COMPANY POLICIES

Owner/managers should ensure that books and records are properly maintained and stored and not accidentally misplaced or destroyed.

What are your company's policies for maintaining and storing documents?

- Do you have set policies and guidelines as to the specific types of files that are to be maintained such as correspondence, agreements, and source documents by type such as invoices, payroll. How long are these stored?
- How and where are electronic documents stored? Are back-up copies stored off site?
- What documents are kept on site and what documents are stored off site?
- How are records of the location of these documents maintained?
- Who is responsible for the retention, and when required, the proper disposal of documents, e.g., shredding of paper, destruction of electronic media?

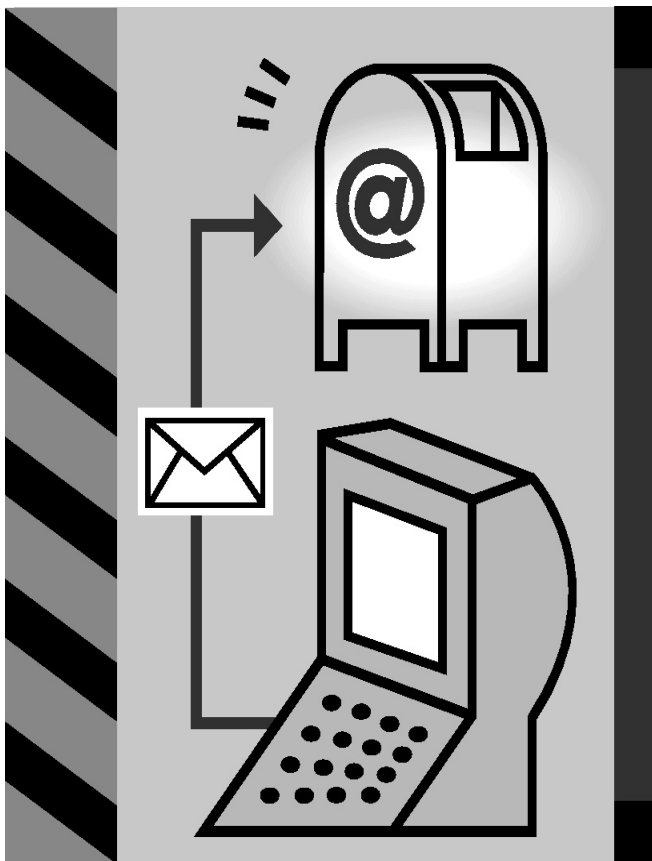
Whether you store documents on or off site, make sure storage boxes are marked and catalogued so documents can be easily retrieved when necessary. Certain documents, such as mortgage papers, corporate minutes, your will, your shareholder's agreement and the like, are best kept in a safe or at your lawyer's office.

Good corporate governance on the retention and destruction of documents will help ensure you can meet the requirements of regulatory authorities in the event of an audit or other investigation of your records. Keeping careful records as to the location of your documents will minimize time and stress if you are required to retrieve them. And finally, destroying records that are no longer required will help reduce storage costs.

Talk to your chartered accountant if you have questions or concerns regarding the period of retention or the appropriateness of your personal or company financial records. ♦

E-mail Attachments

Of all the problems encountered with e-mail, perhaps the most frustrating is the inability to send an e-mail with a large attachment.



YOU SEND AN ATTACHMENT and the server responds with a message that the e-mail was not delivered. Why does this happen? The main reason is that Internet service providers (ISPs) limit the size of attachments that can be sent in an e-mail. A cable ISP might allow up to 20 megabytes of attachments while a DSL (high speed over the phone line) ISP usually allows 3 megabytes or more. The size limitation is necessary since large attachments could be very problematic for the e-mail recipient. For example, if the recipient is using a 56K dial-up modem, a 2 megabyte attachment can take up to 15 minutes to download.

Contact your Internet service provider to determine how many megabytes of attachments you can include in an e-mail. If you need to send attachments that exceed this size limit, consider using compression software, file splitting or FTP transfer, discussed as follows.

COMPRESSION

One solution for sending larger files is to compress the data in the file before attaching it to the e-mail. The most popular form of compression is .zip but there are many others, including .rar and .ace. Compression works well with text-based documents of all types but files such as graphics or music cannot be compressed very much.

PYC Briefs

REPORTING ON THE NEW AIR FOR SHRA

There is a new Annual Information Return (AIR) that will have to be completed for all Co-ops and Non-Profits under the Social Housing Reform Act (SHRA) now that the subsidy is based on the new benchmarks.

This new AIR will have very different reporting by the auditor. The new reports will be on the results of applying specific procedures and tests on a number of very specific areas. Check SHB No. 5 from the Ministry of Municipal Affairs and Housing for more details. A copy is on our web site in the newsletter area.

Check your next AIR for how these apply to your organization. It will probably mean a few extra hours for the audit and may require more information to be supplied with the year end.

Although groups in the City of Toronto have been using the new AIR for awhile, the new reports will also apply to them now as well.

This all commenced with the introduction of the benchmarks.

We would like to welcome the following additions to our professional staff:

Viola Bardhoshi
Chris Mackay

You may have met Viola or Chris already or you will in the near future as they become an integrated part of our audit team.

Windows XP and Windows ME have built-in software to compress files to the .zip format but if you are still using Windows 98 or Windows 2000, you will need to purchase auxiliary compression software to compress files. The more popular compression software costs about \$30 for a single user license. Many compression software companies allow you to download the program for a free 30 to 40 day trial period before you purchase it.

If the data is too large to be compressed into one file, it is possible to use compression software to split the file into separate parts that could be individually e-mailed to the recipient and then reassembled. Windows XP's and Windows ME's built-in compression software does not support file splitting, so this would require installing third party compression software.

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THE FTP ALTERNATIVE

If you find yourself constantly needing to send large attachments to the same people, FTP (File Transfer Protocol) or SFTP (Secure File Transfer Protocol) hosting might be your best option. Most recent web browsers and file managers can connect to FTP services via an URL, which takes the form of ftp://<ftpserveraddress>.

FTP providers offer an area on their server on which you can store private files and folders that can only be accessed by a username and password that you establish. Costing as little as \$6.00 a month, FTP allows you to store 500 megabytes on a server that is accessible from anywhere in the world.

To transfer files, each user simply goes to the FTP site, enters a username and password to access the private storage area and then downloads the files. FTP is also very handy if you need to access your own files while you are on the road.

Many ISPs also offer this type of service for free but only up to about 5 megabytes. More storage on the server will require upgrading your services.

OPENING ATTACHMENTS

Another perplexing and often time-consuming e-mail frustration is the inability to open attachments.

One reason for this may be that the receiver is using Outlook which is configured by default to block all attachments that could potentially harbour a virus. To check for this possibility, open Outlook, open the Tool menu, select Options, click the Security tab and uncheck the "Do not allow attachments to be saved or opened that could potentially be a virus" option. However, the danger of deselecting this option is that an attachment may have a virus. Thus, it is imperative to have a virus scanner and scan the attachment before opening it.

If the file will still not open, chances are that your system does not have the appropriate application software to open the data. In this instance, ask the sender what software was used to create the file. For example, an attachment with the extension .xls requires the Excel program, .ppt requires PowerPoint, and .pdf requires Adobe PDF Reader. If the sender cannot transmit the document in a format that is compatible with your application software, then it will be necessary to purchase the appropriate software.

SOLUTIONS

Problems with e-mail attachments can be time-consuming and costly. The solution may require upgrading your operating system, purchasing compression software, using FTP for transferring files, or investing in additional application programs. If you need to transfer large attachments, the investment is well worth it. ♦



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We hope that you find *info@pyc.net* a useful source of information. If you should ever have any specific questions or concerns regarding your own business or personal finances, please call us. We will gladly help in any way that we can. If you would like to contact us by

e-mail, we can be reached at *info@pyc.net*. Some of the articles appearing in this issue of *info@pyc.net* were prepared by the Canadian Institute of Chartered Accountants for the clients of its members.

