

Electronic Tax Filing Becomes Mandatory for Smaller Companies

Companies have to file a lot of different kinds of documents with all levels of government. That “paper burden” has been made somewhat easier in recent years by the availability of electronic filing options, especially when it came to filing information and income tax returns with the Canada Revenue Agency. However, up until now, the use of electronic filing methods has, for all but the largest corporations, been a matter of choice, not obligation. Following a proposal announced in this year’s Budget, that is about to change.

Every corporation in Canada is required to file an annual income tax return with the CRA. Every corporation with even a single employee must file a T4 information return, outlining the amounts paid to that employee (or those employees) and taxable benefits provided, together with amounts withheld at source for income tax, Canada Pension Plan, and Employment Insurance. While those are by no means the only filing obligations imposed on corporations, they are the most common obligations that will be affected by this year’s Budget proposal.

Under current rules, there is a requirement that corporations file their T4 information returns electronically, but only where the number of employees (and therefore the number of T4s) is greater than 500. The Budget proposal provides that where current rules require a particular type of corporate information return to be filed electronically, the number of returns that may be filed before the electronic filing requirement applies will be reduced from 500 to 50.

Consequently, while only a small minority of corporations (StatsCan figures show that, in 2005, only 0.1 per cent of Canadian businesses had more than 500 employees) were formerly required to file their information returns electronically, that requirement will be extended to apply, after 2009, to all companies filing more than 50 of any particular kind of information return. In particular, companies having more than 50 employees will have to file their T4 information returns electronically.

All Canadian corporations, regardless of size, are required to file an annual income tax return, even if no tax is payable or the company operated at a loss. While many companies already utilize the electronic filing option, the CRA is about to make that mandatory for larger companies. Specifically, where a company has gross revenue of more than \$1 million for the year, the tax return for that year must be filed electronically. The new requirement applies to returns filed for corporate tax years ending after 2009.

Recognizing that the need to file a corporate income tax return electronically for the first time will likely require some adjustment to corporate bookkeeping and accounting practices, and perhaps investments in new software, the CRA will be providing affected corporations with a “grace period” when it comes to penalties. Although the new requirement will apply to corporate taxation years ending after 2009, no penalties for a failure to comply will be imposed before 2011.

While the new electronic filing requirement for income tax returns applies, for now, only to fairly sizable companies (i.e., those that have gross revenues of more than \$1 million), there cannot be much doubt that the CRA is moving in the direction of expanding electronic filing requirements to include smaller companies. Even those companies that are not immediately affected by this year’s Budget proposals would likely be well advised to recognize that dealing with the CRA electronically will likely be part of their not-too-distant future and to prepare accordingly.