



Filing Your Corporate Return and Paying Your Taxes

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Filing Returns

In general, a corporation required to file a Canadian income tax return must use the full-length T2 return, plus related forms and schedules.

Corporations with no income to report can, in limited circumstances, use an abbreviated version of the T2 return called the T2 Short. The T2 Short is essentially for use by Canadian-controlled small business corporations with no net income, and is available to holding companies, loss companies, and not-for-profit companies.

The T2 return, together with the required GIFI financial statements (schedules 100, 125, 140, and 141) and notes, other schedules, forms, and certain receipts must be mailed, delivered, or e-filed within six months from the end of the taxation year. This deadline is called the corporation's "filing-due date". The return

should be filed with the Regional Taxation Centre for your area (see the **Canada Revenue Agency (CRA) website** for addresses of the Regional Tax centres).

For tax preparers who are remunerated for 10 or more T2 corporate returns, all of the T2 returns they prepare must be electronically filed commencing in 2013 for the 2012 and subsequent taxation years. Failure to comply may result in a penalty charged to the preparer of \$100 for each T2 return not electronically filed. Exceptions to this rule exist if the preparer was accepted for e-file during the e-file registration process or had their e-file privileges suspended or revoked. However, for taxation years ending after 2009, corporations with annual gross revenue of more than \$1 million must file their tax returns via the Internet. Insurance companies, non-resident corporations, corporations that are reporting in a functional currency, and corporations that are exempt from tax under section 149 of the *Income Tax Act* are not subject to this requirement.

For Internet filing, the corporation's return would be prepared using CRA-approved commercial software and transmitted using the CRA's Corporation Internet Filing service, My Business Account (for business owners), or Represent a Client (if you are an authorized representative or employee). Penalties for failure to file electronically will be imposed for taxation years ending after 2011—\$500 for the 2012 taxation year, and \$1,000 thereafter.

Although it is technically sufficient to file a return by simply mailing it, it is advisable to use registered mail and retain a receipt of the mailing with your tax return records.

The law provides that a return (but not a payment) sent by "first class mail or its equivalent" is considered received on the day it is sent. No indication is given as to what the equivalent might be. As a practical matter, personal delivery by hand to a Tax Services Office is accepted during business hours, but be sure the return is date-stamped when you hand it in. One is tempted to assume that delivery via a reputable commercial courier should be effective on the day the item is put in the hands of the courier; however, no official ruling has ever been made. If you do use a courier, be sure to retain the dated receipt.

A T2 return will be accepted as filed on time if, when the taxation year ends on the last day of a month, the return is delivered on—or the postmark on the envelope is for—the last day of the sixth succeeding month. A return for a fiscal year ending on a day other than the last day of the month will be accepted as filed on time if delivered on or the postmark on the envelope is for the same day of the sixth succeeding month.

The CRA states in the T2 Guide that where the required filing date for a T2 return falls on a Saturday, Sunday, or a statutory holiday, the return will be accepted as filed on time if it is delivered on—or the postmark on the envelope is for—the first business day following the required filing date.

Where to File

Although it remains possible to file returns personally by hand delivery to any of the CRA Tax Services Offices ("TSO"), the CRA prefers to have them mailed (or couriered) directly to the regional processing centres (Tax Centres) where they will be processed, subject to the requirement for certain corporations to Internet file for taxation years ending after 2009. Returns are assigned to Tax Centres according to the TSO which serves the corporation. TSOs are assigned on the basis of the corporation's

postal code, theoretically ensuring a degree of geographical proximity (e.g., all corporations with postal codes in downtown Toronto will be assigned to the Toronto Tax Services Office). Normally the postal code of head office will determine the TSO, but it may (at the CRA's discretion) be possible to obtain the services of a TSO more convenient to the taxpayer if, for example, it has an in-house tax compliance office in another location.

If you are filing for the first time, you may be uncertain which Tax Services Office serves you. A corporation will normally be assigned a local TSO when it receives the tax account number. However, if you have not received a number or Tax Services Office assignment when the return is filed, you may deliver the return to any convenient Tax Services Office or file it with the most likely taxation centre as listed on the CRA website. In due course, the CRA will assign a local Tax Services Office based on postal code. You are entitled to obtain forms and information from any convenient Tax Services Office.

Note that postal codes for taxation centres may differ for individual and corporate returns.

Late-Filing Penalty

Canadian resident corporations which fail to file a timely return continue to be subject only to a basic penalty based on tax owing. A corporation without income should have no actual penalty for failure to file, unless it has been served with a demand to file, where failure to comply can carry its own penalty. Nevertheless, federal and provincial tax authorities do expect filings from all corporations incorporated in Canada or a province of Canada, and are likely to demand the filing of a return or, alternatively, strike the corporation from the corporate register in cases of prolonged failure to file.

The penalty for late filed T2 returns is the total of:

- 5% of the unpaid tax as of the due date of the return (no maximum); and
- 1% of the unpaid tax as of the due date of the return for each complete month that the return is late (maximum 12%).

The penalty will be doubled to 10% plus 2% per month (maximum 20 months) of unpaid tax for a failure to file on time if:

- there has been a previous failure to file for any of the three preceding taxation years and a penalty under these provisions has been assessed at the time of the second failure for that failure; and
- there has been a formal demand from the CRA for the filing of the second (or subsequent) return.

The unpaid tax subject to penalty may not be reduced for purposes of calculating the penalty by subsequent events such as losses or tax credits eligible for carryback.

In addition to the common late-filing penalty, which is usually assessed as a matter of course, a corporation that has failed to file a return as and when required is guilty of an offence and is liable on summary conviction to a fine of not less than \$1,000 nor more than \$25,000, or a fine and imprisonment for up to 12 months. Where a corporation is guilty of an offence, any officer, director, or agent of the corporation who authorized or assented to the offence is liable for the same penalties. Although rarely used, this power should be sufficient to deter non-filing of even nil returns.

Further penalties may be assessed if a taxpayer attempts to wilfully evade payment of tax by failing to file a return. Penalties may also be levied on persons who knowingly or through gross negligence make false statements or omissions in a return.

Interest is charged at prescribed rates on these penalties as well as on unpaid balances. Interest on penalties begins to accrue on the due date of the return and is compounded daily..

Payment of Taxes

Although the deadline for filing a return is the end of the six-month period following the fiscal year end, taxes must be paid prospectively in monthly (or, for small Canadian-controlled private corporations, quarterly) instalments, with a final payment of any remaining tax liability due on the last day of the second month following the taxation year end. However, there is a one-month extension of the final payment (last day of the third month) for smaller Canadian-controlled private corporations with, in most cases, taxable income of less than its business limit in the immediately preceding taxation year.

Interest on late-paid instalments and unpaid balances is charged at a prescribed rate which is set each quarter. Interest is subject to daily compounding.

Contrary to the rule for filing, payments of corporate tax or instalment payments are considered to be received only on the date of actual receipt rather than the date of mailing, and interest on late payments will apply accordingly. Payment through a Canadian chartered bank is in practice considered to be received on the date paid, presumably because the bank is receiving the funds as agent for the Receiver General of Canada and there is no specific rule to the contrary. Payments can also be made online using the CRA's website for taxpayers that have access to online banking with certain financial institutions.