

## **What you need to know about: Filing Corporate Income Tax Returns**

All strata corporations in British Columbia must file a corporate income tax return each year, even if there is no tax payable. Generally, strata corporations are considered non-profit organizations that are exempt from tax under paragraph 149 (1)(l) of the *Income Tax Act* (ITA). A strata corporation's taxation status is based on the particulars of the strata corporation each fiscal year.

### **What returns does a strata corporation have to file each year?**

A strata corporation must file a Corporation Income Tax Return (T2) or a T2 Short Return.

### **What is the difference between a T2 Return and a T2 Short Return?**

A T2 Return is required to be filed by strata corporations who do not meet the requirements to file a T2 Short Return.

A T2 Short Return is a simpler version of the T2 return that may only be used by two types of corporations:

- a Canadian-controlled private corporation that has either a loss or a nil net income for tax purposes this year;
- a corporation that is exempt from tax under section 149 of the ITA (such as non-profit organization).

In addition, the corporation must meet ALL of the conditions below to file this type of return:

- it has a permanent establishment in only one province or territory;
- it is not claiming any refundable tax credits (other than a refund on installments paid);

- it did not receive or payout any taxable dividends;
- it is reporting in Canadian currency;
- it does not have an Ontario transitional tax debit; and
- it does not have an amount calculated under section 34.2 of the federal *Income Tax Act*.

### **Does a strata corporation need to obtain a business number?**

In order to file a T2, a strata corporation will need to apply for a business number through CRA.

### **What is a business number?**

A business number is simply a common identifier used by CRA. It does not change your tax status. To register for a business number go to CRA's website <http://www.cra-arc.gc.ca/>.

### **When must a strata corporation file its tax return?**

T2 returns (long or short) are due 6 months after the fiscal year end. Penalties and interest are assessed on taxes payable on late returns.

### **What is a T1044 Return?**

T1044 is a Non-Profit Organization Information Return. Similar to the T2 return, a T1044 return is due 6 months after the fiscal year end. Generally, a T2 return and the T1044 Return are filed together. Penalties may be levied up to a maximum of \$2,500 per late T1044.

A strata corporation must file a T1044 if:

- It received or is entitled to receive taxable dividends, interest, rentals or royalties totaling more than \$10,000 in one fiscal year;
- It owns assets valued at more than \$200,000 at the end of the immediately preceding fiscal period (i.e. cash and cash equivalents, accounts receivable, prepaid expenses, investments, tangible capital assets);
- It had to file a non-profit organization return for a previous fiscal year.

**What if we didn't know we had to file for taxes or a non-profit organization return? Is there any relief given to strata corporations from penalties and interest?**

Generally, penalties are assessed based on taxes payable. Therefore it is unlikely there would be penalties levied on late filed returns for strata corporations that have no tax owing.

If a strata corporation voluntarily comes forward to correct inaccurate or incomplete information or to disclose information that they have not reported (like filing a T1044 for the first time) there may be relief from penalties that may be assessed by the Canada Revenue Agency (CRA). Contact your accountant for more information on tax relief through the Voluntary Disclosure Program.

**How do we know if we are exempt from paying taxes?**

Generally, a strata corporation is considered a non-profit organization that is exempt from paying taxes on its earnings. However, if your strata corporation is earning income from activities that do not relate to the administration of the strata corporation than the strata corporations non-profit status could be challenged by the Canada Revenue Agency. Examples of activities that would provide a strata corporation with income include rental income suites, leases of roof-top space to

communication companies for cell phone towers or operating a golf course or marina. If CRA revokes a strata corporations non-profit status, taxes will be payable on revenue earned.

**Does a strata corporation have to pay income tax or GST?**

If your strata corporation operates a commercial business, such as a golf course, hotel, rental pool, marina or rents or leases space to third parties, the strata corporation may be in a position where it must report the revenue and pay tax. In addition, GST may also be applicable to strata fees for commercial strata lots and residential strata lots in rental pools depending on the amount collected during the year.

Interest paid by financial institutions on operating accounts, contingency reserve funds and special levy funds are generally non-taxable provided the interest becomes part of those funds.

**How long do we need to keep our tax returns for?**

Along with filing a tax return strata corporations must also retain the T2 return and T1044 return and any supporting documents for a period of 6 years from the end of the current fiscal year.

**Who may access our tax returns?**

An owner, a tenant who has been assigned a landlord's right or a person authorized in writing may request the strata corporation to make the tax returns available for inspection or provide copies as requested.

**For further information please contact your accountant or the Canada Revenue Agency (CRA) at 1-800-959-5525 or visit <http://www.cra-arc.gc.ca/>**

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