

## Street Smarts

# Mapping the Audit Trail

**big money** *To survive the taxman's compliance review you have to be thorough—and cool-headed.* By Steve Mulligan



**W**ell, you filed another personal income tax return and now rest easy in believing that if the auditor comes knocking it'll be on someone else's door. Think again. A record number of new auditors have been deployed by the Canada Revenue Agency (CRA), with more recruits in the wings. Further, new and more powerful database technologies are in use to assure that our federal and provincial governments aren't missing out on under-paid income taxes.

Now consider that CRA regularly schedules what are called special project audits, which may specifically target an industry or group if there is a history of data to suggest that tax dollars are being missed. And you guessed it, truck fleets and owner-operators are always a target because of a poor track record of tax compliance. It only takes a few bad apples to spoil the whole barrel. Ours is a big barrel and we do have too many bad apples.

Let's take some of the mystery out of the audit process and at the same time help you be prepared if ever you should fall into the crosshairs.

The first type of audit is called the "desk audit." In the simplest cases, CRA sends you a letter asking for more information to support some item contained within your tax return. The single biggest mistake you can make is to not respond by the deadline



stated in the review letter. Take the letter seriously, respond in a timely way, and always—even though it may seem like a simple answer to a simple question—have your accountant review the CRA letter and your response.

The second category is the field audit. Always involve your accountant as the first step in responding to a field audit. Look at this as a "playing field." Your team is small, you don't know the rules, the opposition has home field advantage, and the referees work for the other team. This is no time for saving a buck or

two. Balance the playing field by hiring an expert.

During a field audit you'll be asked for your full accounting records. There may be a meeting request made by the auditor, but not in all cases. Again, be timely in your responses and always be courteous. This is not the time for confrontation. Provide everything requested and be forewarned that in holding back key bits of data, this allows the auditor to fill in the blanks in the absence of your records. Believe

me, don't allow an auditor this leeway. It won't be in your favour.

After the auditor has your records, he'll look for areas requiring adjustment. This is the most critical stage in the process, and communication is the key to your success. You must help the auditor better understand any issues that are contentious. Now is the time to sort out any legal definitions that may require more support. And further, this is the point to provide additional supporting material, or, in the absence of records, to work out a negoti-

ated position on inadequately supported claims.

Your best defence is a rational and mature offence. Make your case heard and address all issues in a credible way, as it will be difficult to alter the auditor's position once the analysis is complete.

The last step involves the auditor's 30-day letter, which outlines any adjustments to be made. This is your one last shot at providing more supporting data and to work out a negotiated position. Don't hesitate on either front. Once this period is complete and CRA issues a "Notice of Reassessment," the taxes are payable.

Even then, you have the right to appeal to an audit supervisor if you feel the auditor didn't deal with your situation properly. And if that appeal is unsuccessful, you can take it to the Tax Court of Canada where a judge will hear your case.

It shouldn't have to come to that. In 30 years of working with auditors, we have found the majority to be helpful, professional, and ultimately fair. They have a tough job; the trick for you is to not make it any more difficult for them. ▲

Contributing writer  
Steve Mulligan is manager of business development at TFS Group ([www.tfsgroup.com](http://www.tfsgroup.com)), an accounting and financial services firm that specializes in trucking operations. He is based in Waterloo, Ont.