

Slipping through the cracks is not a tax strategy

Let me tell you about a potential client I met the other day. He came to see me because another client recommended us. (Thanks!)

This gentleman has been an owner/operator for seven years, most of that time with his current carrier.

He received a Notice to File from Canada Revenue Agency because he hasn't submitted his GST/HST return for January to December 2006. Annual filers with a Dec. 31 fiscal year-end have until June 15 to submit their return, although any GST/HST owing must be paid by April 30 to avoid penalties and interest.

The guy has 30 days to comply with the notice. He has done a decent job of organizing his broker settlements for the year and his expense files – no shoe box, actual files! So that will save us time in going through his receipts. Meeting the 30-day deadline should be no problem. Then I ask about family details and other items we'd need for his income tax return. 'Hold on,' he says. He only wants us to prepare his GST/HST return. When I ask why, he says, 'Well, that's all they asked for.' I knew where this was going. I ask, 'When did you last file an income tax return?' He just smiled at me. Turns out he hadn't filed since he became an owner/operator.

We're seeing this a lot lately. Owner/operators are coming in to talk to us who haven't filed in years. There are lots of reasons: forms are complicated, there's never enough time to get organized, there's no cash to pay fines and penalties.

The fact is, we're seeing more delinquent filers asking for help because CRA is getting better at cracking down on non-compliance. The agency can cross-reference Social Insurance Numbers to any of your federal tax accounts – GST/HST, payroll, income, and excise – and make sure they're up to date in their filings and have no overdue balances.

Falling through the cracks is not a tax strategy. Those cracks are closing, and it's painful to get caught.

Forfeited refunds: One owner/operator we helped hadn't filed GST/HST or income tax returns for 10 years. CRA processed all 10 years of GST/HST returns, and this fellow was hoping that the GST/HST refunds he was entitled to would cover his outstanding income tax debt. But after four years, GST/HST refunds are statute-barred and he didn't get credit for them. Six years of refunds went out the window.

Interest and penalties: CRA can charge penalties and interest on any returns or amounts not received by the filing due date. Chronic late filers face stiff penalties. I recently saw a 30% penalty assessed on a 2005 tax return that was filed six months late. Why so high? The 2004 return was three months late and the 2003 return was late as well.

Audits: If you file late, or your return is incomplete, CRA is more likely to audit your return.

Credit: Not filing returns can hurt your ability to borrow money. If you can't show a current income statement, latest CRA Notice of

Tax Talk

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Assessment, and statement of account, no lender will offer the terms you're looking for on a mortgage or other type of loan.

Cash: Counting on a refund for a quick hit of cash? CRA no longer will issue a refund or rebate if you owe money on your GST/HST, payroll, income, or excise tax account. The funds will be held or applied against any other tax account debts you owe to the Revenue General.

The good news

Let's get back to the owner/operator

sitting in my office.

Inside his file folder (he is a good organizer) were at least 10 unopened envelopes from CRA. We went through them all. We found a GST/HST statement of account listing all the previous returns filed and a large credit balance being held. Even though the man hasn't paid any tax all these years, the government still has his money by virtue of these refunds being held.

The man asks if he should just file his 2006 GST/HST return. I advise him that doing so will alert CRA to returns not filed in previous years. Clearly, the guy has a lot to think about.

So here's the good news in the owner/operator's story: He's asking for help. It's a big step, laying out your financial life for someone else to see. While this man probably faces

penalties and fines, he has enlisted the help of a professional who knows how to help owner/operators manage their tax compliance. Chances are, we'll find opportunities to reduce his tax debt that will more than offset our fees.

From garnishees to asset sales to bankruptcy, it's never a pretty sight when CRA finally catches up to someone. The ostrich principle never works out. File on time, and seek qualified help when you need it. □

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