Lessons from a tax cheat

Tax Talk

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Throughout the year, the Canada Revenue Agency posts summaries of tax fraud cases on its Web site. The success of our tax system depends on honest reporting, and these stories show in a highly publicized way that it doesn't pay to cheat. And that if you cheat, you're gonna pay.

When individuals or corporations are convicted of tax evasion, they have to pay the full amount of tax owing, plus interest, and any penalties CRA assesses.

In cases of gross negligence, the *Income Tax Act* and *Excise Tax Act* allow CRA to assess a penalty of up to 50% of the unpaid tax or the improperly claimed benefit. In addition, the court may fine them 50% to 200% of the tax evaded and sentence them to a jail term of up to two years.

As you can read in these recent case summaries, each of these people deliberately tried to cheat you, me, and every other honest taxpayer in Canada, and it's darned near impossible to find anything redeeming about their behaviour. But there are a few practical lessons to remember as you prepare your own return this year:

Someone is documenting your income

Richard John Rafter of Kitchener, Ont., pleaded guilty to two counts of tax evasion and was fined $15,865 for failure to report taxable income of $109,332 earned in 2006 and 2007.

Auditors found that the business income Rafter reported on his T1 income tax returns for 2006 and 2007 was significantly smaller than the amounts reported on subcontractor annual income information slips (similar to employee T4 slips) that general contractors are required to submit to CRA.

International income counts

Laurier Chabot of Saskatoon pleaded guilty to tax evasion for the 2003 year and was fined $68,000.

Chabot owned a business that bought and resold used fur coats on eBay, and earned an estimated 90% of his income from international sources. The CRA investigation revealed that he deliberately failed to report international income received from the United States, Europe, and Asia in the amount of $250,041.

Keep accurate records and legitimate receipts

Bea MacDonald of Halifax was fined $25,126 after pleading guilty to three charges of tax evasion after an investigation revealed that she falsified business expenses totaling approximately $68,000 on tax returns for 2004 and 2005.

The Crown Attorney carefully described the great lengths that MacDonald took to cover up her tracks after she was first approached by CRA auditors in 2006. She requested to have original invoices re-issued from a vendor, in her name only, even though she shared the expense amounts equally with her real estate partner. She also cut off the top of over 100 receipts to conceal the locations and claimed personal expenses as business expenses.

Make sure your expenses are deductible

Arnold MacLean of Sydney, N.S., pleaded guilty to one count of tax evasion and one count of obtaining GST refunds to which he was not entitled and was fined $123,045. MacLean claimed fraudulent and non-deductible employment expenses totaling $263,669 on his 2000 to 2004 personal income tax returns.

At the time the offences were committed, he was employed as a salesmen at a ventilation equipment company.

A CRA investigation revealed that, in support of his employment expense claims, MacLean prepared false *Declaration of Conditions of Employment* forms, which included the forged signature of his employer's controller.

It also revealed that MacLean was reimbursed by his employer for all employment expenses incurred in each of the tax years noted, and that he knew he was not entitled to claim employment expense deductions on his tax returns.

That kind of scheme takes work, and I wonder how many hours MacLean spent trying to pull it off. Imagine what he could have accomplished by putting that effort into making an honest living – and preparing an honest tax return.

January is a time to make sure your invoices, income slips, bank statements, and receipts are in hand so you can report all of your income and take advantage of any credits, deductions, and exemptions to which you're entitled.

It's also a good time to talk to your accountant about how to minimize your tax obligation. After all, you want to pay the right tax bill, not the wrong one. There's a difference between being aggressive and being creative. "Aggressive" may get you re-assessed while "creative" will get your name published by CRA. ☐

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