



# Cautionary tales of tax evasion

**R**ecently I was speaking to a bunch of owner/operators at their annual carrier meeting and I started my presentation with the basics of how a business income statement works.

A business income statement shows your gross income less all of your expenses. The net result or bottom line is the amount that your income taxes and CPP (if applicable) are based on.

Then I explained how there are two opposing objectives at play when it comes to running a business. On one hand you want to make as much money as possible. On the other you want to pay as little income tax as possible.

After this discussion about revenue, expenses, and taxes, I asked my audience which one they would change in order to make their business more profitable. They zeroed in on taxes. Now, I'm going to presume that none of you has the authority to lower the tax rate, so the only other ways to reduce the amount of tax you owe is to decrease your gross revenue and/or increase your expenses.

Not that people won't try other things.

Cheating is not a tax strategy, however, as these recent CRA tax court convictions should remind you:

#### Doctored documents

A CRA investigation determined that

Peter Perina, who works in construction, not only failed to report income but also made blatant modifications to documents provided to the auditor. In total, Perina failed to report \$190,448 in taxable income for the 2008 to 2010 taxation years, evading \$44,025 in federal income tax. Further, he under-reported and failed to remit \$15,604 in GST collected over the same years.

Perina pleaded guilty to income tax and GST evasion. He was fined \$44,721 and ordered to serve a 15-month conditional sentence.

#### Mixing business and personal

A CRA investigation revealed that Robert and Minnie Williams, who

ran a computer and software business, claimed the HST paid on personal expenses as input tax credits on the company's monthly HST returns. In addition, personal expenses were paid with company funds and claimed as business expenses on their corporate tax returns. These items included travel, clothing, food, gifts, gas, and motor vehicles.

Both pleaded guilty to tax evasion and were fined a total of \$61,323.

#### Bad accountant, Part 1

Neil Smith, an accountant, personally prepared and filed tax returns for 68 clients in which he claimed false business losses with the intent of generating refunds larger than the taxpayer was entitled to. Smith also filed documents with the CRA that would ensure those refunds would be deposited in a bank account that he owned and controlled.

In October, Smith pleaded guilty to making false or deceptive statements on income tax returns filed by him on behalf of other taxpayers for the tax years of 2006 to 2009.

He received an 18-month sentence, was fined \$377,024, and must also complete 180 hours of community service.

A condition of his sentence is that he can never complete a tax return for other individuals.

The lesson: use an accountant you trust and always check his work. If you have questions, ask – and keep asking until you're comfortable with what's on your return.

#### Bad accountant, Part 2

And for fun I include this one because I couldn't believe it when I read it.

Lenora Anne Chin pleaded guilty to 16 counts of theft under \$5,000, eight counts of theft over \$5,000, and one count of fraud against the Government of Canada after a CRA investigation determined that Chin stole \$242,872 from 24 local businesses and individuals from August 2004 to March 2012.

During this period, Chin was employed by her husband's accounting firm, Randall A. Dang Ltd. She told clients to write cheques for an inflated amount of tax owing. The overpayments generated refund cheques, which Chin intercepted and deposited into a bank account held by her and her husband.

She obtained these and other government credit and benefit cheques made out to clients by providing her home or business address as the clients' address. Chin is serving an 18-month sentence including four months of house arrest.

Next time CRA does a spot-check audit on you or you get frustrated by the endless questions a CRA agent asks to confirm your identity when you call in, this is why.

These and other convictions are posted on the CRA Web site as examples of the illegal tactics people take to avoid paying taxes or to flat-out defraud the government (you and me). For less effort you can have a full-on business strategy – plans for revenue, expenses, and taxes – and no fines or jail time. Something to remember this month as you gather material for your 2014 income tax return. ●

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