

Tax Talk

Don't get hooked by fraudulent tax schemes

Sir: I am an official of the Nigerian government and I have been assigned the task of securing an overseas partner into whose account we would transfer the sum of \$19,320,000...

So begins the Nigerian Scam, where a wealthy foreigner asks for your help to move millions of dollars from his homeland and promises a hefty percentage as compensation. You've probably received a letter like this in your e-mail box.

In fact, this racket traces its origins to the 1920s and has been used to bilk people out of hundreds of millions of dollars. If a scheme this obvious can be so successful, imagine what thieves can do today, with technology at their disposal. Think about that as you prepare your personal income tax return. Tax agencies like the CRA are perfect foils for scammers because no-one wants the taxman on his back. You give him whatever he asks for.

One ploy is called a "phishing" scheme. Earlier this year, someone created a Web site that looks exactly like the one CRA uses to collect tax refund applications. It asks for your social insurance number, full name, address, date of birth, etc. This campaign is timed to coincide with CRA's deadline for online tax return applications.

In another scam, thieves mailed letters on CRA letterhead saying there is "insufficient information" on your tax return and an update is

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required before you can receive any "claims." The letter includes a form specifically requesting personal details like your bank account and passport numbers.

Identity theft

Both the fake Web site and the letter are attempts at identity theft, the unauthorized collection and use of personal information, usually for criminal purposes. In some cases, like the phishing site, your information is taken fraudulently. In others, an unscrupulous tax preparer simply sells personal information he collected to file your return.

CRA says it never uses e-mail or voice mail to ask for personal information and will not divulge information about you to another person unless you provide formal authorization. When in doubt, ask yourself whether you're being asked for information that you wouldn't include with your tax return, or for information you know the CRA already has on file. Call the agency instead of relying on mail or e-mail.

Tax-shelter gifting

Another tax-fraud scheme involves

inflated receipts for charitable donations. The amount is increased by the gifting of supplies purchased with the actual donation to another organization. Typically these involve computer or medical supplies.

These schemes may seem legitimate because a CRA Tax Shelter Identification Number is on the paperwork. But a tax shelter ID is no guarantee that you're entitled to the proposed tax benefits.

This problem is so big that CRA intends to audit all tax shelter gifting arrangements. So far, more than 65,000 taxpayers who participated in these schemes have been reassessed or are in the process of being reassessed. Well over \$2.5 billion in claimed donations have been denied. If you participated in a tax shelter gifting arrangement in 2007 and claimed your "donation" on your tax return, the claim may have been accepted as filed but that doesn't mean the CRA agrees with it or has even reviewed it yet. Audits can take a year to process, and the CRA generally has three years from the date of assessment to audit and reassess taxpayers. So keep your books and records.

RRSP scams

In January I wrote that an increasing number of RRSP and Registered Retirement Income Fund (RRIF) products are promising tax-free withdrawals, typically involving off-shore debit or credit cards,

off-shore bank accounts, or loan-back arrangements. To date, CRA has reassessed over 3,100 taxpayers who participated in these schemes resulting in additional taxable income of approximately \$144 million. Audits of another 1,800 taxpayers with \$84 million in RRSP and RRIF investments are currently underway.

If someone says you can withdraw from your RRSP or RRIF tax-free, take big tax deductions, or get immediate access to "locked-in" funds, it's too good to be true. Worse, you risk losing your savings because the promoter walks away with everything.

Bad tax preparers

There are bad apples among tax-return preparers. They'll offer false tax deductions such as inflated charitable donations, child-care expense claims, or even business expenses or losses to make themselves look like heroes. Others simply have no clue what they're doing (anyone can hang out a shingle and call themselves a tax return preparation service). It's your signature on your return, and you're responsible for all the information on it no matter who prepares it. Leave yourself time to review your return, and don't sign something you don't understand. If necessary, get a second opinion. □

— Scott Taylor is vice-president of TFS Group, a Waterloo, Ont., company that provides accounting, fuel tax reporting, and other business services for fleets and owner/operators. For info, visit www.tfsgroup.com or call 800-461-5970.

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