

TAX TALK

So, you got a letter from the taxman

You may have received a letter from the Canada Revenue Agency recently with information about deductions you claimed on past tax returns. You're probably wondering whether you're being audited, watched, or should feel scared. Well, the answer is you're supposed to be better informed.

Canada's tax system is based on self-assessment, which means that individuals are responsible for accurately completing and filing their tax returns on time.

In 2010, the CRA began a campaign that involved sending letters to 37,000 Canadians to educate them about specific claims and, for some, to provide notice of the CRA's intent to audit. This campaign is continuing in 2011. In January and February, the CRA sent 29,000 letters like those de-



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scribed above.

Why You?

You're one of the lucky recipients of an educational letter because you work in an industry – trucking – where a disproportionate number of people either misunderstand their tax obligations or willfully avoid paying their taxes altogether.

CRA wants you to have a better understanding about certain types of claims you've made that can result in confusion or common errors.

In sending the letter, CRA's expectation is that you'll review

past income tax returns and make sure your income and deductions are reported correctly. If you determine that the claims you made on your returns are accurate, you don't need to take any action.

If you find that you claimed some items incorrectly on past tax returns, this letter gives you the opportunity to request an adjustment. Some letters also notify taxpayers that the CRA may conduct audits in their industry sector.

Am I an audit target?

It's hard to say whether you're more likely to be audited because you received an "educational" letter from CRA. The agency regularly reviews groups of taxpayers to determine how many of them are paying their taxes in full and

on time. If the review shows that there are many who are not, the CRA may audit taxpayers within this segment. According to CRA, there are four common ways of selecting files:

Computer-generated lists: The CRA computer system can compare selected financial information from taxpayers engaged in similar businesses or occupations. It can easily identify outliers with audit potential.

Audit projects: In some cases, the agency tests the compliance of a particular group of clients. If the test results indicate significant non-compliance within the group, it may trigger an audit.

Leads: This includes information from other audits or investigations, as well as information from outside sources.

Secondary files: Sometimes CRA will select files for audit because of their association with other previously selected files. For example, if you're in partnership with another person, and he or she has been selected for audit, it's usually more convenient to examine all the records at the same time.

What should you do?

This letter does not mean that the tax returns you filed in the past are incorrect. Like 90% of Canadians, you probably filed an error-free return and paid your taxes on time. You do not need to respond to this letter unless you're directed to do so.

What you should do is take steps to make sure your income and deduction are being reported properly. If you received a letter, follow these suggestions:

Review your return: CRA is trying to be proactive by supplying information to you to file your tax return correctly. Take the hint, review your returns. Even if a professional tax preparer completed your return, you're responsible for the information on it.

If your tax preparer makes a mistake or intentionally understates your income or over-claims a refund, you're the one who will be answering to the CRA and paying all the taxes plus interest and maybe even penalties that are owed.

Respond quickly: If you want to change a tax return because you have found errors, you will need to submit a request for an adjustment. Do it within 30 days from the date of the letter to reduce the interest charges on any outstanding amounts.

Don't ignore it: I think it's important to point out that CRA keeps track of who receives these letters. If they come and audit you this year or more into the future, they will expect that you reviewed your return and made sure it's correct as far as that particular issue is concerned.

The ol' "I didn't know" defense will not fly. CRA also may be more aggressive in these cases with interest and penalty charges. After all, they told ya, but ya didn't listen. □

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