

Audits, audits everywhere

I've been telling people for the last few years that the wave is coming...Well, our feet are officially wet.

The wave in question is the Canada Revenue Agency's increasing scrutiny of newer small businesses.

Besides conducting more audits than ever before, they've added a layer of inquiry called a "business review."

A business review isn't an audit per se but the burden is essentially the same.

Within the first few years of operation, any "new" business in Canada may face a review to ensure that the owners are handling their bookkeeping, payroll, GST/HST, and tax filings correctly. That's right, CRA just wants to help.

In fact, the agency is concerned about fraud.

Taxpayers who claim false expenses, credits, or rebates from the government are liable not only for corrections to their tax returns and payment of the full amount of tax owing, but also to penalties and interest.

In addition, if convicted of tax evasion, they may be fined up to 200% of the tax evaded and sentenced to five years in jail.

They may also find themselves hanging in the CRA's virtual town square. The agency publishes details of court cases on its Web site. It's meant to be informative and a deterrent for the general public.

Here's an example where an Ontario couple was fined \$21,552 to recover 100% of GST refunds they fraudulently obtained:

"GST fraud nets Glencoe pair close to \$22,000 in fines – June 2008

Stephen James Mann and Christina Patricia Boudreau of Glencoe were found guilty in Ontario Court of Justice on 22 counts of fraudulently obtaining GST refunds.

Mann and his common-law spouse, Boudreau, both registered with CRA for separate GST accounts as each, at one time, was self-employed in the trucking industry.

CRA's Audit Division determined that, from 1999 to 2005, neither Mann nor Boudreau reported any self-employment income from trucking on their personal income tax returns.

In fact, the type of employment positions held by both Mann and Boudreau did not require them to maintain any GST registration or qualify them to claim refunds for Input Tax Credits on any GST returns filed.

Both Mann and Boudreau are employed as school bus drivers.

Mann and Boudreau each repeatedly made false statements in the 11 GST returns they each filed for quarterly periods from July 1999 to September 2005. Their scheme to obtain fraudulent GST refunds was not limited to an isolated transaction.

Over the years under investigation by the CRA's Enforcement

Tax Talk

Scott Taylor



Division, both Mann and Boudreau each became increasingly aggressive in their reporting activities, significantly increasing the value of the fraudulent GST refunds each claimed."

Personally, I'm happy when cheaters get caught. It makes those of us who do things right feel better.

Unfortunately, in their efforts to find cheaters, CRA is going to audit a lot of us who aren't. In terms of time and cost, it's expensive enough to just comply with tax

rules. More audits and "reviews" only add to the burden.

CRA has become more expansive with their audits as well. They used to just audit your business. Now audit letters list both your Business Number and your SIN so they can do your business and you personally at the same time. Here's a quoted sample of what they ask for:

1. All chequing and savings accounts, including personal and business accounts, bank statements, passbooks, deposit books, and cancelled cheques;

2. List of major personal and business assets (ie. real estate, vehicles, equipment, recreational assets) including cost and year of acquisition;

3. Personal and business investment statements;

4. Personal and business credit card, credit line, loan and financing statements;

5. Personal and business mort-

gage statements.

Why do they need all of this? The auditors are assembling a net worth assessment.

They want to evaluate your spending habits and judge whether your income as reported on your tax return can support them. If they can't, you'd better have answers.

Next month we'll talk about audits and the type of expenses that CRA will attack within your business statement, particularly expenses that fringe upon personal use and, oh yeah, meals. □

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