TAX TALK

So CRA sent you a letter

Starting this month, Canada Revenue Agency is sending out 33,000 letters to help Canadian taxpayers (as they put it) "better understand their tax obligations and to encourage them to correct any inaccuracies in their past income tax and benefit returns." This is the fifth year that CRA has sent these letters, focusing on certain areas where the CRA has encountered compliance issues in the past. This year, taxpayers who claimed self-employment or rental losses, or who have claimed certain employment expenses on their T1 income tax return, are the target.

If you receive one of these letters it means that you are in this target group. Don't presume that you've done something wrong. Consider it a friendly reminder about how to qualify for certain types of claims and just as importantly what kinds of receipts you'll need so you can support your claims.

If the claims you made on your T1 were accurate, no further action is required. If you think you've made a mistake, you have 45 days from the date of the letter to voluntarily come forward and fix it before the CRA may come knocking on your door.

It's far better to make a voluntary disclosure instead of having CRA initiate a compliance action against you. The process for prosecuting tax-related offenses and recovering taxes owing may be long, but CRA rarely loses once it gets to court (the conviction rate is typically around 95%).

CRA posts details about tax cases on its Web site. While these people represent the extremes in terms of negligence and dishonesty, virtually every case has elements that you may be dealing with yourself. Here are some recent examples:

GST/HST: Jean Cormier, owner of a furniture store in Richibucto, N.B., was convicted of tax evasion and fined $173,129 after investigators found more than 2,500 invoices that were doctored so they appeared to be exempt sales to a Status Indian in order to avoid remitting HST.

The invoices provided to the real purchasers didn't include this information. Auditors discovered the scheme by matching sales invoices, purchase slips, and credit card information seized from the store.

Cash sales: Geoffrey Shui Lung Young, a director and one-third shareholder in a company that owns a Chinese restaurant in Winnipeg, pleaded guilty to tax evasion for failing to report $757,496 in the tax years 2006, 2007, and 2008. The unreported income included cash sales that were deleted from cash register tapes and earnings from private functions held at the restaurant. The corporation was fined $127,499, or 75% of federal taxes evaded. It also had to pay GST not remitted to the CRA on the unreported income amounts.

Unreported benefits: Haverluck Enterprises, a pharmacy in Dauphin, Man., pleaded guilty to federal tax evasion after it failed to report $481,764 in the tax years 2004, 2005, and 2006. The unreported income included benefits received from a pharmaceuticals company that provided more than $100,000 of household furniture, a custom wine cellar, and a golf cart.

A drug wholesaler also paid for a family wedding and another golf cart that were improperly claimed as business expenses. Personal expenses of Myles Haverluck, one of the corporation's directors, were also falsely claimed as pharmacy purchases or advertising expenditures.

It's incredible to think that Canada's tax system is based on what amounts to an honour code. While 90% of

Canadian taxpayers meet their obligations and file on time, 10% is still a huge number for the CRA to contend with. If you receive a CRA letter, see it as an opportunity to learn more about the types of claims that CRA is looking at and how to support those claims. Request an adjustment if you find items that were incorrectly claimed in any of the past tax returns you filed. Talk to your accountant about what to do next, before the crush of a filing deadline. ☐

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