Tax Talk

Audits? Here's what CRA is looking for

We don't see many full-blown audits anymore, where CRA goes rifling through receipts and statements for every single claim (although they do happen).

Instead, the agency seems to be conducting more reviews of randomly selected returns and targeting certain types of expenses.

Here's what CRA is looking at these days:

Matching income: This is a new approach for CRA: they'll total up the annual gross income from your GST/HST returns and compare it to the income you reported on your income tax return.

If there's a big difference, you're like the robber who runs straight home in fresh snow after a corner store heist. The trail leads straight to you.

There are valid reasons why the two numbers may differ. Just know that CRA will compare the totals and they'll want an explanation for any discrepancy within 30 days or they'll adjust your gross income upward. And they'll send you a bill for either more HST or income tax.

Full-blown audits happen because something caught the eye of CRA and they wanted a closer look.

Payroll audits: If you're an incorporated owner-operator you are required to send in monthly payments to cover CPP and income tax on your wages. Want a payroll audit? Just stop making these payments. CRA will send an agent to go through your records pretty quickly.

If you can't afford to make payments, send in a partial amount. Even $100 will put you in line behind guys who've paid nothing.

GST/HST: For all the advantages of being an incorporated business, compared to being a sole proprietor there's a greater risk that GST/HST documentation is not correct.

It may not even be your fault. All it takes is for the person at your bank, equipment dealership, carrier, or other business supplier not to dot their i's or cross their t's.

Remember that engine job from four months ago? And the new steer tires you bought in January? You've been dealing with that shop for years. You're like Norm from Cheers: everybody knows your name.

But do they really?

When you incorporated you officially became 1234567 Ontario Inc. Did the shop and other suppliers update their records so that your corporate name appears on the invoices and statements? They didn't? Chances are all those GST/HST input tax credits are going to be denied.

Even an honest mistake can be costly when you're dealing with CRA.

Meal expenses: First, make sure you have a signed TL2 because without it you are toast. Second, you must have complete log book data to back up your claims. I say this because I just had another client tell me he was missing records because he thought his electronic log system stored everything for a year.

Download your data monthly! Many electronic logs only record for the DOT-required six months.

Stand up and fight

In one of our meal claim audits we uncovered that the auditor only reviewed the first four months of the year and then just simply multiplied those meal-count numbers to get an annual total. Lazy bastard! Using January, when no one is busy, as a sample month to evaluate your claim is completely unfair.

We're forcing that auditor to do the job right.

Another auditor disallowed a client's meal claims because in his opinion the claim was unreasonably high compared to the wages. The claim of $10,000 was disallowed because the owner-operator only paid herself $20,000 in wages. For tax planning purposes the balance of her income was a $40,000 dividend shown on a T5 slip. That fight continues.

No one wants an audit but the chances are good that your return will at some point be reviewed. Full-blown audits happen because something caught the eye of CRA and they wanted a closer look.

Talk to your accountant about claims that might trigger more scrutiny and how to give that scrutiny right back when the audit results don't seem right. **TN**

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