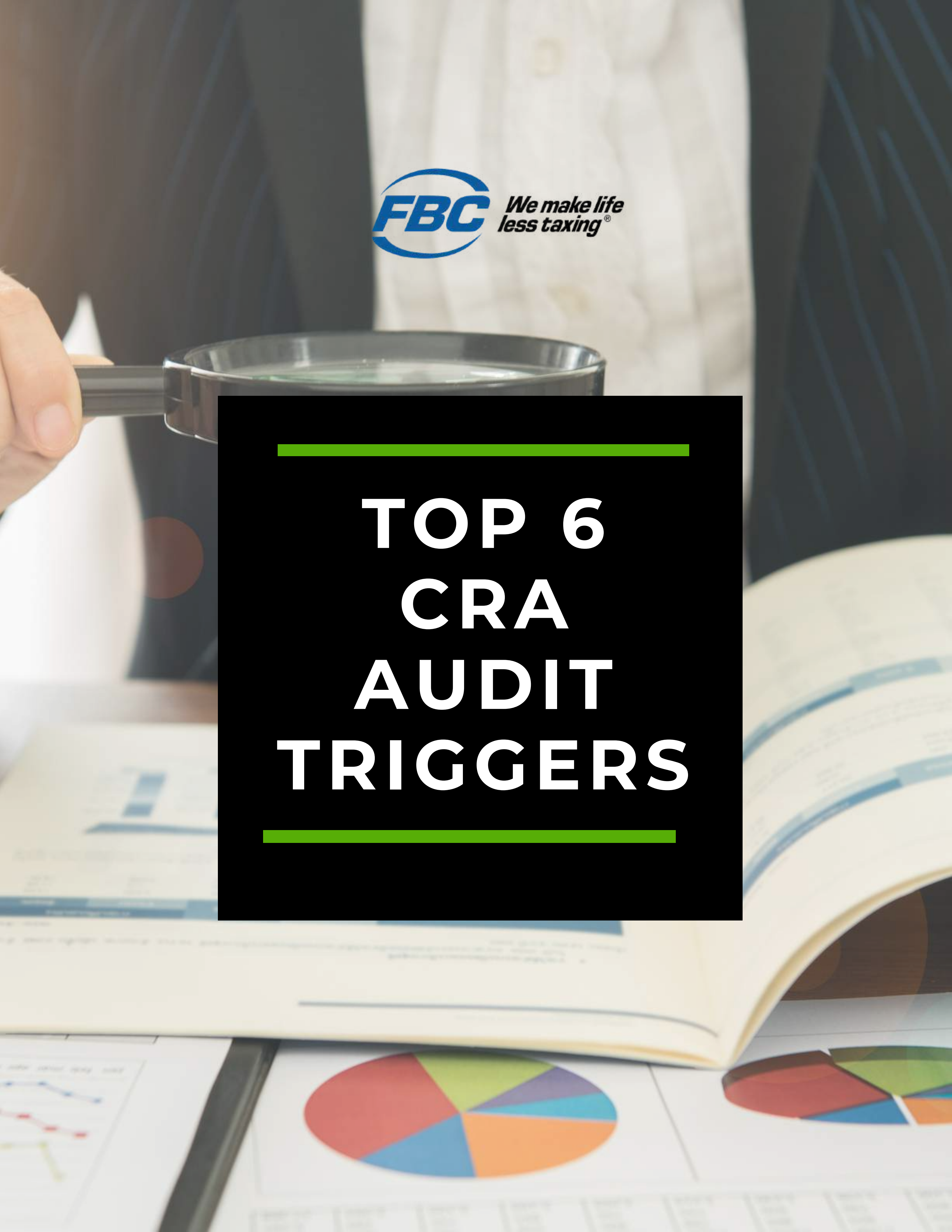
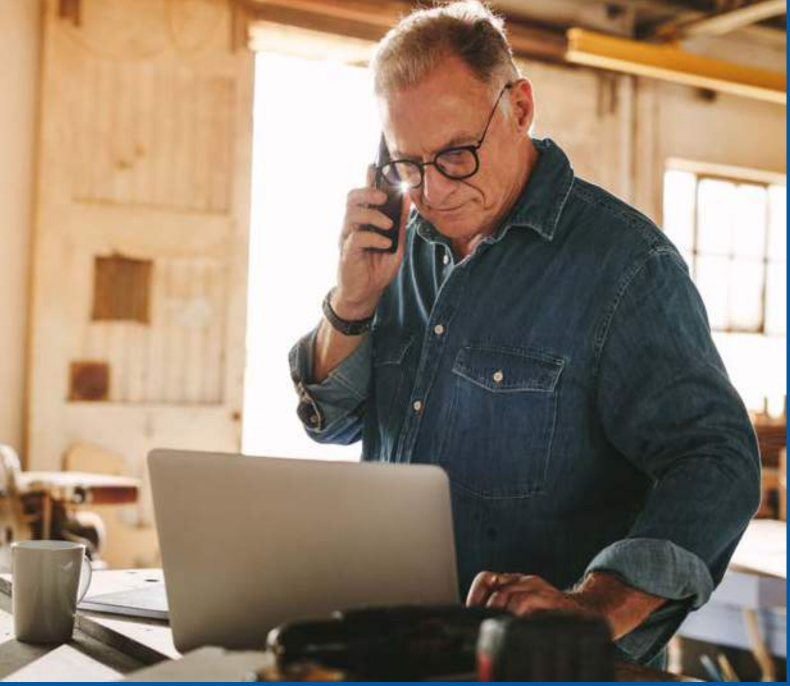
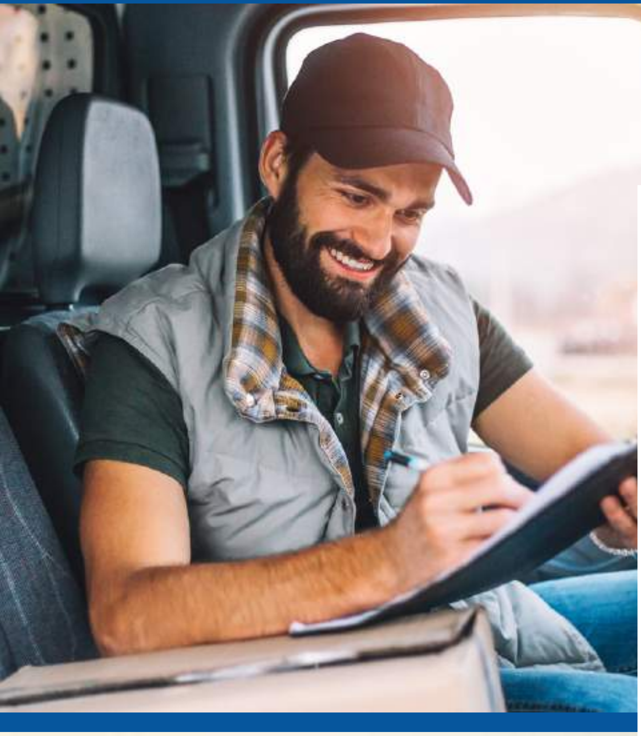


FBC We make life less taxing®

TOP 6 CRA AUDIT TRIGGERS





We make life less taxing®

FBC is a third-generation family company. We've worked with Canadian small business owners and farmers to minimize their income taxes and maximize their assets for more than 65 years.

Our people are at the heart of our business, and at the heart of the communities we serve.

FBC offers an industry-leading Membership model, which means we help our Members year-round with tax planning and ongoing business consulting.

Disclaimer: This material is provided for educational and informational purposes only. Always consult a tax professional like FBC regarding your specific tax situation.

AUDIT TRIGGER #1:
Filing Your Taxes Late

Audits are nothing to fear if you comply with tax rules and regulations.

Knowing how the Canada Revenue Agency (CRA) selects taxpayers for audit, as well as what to expect during an audit, will make you better prepared if you're singled out.

In selecting taxpayers for audit, the CRA will often pay closer attention to cash businesses such as construction or hospitality, and businesses whose margins or incomes are not within the norm for that industry. CRA will also look more closely at taxpayers who claim rental or business losses.

Many taxpayers are simply chosen at random for an audit. CRA also has its Compliance Measurement Profiling and Assessment System (COMPASS), a sophisticated automated tool that looks at over 300 factors in evaluating the relative risk level of self-employed individuals and GST registrants.

But don’t lose hope, there are still some things you can do to stay under the radar.

#1 is file your taxes on time.

Filing your taxes before the April 30th deadline shows that you follow the rules and could reduce your chances of being selected for an audit. As a self-employed individual your filing deadline may be June 15th, but if you owe taxes you still have to pay them by April 30th or you’ll face penalties and interest charges.

AUDIT TRIGGER #1:
Filing Your Taxes Late
continued

What else draws scrutiny from the CRA?

Losses claimed on investments in small business corporations.

This draws attention because the rules regarding allowable business investment losses are complex. Make sure you retain all supporting documentation to substantiate your claim for an allowable business investment loss.

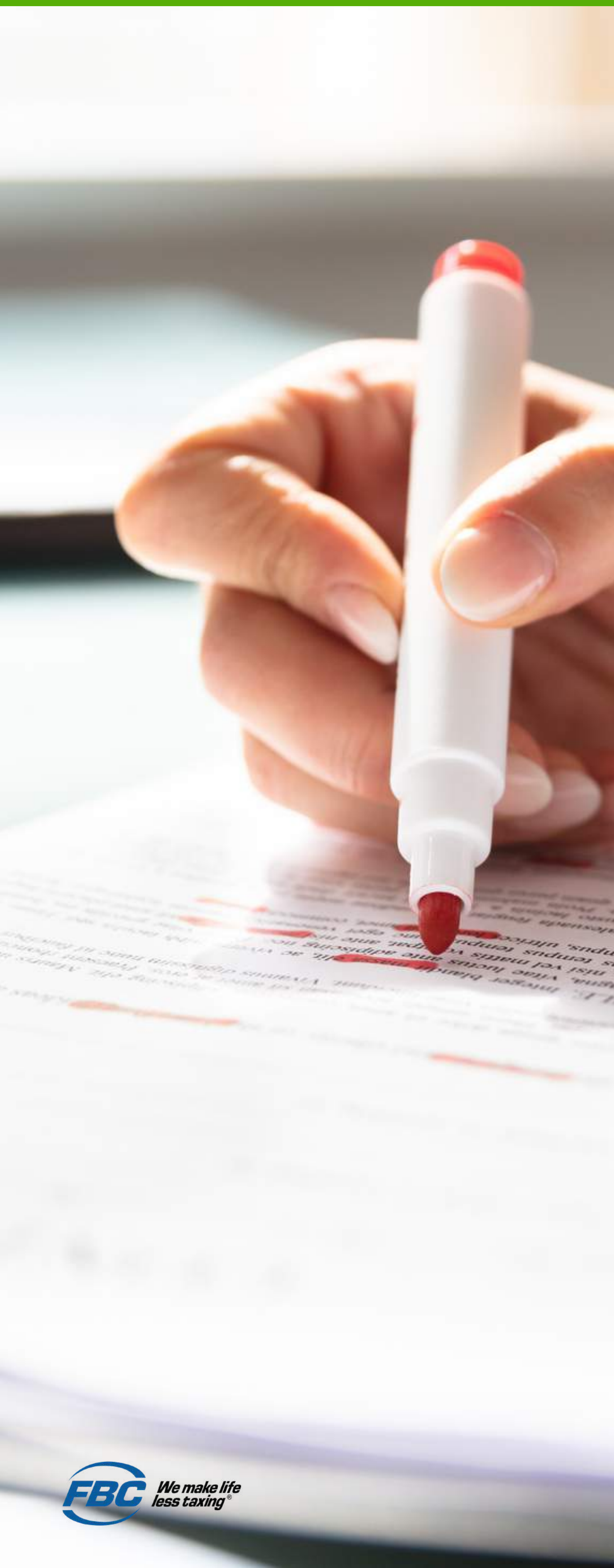
Claims of capital losses and gains.

The CRA takes a close look at capital losses and gains because many taxpayers do not track or report them correctly.

Failure to remit source deductions for employees.

Failing to pay tax, CPP and EI on a regular basis for your employees or failing to pay GST and PST correctly, and on time, could also lead to an audit.

AUDIT TRIGGER #2:
Filing a Tax Return with Errors



The CRA is more likely to flag your tax return for follow-up or audit if they've found errors on your returns in the past.

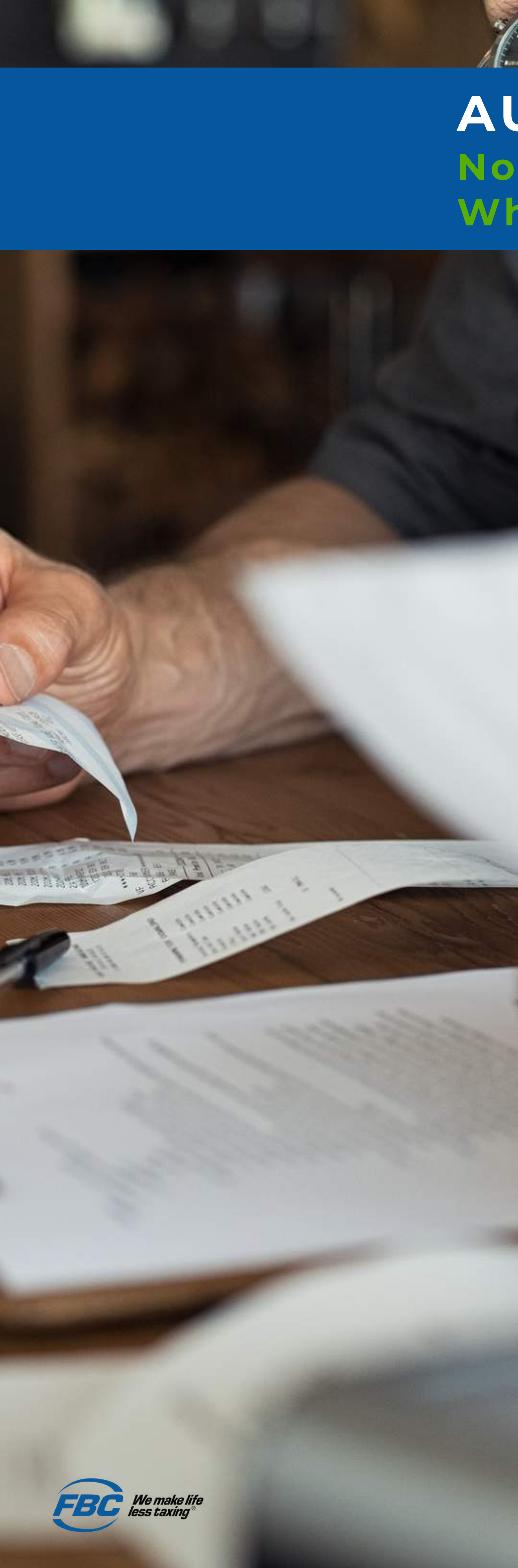
Whether you complete your taxes yourself, or you hire a tax specialist, it's still your responsibility to make sure your taxes are filed accurately.

Review your tax return to ensure its accuracy and completeness prior to filing. Check the basics such as name, address and social insurance number. Double-check that all income is reported. CRA has copies of all your T-slips, so failing to report employment income, interest, dividends and capital gains will get CRA's attention.

If you find a mistake after filing, be proactive and file an adjustment, rather than let the CRA find the mistake for you. If you wait for CRA to find the error or omission, and if you owe money, you could be faced with penalties or interest charges.

If you make false statements, even if they're unintentional situations that result in excessive errors on your tax return, you could be fined 50% of the difference between your tax payable as reported and the tax that should have been paid if you reported correctly.

AUDIT TRIGGER #3:
Not Providing Information When Requested



While you may catch the CRA's attention, most times they aren't looking to do a full audit.

Sometimes they just want additional documentation to support a claim you've made on your tax return.

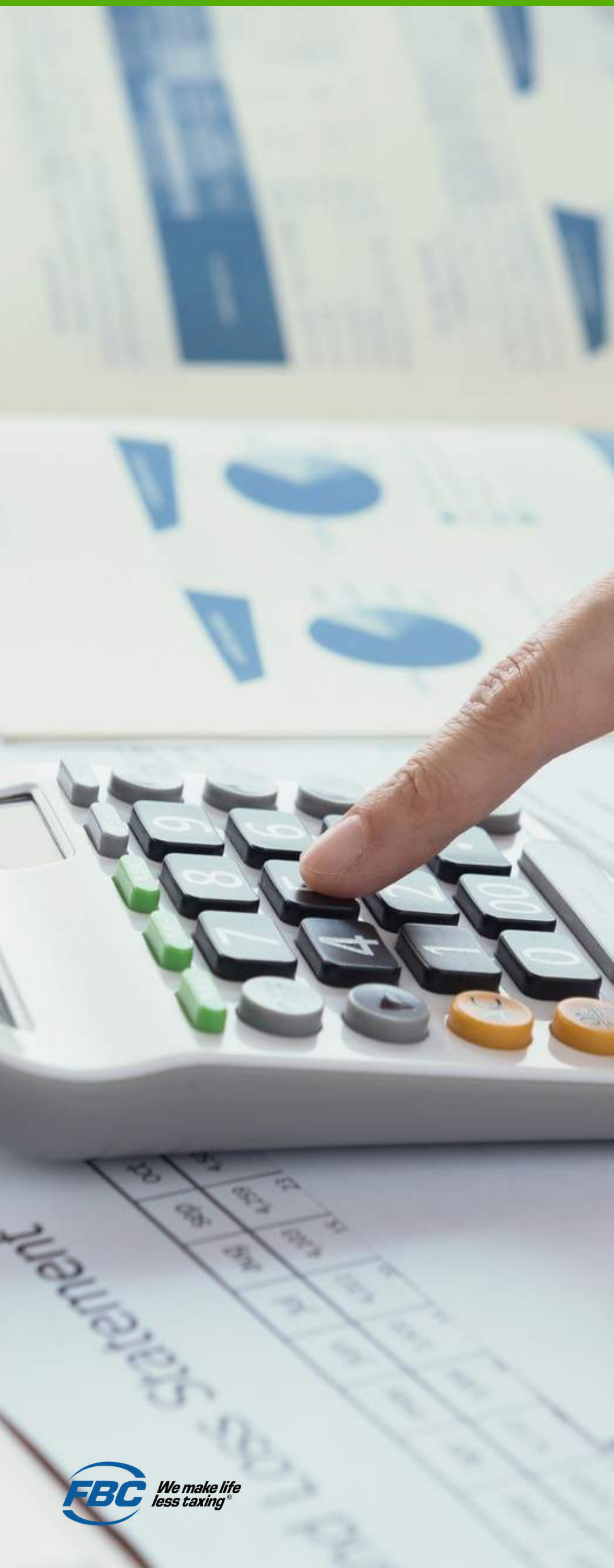
For example - they could require clarification for childcare expenses, a rental loss or automobile expenses. If your books and records are organized, you can respond quickly with the requested information.

Be sure to send only the requested documentation. Sending more information than needed could prompt CRA to take a closer look at something they didn't flag when they first reached out to you.

Failing to provide the requested documents in a reasonable time frame could raise another red flag with CRA - they may believe there is the potential of unsubstantiated tax reporting and commit to a more comprehensive audit.

Canadian tax law generally requires taxpayers to keep records for at least six years after your last Notice of Assessment. However, if you're found to have incomplete or disorganized records, they can go back indefinitely. That's why it's so important to keep good records. Not only does organizing your receipts save you time and money each year, but it also guarantees you can respond quickly to the CRA's information requests.

AUDIT TRIGGER #4:
Claiming an Investment Loss



There are several audit flags related to investments.

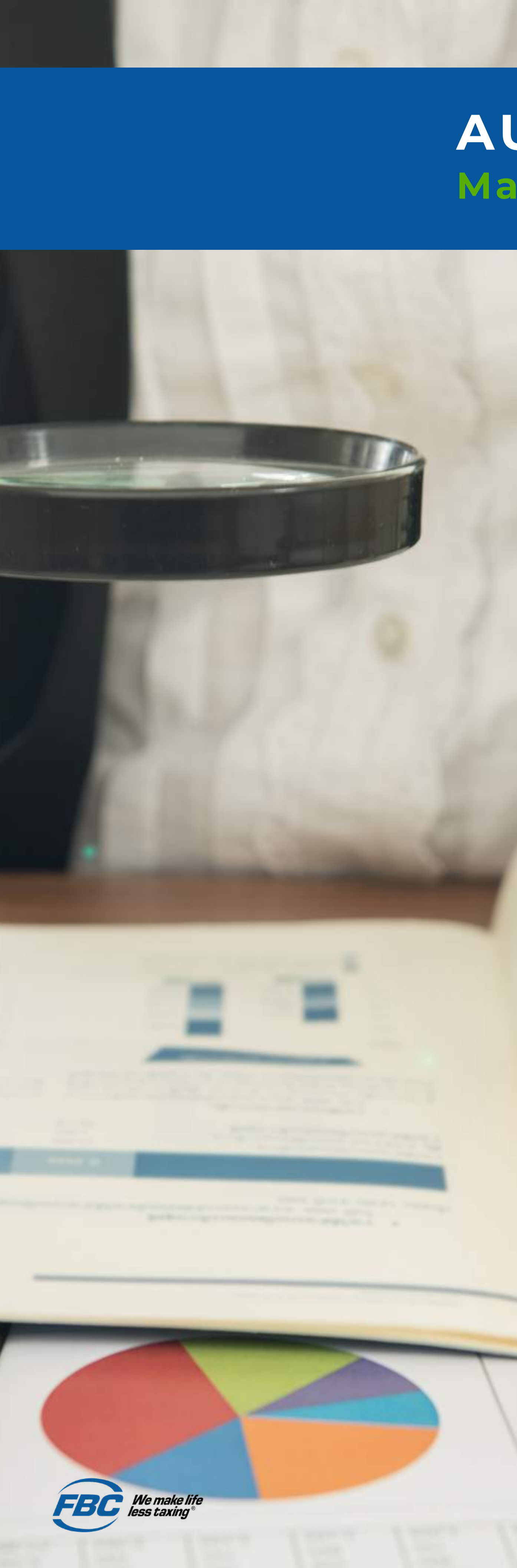
CRA will want to verify any losses claimed on investments in small business corporations.

The tax rules regarding allowable business investment losses are complex so the CRA will want to make sure they are followed correctly.

Be sure you keep all documentation to support your claim for an allowable business investment loss. While carrying charges like interest and management fees related to investments are usually deductible, the CRA will often request supporting documentation.

Claims of capital losses and gains also receive scrutiny because many taxpayers don't track them correctly. You can't always depend on the account statements provided by your financial institution – often the cost base it provides is not accurate for tax purposes. Income trusts erode their cost base over time due to returns of capital and are hard to calculate. Investments in foreign currency can also be a problem, because you need to account for the foreign exchange gain or loss in addition to your economic gain or loss.

Today, many Canadians earn income from foreign sources, either through investments or employment. Claiming foreign tax credits because you've paid tax in another country is another item that CRA often questions.



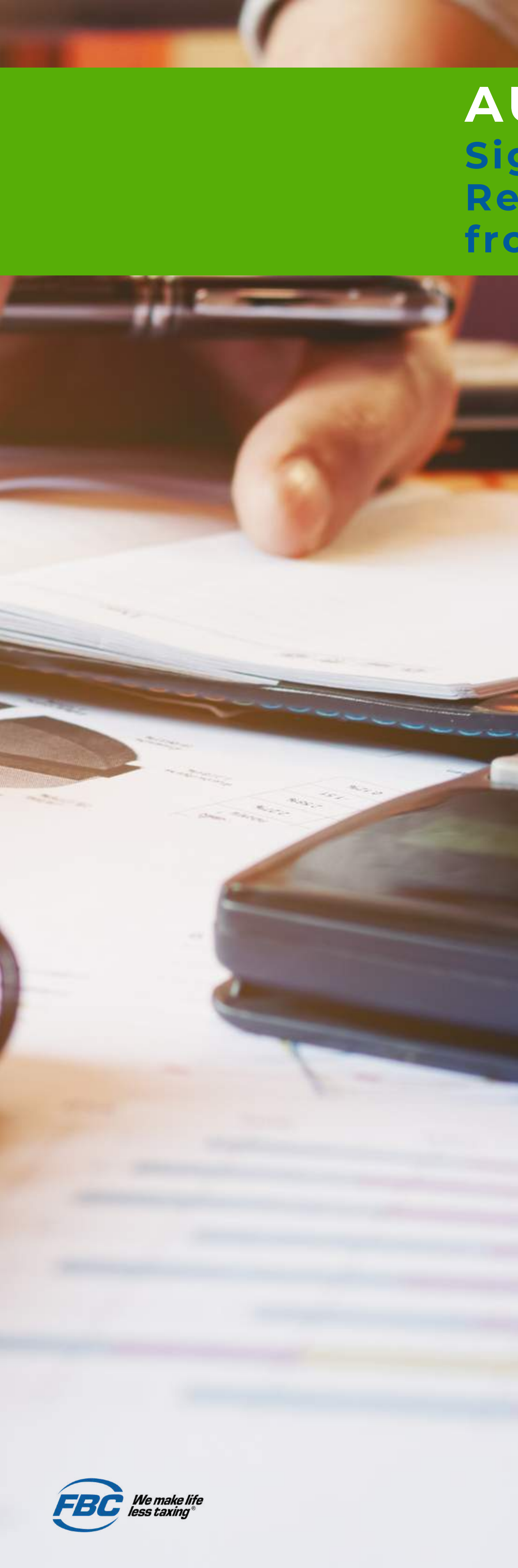
AUDIT TRIGGER #5:
Making Too Much Money

You might do everything right when it comes to filing your taxes and obeying the CRA's rules, but if you're defined as having a high net worth by the CRA, you may be targeted for an audit.

Even if you're not earning a high income but have a family member or business partner who is, you could catch the attention of the CRA. In what is called the "Related Party Initiative" (RPI), the CRA looks at wealthy individuals, their families, and the various entities (including corporations, trusts and partnerships) they may be connected with.

If you're flagged for an audit, warn your family they may be contacted too. When the CRA audits a spouse, investor, supplier or subsidiary of an individual or company on which it is already doing a main audit, it's called a secondary review. They want to compare each person or business return to make sure any expense for one was claimed as income for the other.

CRA will also choose audit targets based on leads from informants such as former spouses, ex-business partners, employees, competitors, and neighbours. Always make sure you part on good terms!



AUDIT TRIGGER #6:
Significant Difference in Revenue and Expenses from One Year to the Next

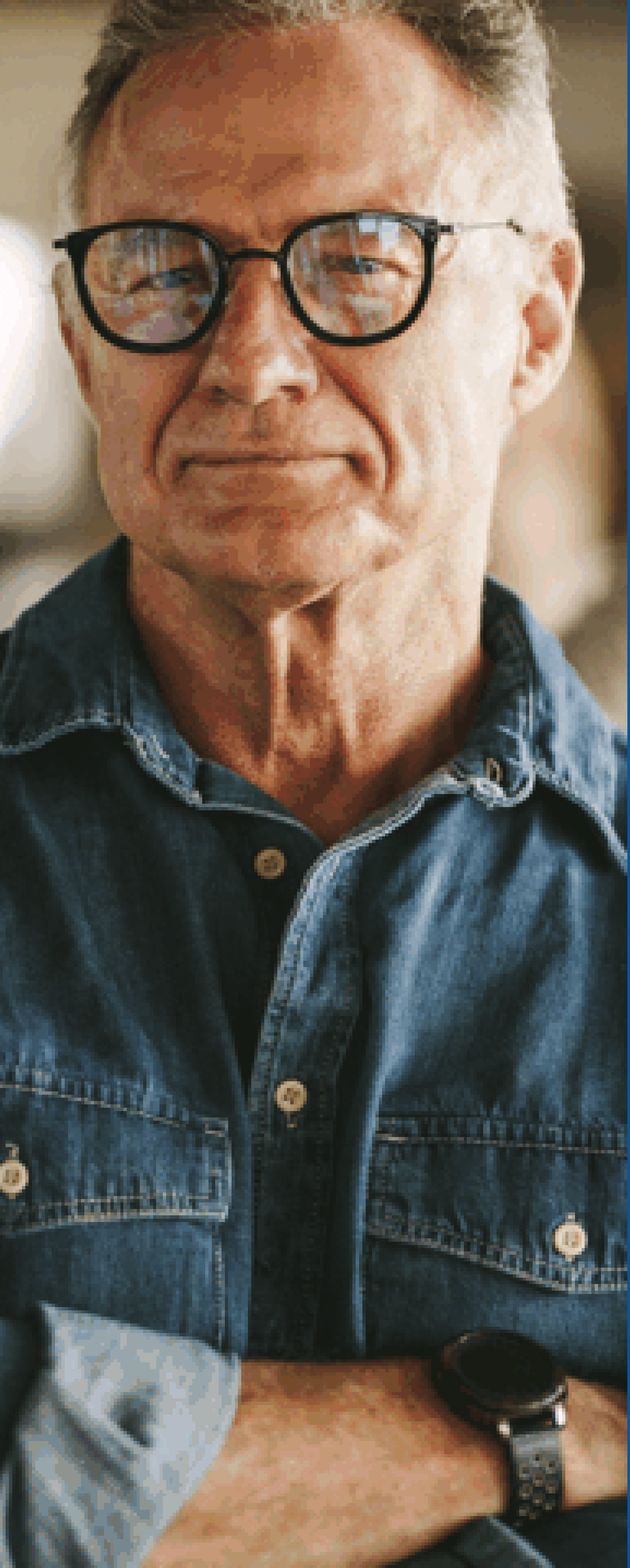
Inconsistencies in your tax return from year to year can be a warning to the CRA that something may not be right.

Generally, if the proportion of expenses to revenues is consistent from year to year, the CRA is unlikely to investigate.

If there is a significant difference from one year to the next, the CRA may decide to follow-up with a request for information or an audit. Expenses such as travel and entertainment are ones the CRA will keep a close eye on.

It could be that your work requires a lot of travel or you had a particularly good or bad year, so the variances are justifiable.

Take note of your previous year's income and expenses and be prepared to substantiate any variance with CRA. This is where it's a good idea to have a tax specialist working for you.



Questions?

Call us at 1-800-265-1002, ask a question on our live chat at fbc.ca, or email us at fbc@fbc.ca.

FBC delivers more value to small businesses, farmers, agricultural producers, and self-employed contractors than the traditional accounting approach through our industry leading, year-round membership model.

FBC Membership

Tax Preparation

We'll complete your tax return at a time and place convenient for you - whether it's the shop, your kitchen table or virtually.

Tax Planning

All Members have a personalized tax plan to maximize tax savings today and over the long run.

Tax Consultation

We understand that business questions may arise at any point in the year, not just at tax time. Unlike other firms, FBC Membership includes year-round access to our team of experts at no extra cost.

Audit Representation

We provide audit representation on any challenges to your returns for income tax or GST/HST.

Bookkeeping, Payroll + Back Office Support

Members have access to a suite of back office support services including onsite or online bookkeeping, payroll, minute book and incorporation services, health spending accounts and more.

Free 15-minute consultation
1-800-265-1002
fbc.ca/consultation