

Tax Audits on the Rise

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You have filed your 2017 tax return on time, received your notice of assessment and settled the outstanding balance. You thought you were in the clear, but now, several months later, you are surprised to receive a letter from Canada Revenue Agency requesting for more information. You have never been audited before and have always filed your taxes on time. What is the reason behind this?

The answer is that there has been a significant increase in CRA audit activity over the last couple of years and it is on the rise. Times are tough. CRA is cracking down on specific areas of non-compliance and areas that were previously not enforced, such as undeclared income from tips. The letter you received is likely not an audit, but instead a desk review with 30 days to produce support for any claims made. In most cases, this pertains to an unusual change in medical expenses, donations, tuition claims, etc., and, so long as the documentation is provided, does not result in significant changes in the tax filing.

CRA has changed its approach for audits and desk reviews, in that it is more aggressive against taxpayers. It is finding new and creative ways to identify unreported income. For example, earlier this year, it was granted a Federal Court Order to collect data from Square Canada Inc. If you are not familiar with the term, it is the small, square tool connected to a phone

used to process payments via credit card. This will be a starting point to determine if the individuals/businesses using this device to receive payments are reporting the income.

The initiatives appear to target middle class families and small to medium sized enterprises (defined as revenues of less than \$1 million and less than \$250 million respectively) because they are more prone to non-compliance across the spectrum due to fewer resources available for financial and tax advisors.

Unfortunately, because of the aggressive tactics discussed above, CRA scams are also becoming more prevalent. You should educate yourself on how CRA conducts itself in order to recognize a scam if it happens and report a suspected scam to reduce the risk for others. A CRA audit is not particularly pleasant and being prepared is the key to reducing the inevitable stress and holding on to your tax dollars.

If you would like to receive Fritsch Laitar & Karac's quarterly tax newsletter, please contact Ivana Karac at 519-746-7220 or Ivana.Karac@flkcpa.com.



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