

CRA's Postal Code Project

Ivana Karac, CPA, CA



You may have received a letter from Canada Revenue Agency in recent years describing the proper tax treatment of certain revenue or expenses, such as rental income, meals and entertainment, travel expenses etc., and requesting that you come forward if you feel that you have made a mistake in your tax return. These letters were sent out by CRA as mass mailings as a way to increase tax revenues. The topics were areas which tend to be incorrectly reported or unreported altogether and they were a means of collecting tax dollars without CRA actually instigating an audit.

Following scandals such as the Panama Papers, CRA has gone one step further. More recently, we are hearing about CRA's project on net worth assessments, known as the Postal Code Project. If you haven't heard of these terms before, you are not alone. Canada Revenue Agency has launched this project to determine whether or not the wealthiest citizens of Canada are underreporting their income. How are they doing this, you may wonder. The answer is simple and clever.

They have selected 5 neighbourhoods across the country to audit taxpayers in more than 1,100 homes. CRA is examining the personal tax returns of the residents of each household in the neighbourhood, with the goal of deter-

mining whether their income reporting is in line with their lifestyle. The first determining factor would be whether they can afford the home they live in and list goes on to cars, boats, other properties and whether their lifestyle can be supported by the income they are reporting.

Canada Revenue Agency has the ability to arbitrarily assess any taxpayer's tax return if circumstances indicate that the reported filing is incorrect. Historically, these net worth assessments have been prompted following anonymous tips and tend to be generally applied on businesses with heavy cash circulation such as the construction industry, restaurants and service businesses. Once they are selected for audit, CRA will review bank and credit card statements of the businesses and individuals' themselves. Any deposits are treated as income, unless the taxpayer can prove otherwise and a reassessment is issued for any gaps.

Depending on the outcome of the most recent project, it is possible that it will be expanded to neighbourhoods some levels below the current threshold, and now, more so than ever, it is advisable to keep accurate records and be prepared.

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



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Chris Laitar CPA, CA, M.Acc., Ivana Karac, CPA, CA, BBA,

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(519)746-7220

chris.laitar@flkcpa.com

ivana.karac@flkcpa.com

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