

WHEN THE CANADA REVENUE AGENCY CHECKS UP ON YOU

We've all felt it—that sense of impending doom when we check our mailbox and find a letter from the Canada Revenue Agency (CRA) questioning an item in our tax return. The initial feeling is panic, followed by questions of “What have I done wrong?” and “Why am I being audited?”. However, there is no reason to fret; every letter from the CRA does not mean that you are being audited. In most cases, it simply means that your return has been selected for review.

AUDIT VS. REVIEW

Take a deep breath; there is a significant difference between a review and an audit.



AUDIT

An extensive inquiry into one's entire income tax return, usually for more than one taxation year. The CRA will examine most amounts in the tax return, and support will need to be provided for discretionary deductions and filing positions.



REVIEW

A request from the CRA for support for a single amount in a tax return for a particular year. There are different types of reviews, but all are routine procedures that occur either before or after the CRA assesses an individual's tax return.

WHY ME???

Potential reasons why your return may be selected for review:



Your review history. If you were selected for review in a prior year, and an adjustment was made to your return as a result, you are more likely to be selected for another review in a future tax year.



A discrepancy was found between information reported on your return and information reported on a tax slip received by the CRA.



Particular types of deductions or credits claimed. Certain types of deductions and credits are most likely to result in a tax review: tuition, rental amounts claimed for the Ontario Energy and Property Tax Credit, Federal foreign tax credits claimed by individuals earning income outside of Canada, donations, medical expenses and childcare expenses.

WHAT DO I DO?



Don't ignore them. The CRA will not simply go away, and there are many potential consequences if the request is ignored. If accurate and complete information is not provided in the specified time frame in the review letter (typically 30 days), the amount in question will be denied or modified based on the information available to the CRA. For example, if the review request asks for the documentation to support the donation tax credit and all of your charitable donation receipts for the year are not sent to the CRA within 30 days, your donation credits will be disallowed and your net taxes owing will be adjusted accordingly. Any tax balance owing may be subject to interest and possibly penalties.



Breathe. Though they may seem intimidating, tax reviews are part of the system of "checks and balances" in our self-assessment tax system. If records are kept accurate and all relevant receipts, slips, and documentation are readily available, responding to these tax reviews can be quick and painless.



Respond in a timely and professional manner. If you receive a review request letter from the CRA and send your documents after the date indicated on your original review letter, the CRA will offer another chance at redemption and conduct a review at the time you send them. They will also revise the amount in due course. However, regardless of the CRA's leniency, it is often a much longer process than if the supporting documents were submitted within 30 days of the original request. Therefore, if you do receive a review request letter, it may be a good idea to count on your accountant to help you respond in a timely and professional manner.

QUESTIONS?

Your Crowe Soberman advisor is here to help. Visit www.crowe.com/ca/crowesoberman to learn more.

While this infographic provides general information, Crowe Soberman recommends that you speak with your tax advisor before taking specific tax planning steps.



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