

Quick Facts: Dealing with Errors, Omissions and Audits

There are some main reasons for being audited:

1. You may be randomly selected. The Canada Revenue Agency's computers will select a bunch of income tax returns that share a common parameter. For example, any returns with interest expenses that increased by more than 10 per cent could be selected for audit.
2. Someone may have reported you on suspicion of tax evasion. Even if your tax returns and financial statements appear "clean", the government takes these tips very seriously.
3. Your name might come up in another audit. While auditing another corporation or individual that you are linked with, the auditor may notice something that should be investigated further, and a flag is put onto the file. For example, an audit of a restaurant indicates payments made to their bookkeeper totaling \$6,000 per year, but the bookkeeper only reports income of \$5,000. In this case, the next available auditor might flag the bookkeeper's return for audit.
4. Your file may have been flagged through the CRA's matching program. If a bank sends you a T5 slip for interest income, your return will be reviewed to ensure that you reported the income. If the T5 was missed for any reason, an adjustment will be made.
5. There are unusual changes in your return compared to previous years. This could be as simple as making a much larger contribution to your RRSP or to charities, or having greater medical or childcare costs than you have had in the past.
6. The types of deductions or credits you claimed or your history with the CRA raises a red flag. Example: your return was reviewed in a previous year and the CRA had to adjust a claim.

So what happens if you did make a mistake?

- If the mistake is an honest error, you will have to pay the additional taxes due plus interest.
- If, however, you made a negligent mistake, such as not reporting tip income that you received as a server, then you will not only have to pay the additional taxes and interest but you could also face some hefty penalties.
- Finally, if you were fraudulent, such as creating false expenses, you could face a criminal conviction, jail time and deportation in addition to repaying the taxes, interest and penalties.

Advice that counts

- In any of the above scenarios, “coming clean” with the CRA is always a better approach than waiting to see what will happen. By taking a proactive approach, you can often avoid severe penalties and prosecution.

The rules can be complicated, especially for new filers or people who are unfamiliar with the Canadian tax system. Get advice from a professional accountant instead of relying on information from friends or family, who may not always have the required expertise. A small investment in professional advice can save you money, time and potentially serious consequences.