

What Happens if CRA Audits Your Business?

Every business owner dreads a Canada Revenue Agency audit. It's not necessarily a fear of being caught doing anything wrong, it's about the hassle and not knowing what to expect. Here's a quick guide to help you prepare for what can be a trying time if CRA takes a close look at your finances and other records.

One thing to realize is that they are looking not only at whether you are obeying all the tax laws, but also applying any tax laws correctly.

So, if you've been selected for a business audit – why did they choose you?

According to the CRA website, "CRA's risk-assessment system selects files to audit based on a number of conditions such as the potential for errors in tax returns or indications of non-compliance with tax obligations. The CRA also looks at the information it has on file and may compare that information to similar files or consider information from other audits or investigations."

So, what happens if you are selected? First a CRA auditor will either write to you or call you and let you know where it will take place. Most times the auditor will come to your office, but occasionally the audit may take place at a CRA office.

Here's what the auditor will examine:

- Previously filed tax returns
- Credit bureau searches
- Property database information
- Your business ledgers, journals, invoices, receipts, contracts, and bank statements
- Your personal records including bank statements, mortgage documents, and credit card statements
- Personal or business records of other individuals or entities not being audited (for example, a spouse, family members, corporations, partnerships, or a trust [settlor, beneficiary, and trustee])
- Adjustments made by your bookkeeper or accountant to arrive at income for tax purposes.

During the process the auditor will bring up any issues that concern them and discuss them with you. You are, of course, able to bring up any questions or concerns you might have. The length of time an audit takes depends on how well your records are kept, so ensure you keep all records safely, securely and filed professionally.

The auditor may find your previous assessment was correct, in this case nothing else will be done and you'll receive a letter telling you the audit is complete.

If it is found that you owe money, or CRA owes you money, you will receive a proposed reassessment and have 30-days to agree or disagree, or ask for further explanation.

Should you disagree with the proposal, you are encouraged to contact the auditor to try and resolve any factual disagreements. The auditor will carefully consider your explanations and

respond to your questions about the proposal. If issues remain unresolved, you can contact the auditor's team leader to discuss them further. You do also have a right of appeal.

Bottom line is you will get a letter with the result. If you owe money you will have to pay it. If you've over paid you will get a refund.

One thing to be aware of if you owe money; it is wise to ask the auditor for an estimate of the amount prior to the CRA issuing a notice of assessment, or reassessment. The reason for this is the sooner you pay what you owe the less interest you will be charged.

There's a lot you can do to ease the pain of an audit and we urge you to seek advice. In the meantime, here are three tips to help you deal with an audit.

1. Consider having the audit take place at your accountant's office. There will of course be a cost to this but on the upside you won't be pulled away from running your business for the duration of the audit. Your accountant's knowledge might also end up saving you paying as much.
2. Ask up front how many years CRA want to go back (usually 2-3 years); this can save you time and money by only getting your accountant to compile only the necessary records.
3. Be pleasant and courteous to the auditor, they are only doing their job so leave them to get on with with minimal disruptions.

One publication which is a must read is the Taxpayer Bill of Rights published by CRA – you can check it out at <http://www.cra-arc.gc.ca/E/pub/tg/rc17/README.html>