

59. Canada Revenue Agency Audit Requests Costly for Business

DESCRIPTION

In the past two years, small businesses have noticed a significant increase in Canada Revenue Agency (CRA) Business Audit Requests¹¹⁹ asking for additional evidence or information to substantiate claims made on filing documents. Some of the requests are for tax returns of previous years. These requests provide a deadline to comply or assessments will be re-adjusted. To gather the required information and subsequently upload on the website takes between two to ten hours per request. With the number of audit requests increasing, the cost of complying is subsequently increased. For small businesses, it is becoming unreasonable.

BACKGROUND

Small businesses are expressing concern regarding the sudden increase in the past two years of time-consuming audit requests. For example, an audit request received by one small business in late 2017 asked for the following for a line item reported in 2015:

“On your Schedule 125, Income Statement Information, you reported one or more amounts for professional fees (field codes 8850 to 8863) for the above tax year(s). To support these expenses, please send the following:

- A detailed list of the transactions included in the accounts related to the professional fees or the relevant general ledger entries;
- A copy of the invoices and receipts supporting each transaction.

Please return this letter with the information asked for within 45 days...”

The example request for detailed receipts two years after a tax return was filed for a line item engendered up to ten hours of work for the small business, with the business client paying for that time in both fees to the accountant and lost productivity time in his own business with the threat that his taxes will be re-assessed if he fails to comply.

In all cases reported by small businesses that brought the issue to the attention of the board of trade, the result is no change to the original tax assessment. The conclusion that can be surmised is that the original income tax return was correctly submitted. If that is the case, then the sudden increase in audit letters are not necessary.

The CRA has stated in their own literature and the Taxpayers Bill of Rights that they are committed to streamlining filing processes and minimizing costs for small businesses, as evidenced below:

¹¹⁹ <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/changes-your-business/business-audits.html>

Our Commitment to Small Business¹²⁰

1. The CRA is committed to administering the tax system in a way that minimizes the costs of compliance for small businesses
2. The CRA is committed to working with all governments to streamline service, minimize cost, and reduce the compliance burden
3. The CRA is committed to providing service offerings that meet the needs of small businesses
4. The CRA is committed to conducting outreach activities that help small businesses comply with the legislation we administer
5. The CRA is committed to explaining how we conduct our business with small businesses

Those flagging the concern of increasing business audits recognize the need for the CRA to ensure that all tax returns are factually accurate. Further, given that there are numerous reports regarding tax cheats costing the government¹²¹, it is understandable why auditors may be increasing their vigilance. According to a Globe & Mail article, the federal government has invested nearly \$1 billion to combat tax havens to recoup \$25 billion.¹²²

In the meantime, auditors appear to be targeting micro expenses and costing the small businesses much in fees and lost productivity to comply with years old returns. Given that the businesses reporting this issue to the board of trade gave their results – zero reassessments to date – very little of the “missing” revenue will be recouped by this costly strategy. An argument could be made that the sudden increase in letters is a “fishing” strategy, rather than taking the time to revue and target actual errors.

It may prove to be more efficient to consider what supporting evidence is needed for future tax returns and provide an efficient and effective means for businesses to comply going forward rather than expending a great deal of time, effort and money attempting to recoup a small business expense. If the CRA did that, then they would be living up to the Taxpayers Bill of Rights.

¹²⁰ Sample of stories: Canada losing billions more than estimated to offshore tax havens, November 2017, https://www.huffingtonpost.ca/2017/11/07/paradise-papers-canada-losing-billions-more-than-estimated-to-offshore-tax-havens_a_23269548/; Canada misses out on nearly \$50 billion in tax, February 2017 <https://www.thestar.com/news/world/2017/02/13/canada-misses-out-on-nearly-50-billion-in-tax-each-year.html>;

Tax cheats: What Canada is missing out thanks to offshore banking, 2016 <https://globalnews.ca/news/2955132/tax-cheats-what-canada-is-missing-out-on-thanks-to-offshore-banking/>;

¹²¹ Sample of stories: Canada losing billions more than estimated to offshore tax havens, November 2017, https://www.huffingtonpost.ca/2017/11/07/paradise-papers-canada-losing-billions-more-than-estimated-to-offshore-tax-havens_a_23269548/; Canada misses out on nearly \$50 billion in tax, February 2017 <https://www.thestar.com/news/world/2017/02/13/canada-misses-out-on-nearly-50-billion-in-tax-each-year.html>;

Tax cheats: What Canada is missing out thanks to offshore banking, 2016 <https://globalnews.ca/news/2955132/tax-cheats-what-canada-is-missing-out-on-thanks-to-offshore-banking/>;

¹²² Revenue Minister steps back from claim Ottawa is close to recovering \$25 billion in unpaid taxes, December 2017 <https://www.theglobeandmail.com/news/politics/revenue-minister-steps-back-from-claim-ottawa-is-close-to-recovering-25-million-in-unpaid-taxes/article37189606/>

RECOMMENDATIONS

That the federal government direct the Canada Revenue Agency to:

1. Provide evidence that the strategy to substantially increase small business audit requests is necessary to be balanced with the cost to businesses and the Canadian economy to comply;
2. Only send out business audit requests where there is clear evidence of an error;
3. Instead of asking for evidence of compliance years after a return is filed, determine what evidence is required from businesses well in advance to ensure compliance and provide an effective and efficient manner to submit requested documents with the tax return; and,
4. Live up to the spirit and intent of the Taxpayers Bill of Rights to minimize costs of compliance

SUBMITTED BY THE SURREY BOARD OF TRADE

THE SME COMMITTEE SUPPORTS THIS RESOLUTION BUT RECOMMENDS THAT IT BE COMBINED WITH OTHERS ADDRESSING TAX POLICY (I.E., FAIR TAX PROCESS FOR SMALL BUSINESS AND CANADA REVENUE AGENCY IMPACT ON SMALL BUSINESS).

THE TAXATION COMMITTEE DOES NOT SUPPORT THIS RESOLUTION BECAUSE LOCAL CHAMBERS DECLINED TO COMBINE A NUMBER OF SIMILAR PROVISIONS IN AN OMNIBUS RESOLUTION