

WHAT TRIGGERS A TAX AUDIT ?

I am sure that a large number of you have asked what triggers an audit at your business.

Generally the following may result in an audit from the Canada Revenue Agency (CRA).

(Please note that this is not an exhaustive list and the CRA and the Provincial Government can choose to audit your company at any time)

- 1) "Reverse Lottery" – your number is up. CRA chooses a large number of audits of both individuals and companies on a lottery basis. Can you do anything about this? Probably not. Your best defense is to be up to date with your taxes
- 2) "Flags" – CRA will identify issues on your tax return which appear to be out of the norm for your industry. For example, claiming 100% of your personal vehicle as a business expense raises a red flag (especially if this is your only vehicle). Make sure that you only claim business related expenses.
- 3) Pay your GST and PST on time (if these taxes apply). Late and/or incorrect submissions may result in an audit.
- 4) Failure to remit source deductions for employees (Tax, CPP and EI) on a regular basis may result in an audit. CRA may view this as symptomatic of a larger taxation problem.
- 5) Disgruntled employees may report a company to Human Resources Canada and this may lead to an audit.
- 6) Whistleblowers may trigger an audit.

In general, should you be concerned about an audit? No. If a company and/or individual has followed the tax guidelines when remitting taxes, an audit will have minimal impact.

How can you be sure that you have covered all your bases? Build a strong relationship with a competent accounting professional. He/she will guide you to ensure that you and your business have a full bill of health when it comes to dealing with audits.

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