

Articles Program



When your small business gets audited

It's the letter or phone call every small business owner dreads — the Canada Revenue Agency (CRA) wants to conduct an audit. Now what? Here are some dos and don'ts from Chartered Accountant Andrew Flynn, a partner with Hutton Evans Flynn LLP in Lindsay.

- 1. Do understand what you're being asked for** – “There are three main types of requests or audits,” explains Flynn. “The first is a request for information, which follows a tax filing of some kind. It usually comes in the form of a letter and asks you to provide supporting documentation for a claim.”

The second is a desk audit, which usually follows a filing that is unusual, such as a very large HST refund for one quarter. “This could be a phone call or letter asking for more information,” says Flynn. “The CRA can request information or conduct a desk audit up to three years after the filing in question, and you have 30 days to respond.”

The third type, which is rarer, is a field audit. “This means the CRA wants to examine your books,” says Flynn. “Maybe you're just unlucky and have been picked at random, or maybe you are in an industry that has not been following good tax filing practices.”

- 2. Don't ignore the request** – “The absolute worst thing you can do is ignore the CRA,” advises Flynn. “It is the one creditor who will never die, never go bankrupt and never move out of the country. If you owe money to the CRA and don't pay, things will only get worse.”
- 3. Do call your CA right away** – “Your first call should be to your CA,” Flynn says. “Don't respond to any request without consulting him or her. Your CA knows what your tax filings have been and can advise you on how to proceed. Don't try to defend yourself. As the saying goes, ‘a person who defends himself has a fool for a client’.”
- 4. Stick to the facts** – “Give the CRA auditor the information that has been requested and answer the questions you are asked,” says Flynn. “Stick to the facts, instead of trying to justify your actions or elaborating on your reasons for doing something because you think you know where the auditor is going.”
- 5. Don't have a field audit conducted at your place of business** – “Ideally, the field audit should take place in your CA's office,” explains Flynn. “The CA should direct the audit on your behalf. You don't have to be present for the entire audit, and never meet the auditor without your CA present.”
- 6. Do expect an audit to cost you time and money** – “The majority of audits result in an assessment that you owe money to the CRA,” says Flynn. “Technically, they could also find that the CRA owes you money, but I've never seen it happen.” In

addition to any additional tax and penalties owing, and the time you spend co-operating with the audit, you will also need to pay your CA for assisting you.

- 7. Do consider an appeal** – “If you don’t agree with the assessment proposed after the audit, you can appeal it,” says Flynn. “The first step is to meet with an appeals officer, who is a CRA employee. The appeals officer can either correct an error in the audit or will confirm the auditor’s findings.” If the appeals officer confirms the audit findings and you are still unhappy, you can appear before a judge at the Tax Court of Canada. “During the appeal process, you have a right to all the information in your CRA audit file,” says Flynn. “This can be very valuable, because the notes in the file will explain the reasons for the assessment, so you will know exactly how to defend yourself.” Flynn says that an appeal is definitely worth pursuing, although you need to weigh it against the time, cost and aggravation involved. You can also drop the appeal and pay the CRA at any time in the process.

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