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Top 10 Things to get the Taxman on your Tail!

Watch Out !

by Jamie Golombek | Aug 11, 2007

Ten things that'll get the taxman on your tail; If You've Claimed False Expenses,

You thought you were home free until you received an ominous-looking letter from the Canada Revenue Agency (CRA) regarding your 2006 tax return. The taxman is looking for more information.

Not to fear – this is a routine event that happens each summer as the CRA flags certain items for extra scrutiny. To this end, the accounting firm Deloitte has just released its "entirely unscientific survey" of the top 10 items most frequently queried by the CRA this past tax season. Here, in order, is this year's list.

1. **Registered Retirement Savings Plan (RRSP) contributions**

The CRA recently launched a massive national project to examine RRSP receipts in order to determine whether or not you may have over contributed. While numerous taxpayers have been contacted, the amounts are generally small but nonetheless require a lot of scrambling by individuals to find old

receipts, often stretching over multiple tax years.

2. **Carrying charges**

If you've borrowed money for the purpose of earning investment income, make sure you've got the appropriate supporting documentation to demonstrate to the CRA that the loan proceeds were actually used for investing.

3. **Capital gains/losses**

The CRA is conducting a historical review of capital gains and losses reported over a number of years. As above, be sure to keep accurate records of the dates of purchase and sale, the proceeds received and, most importantly, the historical tax cost or adjusted cost base.

4. **Charitable donations**

Charitable donations are also carefully scrutinized, especially if the amounts are significant in relation to total income reported or when a donation is made "in kind." It's likely that the various questionable donation tax shelters being aggressively promoted are somewhat responsible for the taxman's increased examination in this area.

5. **Moving expenses**

Large amounts for moving expenses

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are attracting attention. In addition, the CRA is investigating the possible non-reporting of any reimbursement of moving expenses by an employer.

6. Tax installments

If you're obligated to pay quarterly tax installments, better make sure they're in on time, as late installments are attracting penalties more frequently.

7. Non-crediting of final payment

Deloitte reports that while some returns are being assessed very quickly, the payment of any associated tax liability owing that accompanied the returns was not recorded. This results in taxpayers being charged large amounts of arrears interest for non-payment of the final balance due. Eventually these

situations are corrected since the accompanying cheque was, indeed, cashed.

8. Medical expenses/disability claims

The CRA continues to review medical receipts to ensure that all expenses are valid. Similarly, the CRA is asking for more information to substantiate a claim for the disability tax credit. Deloitte reports "a more open approach" toward such claims.

9. Tax shelters

These are often reviewed, including investments in flow-through shares, losses from limited partnerships, and mining and mineral exploration and development expenses claimed.

10. Unreported Income

Finally, the CRA seems to be more concerned about the non-reporting or late reporting of even modest amounts of income, assessing penalties with greater frequency. Deloitte cites the example of retirees who receive numerous slips reporting investment income, some of which may arrive after they have already filed their returns. Such returns should always be amended.