

Newsletter

Winter 2005

WHAT TO DO WHEN CRA CALLS

If CRA calls, it generally means they are either planning a field audit or you owe them money. While CRA may be considered a partner in everything you do, they are not calling to take you out for a "Thank You" lunch! Many of our clients contact us



immediately after CRA calls, and we manage the CRA audit for them, including scheduling the field audit, providing CRA with the accounting records, and answering their questions. You have the right to schedule the CRA visit at a convenient time for you.

CRA may send in a technical team to extract

your electronic accounting records prior to starting the field audit. This allows them to prepare prior to arriving. CRA has the right to this data; however, it is your responsibility to maintain the prior years' electronic data and software to access it.

CRA will plan out the audit prior to arriving; therefore, you should ask the auditor to provide the known questions prior to their arrival, so you can be prepared in advance.

You are required to answer the questions. However, if you are uncertain, you should indicate that you will get back to them. Don't volunteer any extra information. You can ask CRA for their audit working papers at the end of the audit, so they can be reviewed to ensure the information was interpreted properly.

The goal is to resolve all the issues prior to the CRA proposed adjustment letter. After the letter has been issued, you can still

approach the CRA auditor, CRA team leader, and/or manager. Generally, tax district offices welcome open, professional communication.

If all else fails, the next step is to file a Notice of Objection. Then, if that fails, you are off to the tax courts. Remember, there is a cost/benefit to everything before you move to the next level.

So, what do you do when CRA calls? Tell them to call GGFL!



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Special points of interest:

- **Next personal tax instalments:**
 - March 15, 2005
 - June 15, 2005
- **2004 RRSP contribution deadline is March 1st!**

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WHAT ARE THE TYPICAL TAX AUDIT ISSUES?

No matter what business you are in, there are many similar tax audit “hot spots.” Here are the Top Ten:

1. Automobile Expenses

No kilometre log book? Depending on the auditor, this means “zero” for some unreasonable business usage. Keep a log book, or at least an appointment diary, to support your claims for at least three years.

2. Automobile Benefits

Using that company car for free? CRA will audit your T4 slip to see if you have an automobile taxable benefit.

3. Shareholder Loans

If you have not repaid the money you borrowed from your company within one year, CRA will add the balance to your taxable income for the year you borrowed the funds. When you eventually repay it, you will receive a tax deduction. This is a CRA auditor’s “bread and butter.”

4. Meals & Entertainment

If you can’t prove why you took someone to dinner, a show, hockey game, etc., CRA will disallow the deduction. So, include this information on all receipts.

5. Employee or Self-employed Contractor?

Who cares? CRA does! Why? If the contractor is an employee, you may owe CPP, EI, WSIB, and Provincial Health Tax. If you are not sure, go to <http://www.cra-arc.gc.ca/E/pub/tg/rc4110/rc4110ed.html>. If you are still unsure, call us.

6. Related-Party Transfer Pricing

Costs charged to related companies or individuals must be reasonable. CRA will review inter-organizational management fees, salaries paid to family members, etc.

7. Travel Expenses

CRA could question you on why you went South on business. Make sure you document your reasons for travel at the time.

8. Foreign Reporting

The Department of Finance created complex foreign reporting rules, including transfer pricing, controlled foreign affiliates, foreign affiliates, foreign trusts, or large foreign investments over \$100,000 Cdn. CRA is enforcing the rules and imposing high penalties for non-compliance.

9. Interest Expense

Can the funds borrowed be traced to business or investment purposes? Make sure you have a proper audit trail.

10. Personal Expenses

CRA will look for personal items in business expenses. Don’t try to write off that video projector you bought for your home theatre!



Keep a log book to support your claims.



CRA could question you on why you went South on business.

EARLY APPLICATION OF CPP BENEFITS



Should I collect my CPP before 65? The answers to many such questions can be found on the Social Development Canada (SDC) web site (<http://www.sdc.gc.ca/en/isp/cpp/cpptoc.shtml>).

Who can collect CPP?

To collect CPP, you must have reached age 65, or have substantially ceased employment. SDC defines “substantially ceased employment” as earning less than the current monthly maximum CPP retirement pension payment (\$828.75 in 2004) **in the month before your pension begins and in the month it begins.** For example, if you had wanted your pension to begin in April 2004, your income must have been less than \$828.75 in both March and April.

Factors to consider before deciding to collect CPP before 65:

- a) Life Expectancy—The shorter your life expectancy (e.g., due to terminal illness, etc.), the more beneficial it would be to collect CPP prior to age 65.
- b) Financial Requirements — Do you really need the money? If you collect CPP early, your monthly benefit amount would be reduced accordingly.
- c) Do you want to stop paying CPP? — For an owner-managed business, it may be possible to substantially cease employment for two months. Once you started working again, you would not have to pay CPP.

The amount of your CPP benefit is based on your employment history. You can obtain an estimate of benefits prior to application by filing a CPP Statement of Contribution form with SDC (<http://www.sdc.gc.ca/en/isp/cpp/soc/proceed.shtml>).

Shared Benefits

If your spouse has a lower taxable income, consider sharing your benefits with them. The net result would be lower tax on your CPP benefits.

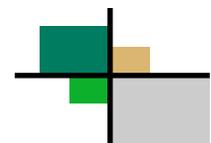
To share the CPP, both spouses must be at least 60 years of age. If only one spouse had contributed to CPP, each spouse would receive a portion of the contributing spouse’s CPP retirement pension.

On death, divorce, or 12-month separation period, the CPP sharing would end, and each spouse would be entitled to his/her pension calculated as though the benefits were never shared.

Taking CPP early, or sharing your benefits with your spouse, should be reviewed as part of your financial planning.



The shorter your life expectancy, the more beneficial it would be to collect CPP prior to age 65.



Do you really need the money?

The amount of your CPP benefit is based on your employment history.

INSURANCE AUDIT AS A FINANCIAL CHECK-UP

Why should one consider completing an insurance audit?

A common problem exists in that after an insurance contract is delivered to clients, they rarely bring it out to complete a review.

Here are some of the things that an audit will provide:

- A thorough understanding of the contractual obligations.
- Confirms that the coverage you think that you have is actually in force.
- Verifies that what is not required has been removed from the policy.
- Determines if there is a method whereby the cash value of your policy can be utilized to pay future premiums.
- Concludes whether the policy has been properly drawn-up, i.e., owner, beneficiary, and premium payor. A taxable situation could be waiting around the corner.
- Disability contracts are difficult to evaluate; however, the main component under contractual obligation is “definitions” :
 - Own Occupation
 - Residual/Partial Coverage
 - Waiting Period
 - Accumulated Days to Satisfy Waiting Period
 - Etc.
- Determines if your business should be paying for disability contracts

and deducting the premiums as a business expense.

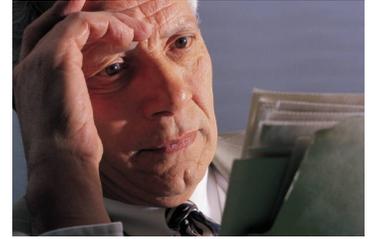
- Critical Illness policies are underwritten by a number of insurers. Unfortunately, there is no standardization of contract definitions (which is essential for clients’ peace of mind at claim time), and analyzing contracts requires the aid of a specialist.
- Verifies if your existing policy qualifies for a reduction of premiums for such changes as:
 - Having stopped smoking
 - Elimination of rating due to improved health
 - Personally, no longer participating in hazardous sports.

Who says that you can’t secure better premiums for the same coverage? Healthy clients qualify for “preferred” underwriting at reduced premiums.

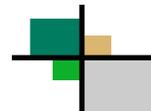
Audits have saved some clients millions of dollars that would have been paid at time of death, as well as premium savings for coverage in excess of \$20,000 annually.

Our experience has demonstrated that an audit provides many values to the insured, owner, and beneficiary.

While we understand the issues, as accountants, we work closely with insurance professionals who focus on business and owner/manager insurance issues.



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