

Tax Tip
Week of July 6, 2009

CRA Audit Trap

A CRA auditor shared this audit step that he uses when reviewing a small business. The auditor attempts to determine either the date of the company president's wedding or wife's birthday. This is raised in general discussions, rather than as a specific audit query. Once the auditor is aware of these dates, he reviews the expense reports of the president on the dates of his anniversary and wife's birthday. The CRA auditor claimed that it was unbelievable how many presidents of a small business would take a customer to a fine dining spot on these evenings and leave the wife at home. The other alternative is that he took the wife out for dinner and expensed the meal.

The auditor would often call the customer, without the president's knowledge, to confirm his or her attendance at the meal. If the meal was a personal item that was paid for by the company, the power in the audit process has swung to CRA. The company can expect a full review of executive expense accounts and when the auditor has discretion to make certain adjustments, they are more likely to take a more aggressive position.

The president's position of "sorry about the clerical error" is totally ineffective. The auditor has formed an opinion on the president's personal ethics and may look at the company's transactions in greater detail.