

## Responding to a CRA Information Request

Earlier this year, Canadians filed over 22 million individual tax returns in about a three-month period between March and June, and every one of those returns was processed and assessed by the Canada Revenue Agency. The CRA's goal is to have each paper-filed return processed and a Notice of Assessment mailed out to the taxpayer within four to six weeks. For e-filed, net-filed, or tele-filed returns, the Agency's self-imposed deadline is reduced to two weeks. Working within such time frames, it's obviously impossible for the CRA to examine every return in minute detail and to verify the accuracy of each and every deduction and credit claimed. And that's why many Canadians find an unexpected letter from the Canada Revenue Agency in the mailbox at this time of year.

Receiving unexpected correspondence from the tax authorities is almost guaranteed to be unsettling for the taxpayer who receives it. But in most cases, it's nothing more than the CRA fulfilling its administrative responsibilities with respect to the assessment of tax returns. Canada's tax system is a self-assessing one, in which taxpayers use a standardized form to provide the revenue authorities with a summary of their income and allowable deductions and credits for the year, calculate tax owed on the resulting taxable income, and remit that amount to the Canada Revenue Agency. In many ways, it's a system that relies heavily on the voluntary and honest participation of taxpayers.

When it comes to the reporting of income for tax purposes, the CRA is usually able to verify amounts by cross-checking the amount of income reported by the taxpayer against a T4 slip issued by the taxpayer's employer or a T5 slip issued by a financial institution for interest income paid to a client. A copy of each such slip is filed with the CRA, making verification of amounts reported relatively easy. When it comes to allowable deductions and credits, however, the verification process is more difficult. In many cases, taxpayers are allowed to claim credits or deductions (for example, federal tax deductions for child care expenses or provincial tax credits for rent or property taxes paid, or – beginning with the 2010 filing season – claims for the popular home renovation tax credit) without being required to provide the CRA with the related receipts documenting the expenditure.

The recent trend, encouraged by the CRA, toward electronic filing of tax returns has made the verification process considerably more difficult. Each year, millions of taxpayers file their tax returns over the telephone or via the Internet. (The CRA estimates that, for the 2009 filing season, over 14 million taxpayers chose to file their returns electronically.) Of course, when a return is filed through electronic means, no paper changes hands, which means that there are no receipts provided to the CRA to substantiate claims made by taxpayers for any deductions or credits.

It's clearly impossible to contact everyone who files a tax return electronically, let alone all tax-filers. Instead, the CRA employs a number of review programs in which some taxpayers are contacted either before or, more likely, after their returns have been filed and assessed, and asked to provide additional information, documentation, or receipts in order to support claims made on that return. Most of those review programs are carried out between the months of September and February.

While it's unsettling, even where everything is in order, to have one's return selected for such review, in the vast majority of cases, a request for additional information or documentation is simply that and no more. Taxpayers often wonder why their particular return was singled out for

review (and how they could have avoided it!), but in many cases, the return was simply selected at random. That said, it's also true that there are some events or circumstances that increase the likelihood that the CRA will request further verification of claims made on a return. As a general rule, where a current-year return contains information that is significantly at variance with that filed in previous years (for example, a significant increase in the amount of medical expenses claimed), the chances that the taxpayer will be contacted for more information increase. Similarly, a change in the taxpayer's personal circumstances that alters the tax deductions or credits for which he or she is eligible may generate a query from the CRA. For instance, a recently separated or divorced parent who claims the eligible dependant credit for the first time may be asked to substantiate the fact that there has been a separation or divorce and that he or she has custody and care of the child for whom the credit is being claimed. And, of course, where the income reported on a return doesn't match the number on a T4 slip (for example, if you say you earned \$28,000 during the year, but the T4 slip issued by your employer puts your income at \$33,000), the CRA is going to want to know why.

In the vast majority of cases, claims made and information reported on a return are accurate and legitimate, and once the CRA is provided with the requested information or documentation, the matter will be at an end. Problems arise, however, where taxpayers either don't have the documentation requested (because they haven't kept, have lost, or have destroyed the related receipts) or because they simply elect to ignore the letter from the CRA in the hope, perhaps, that the Agency will forget all about it. Unfortunately for such taxpayers, either approach will eventually end with the return being reassessed to disallow the deduction claimed, and the resulting increased tax bill. The onus is always on the taxpayer to provide proof of eligibility for any deductions or credits claimed, and the CRA has the legal right to ask for such proof and to disallow deductions or credits where that proof is not forthcoming.

Typically, where the CRA asks a taxpayer for information or documentation, it will also indicate a deadline (usually within 30 days) by which the information or documentation must be provided. That information or documentation can be provided by fax or by regular mail (the CRA does not deal with taxpayers on confidential tax matters through e-mail, for security and privacy reasons), and the letter will include a toll-free fax number that can be used. It's always advisable to keep copies of any correspondence with the CRA and, especially, to keep copies of any receipts sent to the Agency. (Note that where the CRA has asked for receipts, it will not consider cancelled cheques or cheque images, or invoices, as acceptable substitutes.) Any letters sent to the CRA should include the social insurance number of the taxpayer and the Reference Number that will appear in the top right-hand corner of the CRA's original letter. As well, the letter will include a toll-free telephone number at which the taxpayer can contact a CRA representative for any needed clarification. Finally, it's not a bad idea to send the reply by a means (either through Canada Post or one of the private courier services) that will allow the taxpayer to verify that the reply has indeed been received by the Agency, and the date on which it arrived.

A final practical point: Each year, the CRA sends review requests to many taxpayers who never receive the letter because the address that the CRA has for those taxpayers is out of date. Sometimes, such taxpayers first learn of the review query when a letter finally catches up to them informing them that they owe additional tax as a result of their failure to respond to earlier CRA correspondence! It's a particular problem for post-secondary students, who may file a return in March or April while living at one address and then move shortly thereafter. For them, the best course of action is to use a more permanent address – usually, their parents' home address – as the address they have on file with the CRA. In all cases, however, it's up to

individual taxpayers to keep the CRA informed of a current address at which they can be reached.

The vast majority of requests for information issued by the CRA are generated simply as part of their standard review programs and don't mean that there is anything "wrong" with the taxpayer's return. Responding to the CRA's request in a timely fashion with the requested information or documentation (and keeping copies of both) will, in nearly all cases, bring the matter to a satisfactory conclusion for both the taxpayer and the Agency.