

RICHTER
BUSINESS | FAMILY OFFICE

Government Audits — The Journey is the Destination

JUNE 20, 2023

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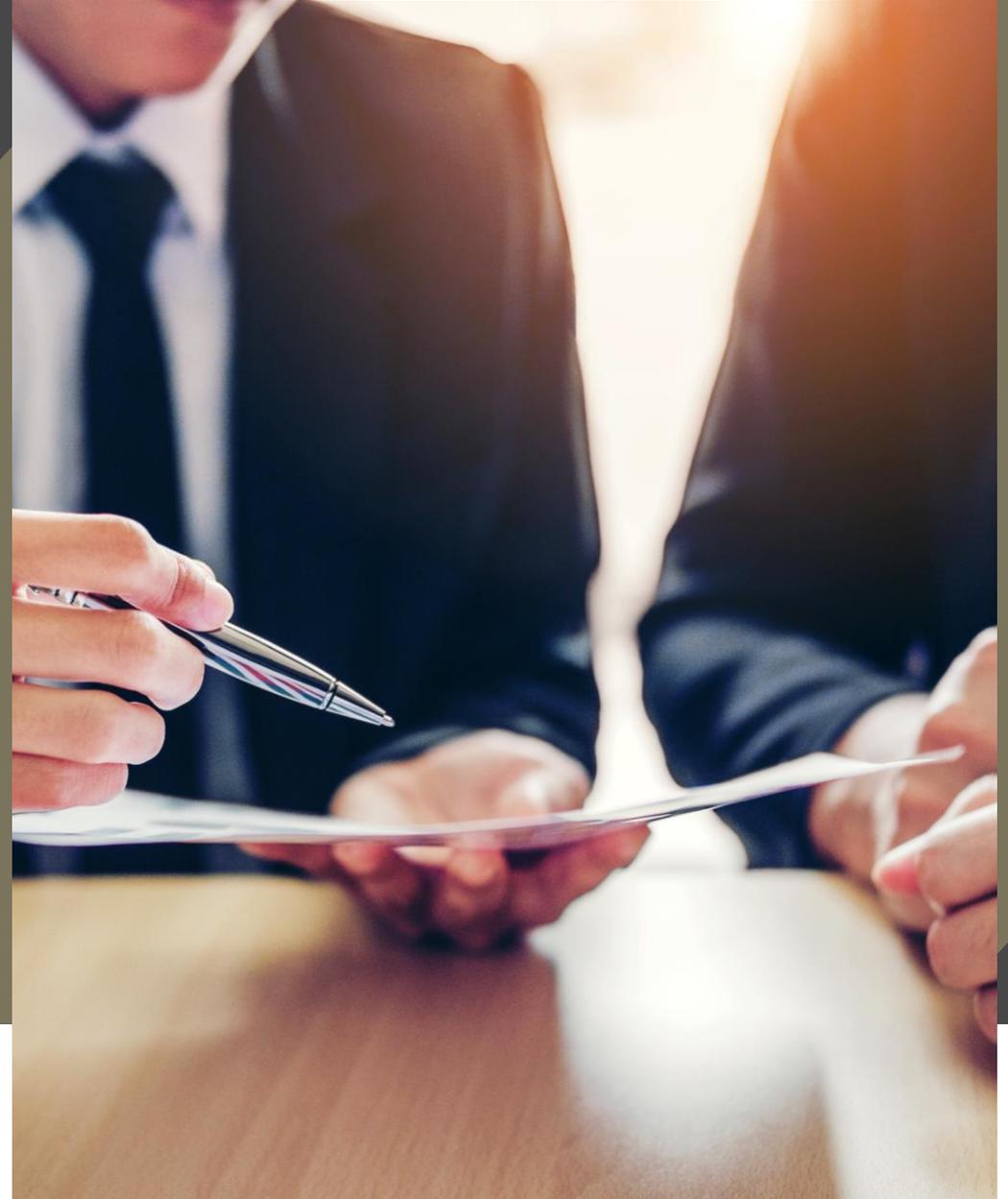
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[RICHTER.CA](https://www.richter.ca)



Our Experts

GOVERNMENT AUDITS –
THE JOURNEY IS THE DESTINATION



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Outline

- 01 Introduction
- 02 Pre-Audit Process
- 03 Audit Management
- 04 Troubleshooting
- 05 Special Topics



Introduction

Context

Governments today issue an increasing number of assessments and the process to conclusion of these assessments is often long and frustrating.

Our objective is to have participants:

1. Understand the current environment
2. Manage in the world of increasing government assessments

Tax Audit Landscape

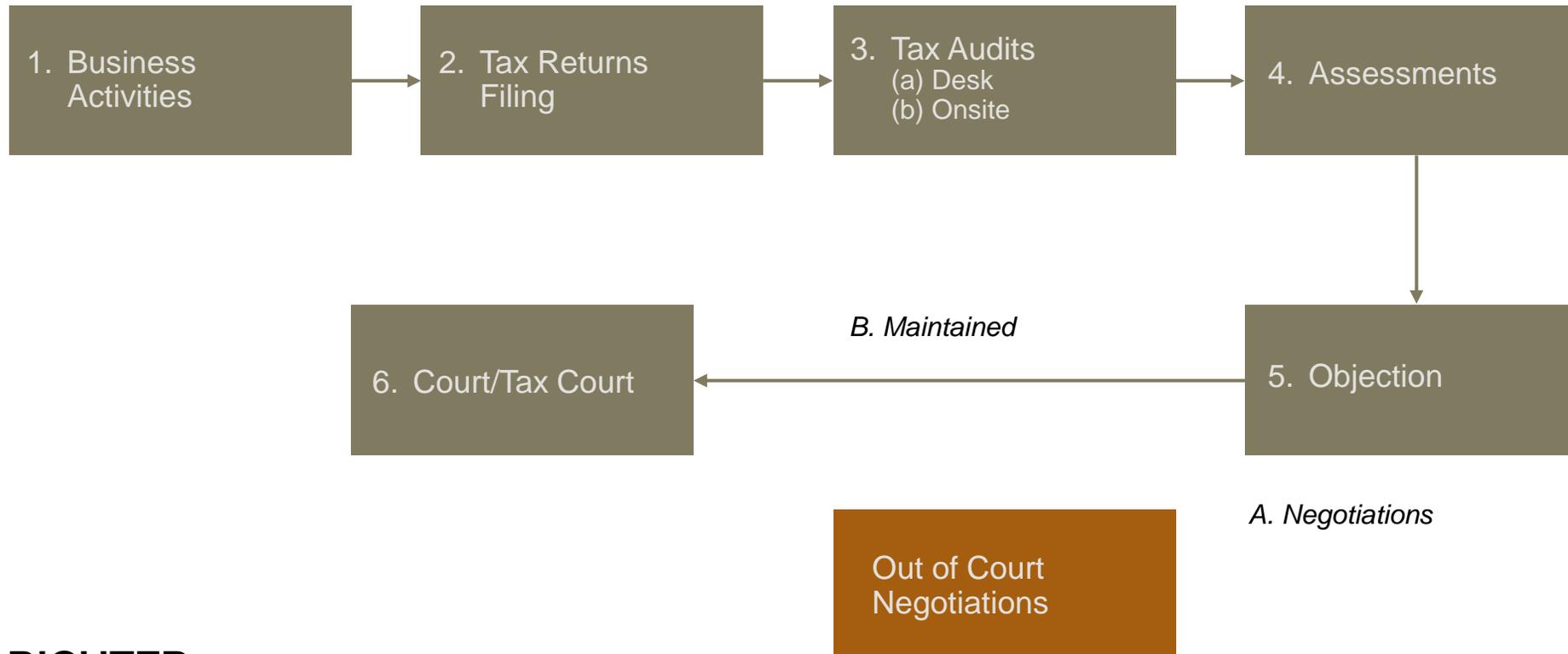
Great Powers of Tax Authorities

1. Tax authorities are entitled to obtain documents and information:
 - i. G/L, billing and AP data to perform their audits.
 - ii. Computer Assisted Audits programs:
Used to increase efficiency
 - iii. Use of oral interviews
2. When Taxpayers fail to deliver the data requested by the tax authorities, said tax authorities may issue a peremptory request
3. Without the proper information or documentation available, the tax authorities may issue assessments based on estimates

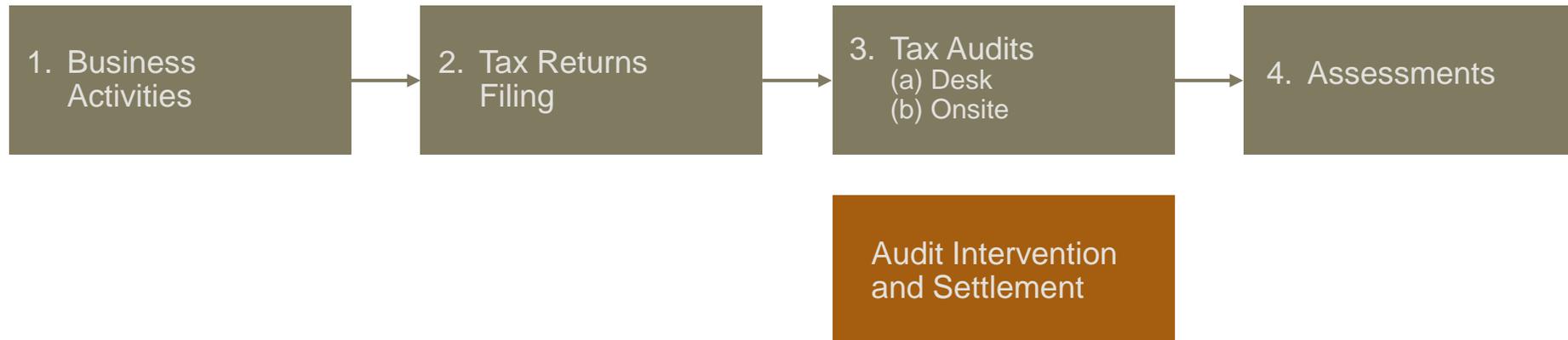
Contingencies — Tax Scrutiny

HAVE YOU EVER ACCRUED /
DISCLOSED FOR...?

Overview of Government Tax Processes



Richter Overview of Government Tax Processes



Tax Audits (Mis-)Management

The CLAM

- Gives as little information as possible
- **Tax auditors can just issue an estimated assessment**

The GENEROUS

- Gives all requested information and then more
- **Often results in an overstated assessment**

The NERVOUS

- Acts nervously when requested information
- Provides confusing info that is difficult to understand
- **Often results in misinterpreted data and delays**

The ORGANIZED

- Keeps track of all requests
- Asks questions about requests
- Offers alternative information to drive efficiency
- **Documentation enables escalation if necessary**

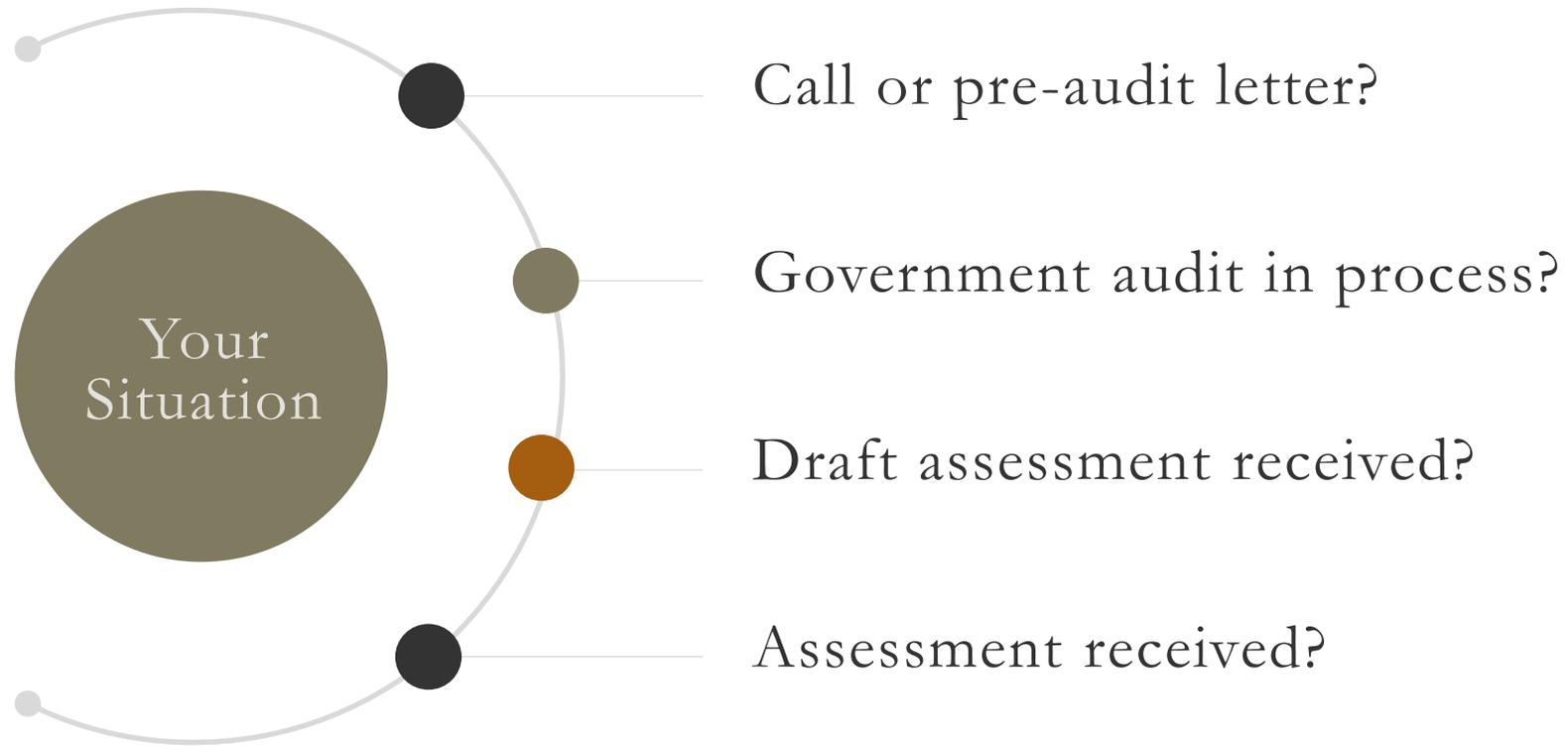
MR. X ENTITIES

Detailed List of Actions

Audit Request Dated February 2, 2018

CRA Request Date	ENTITY	Document Request	YE	Completed	Date	Notes for Auditor	Internal Notes
02-Feb-18	Mr. X	All personal investment statements (RRSPs, mutual funds, term deposits, etc)	2014 - 2015 - 2016	Uploaded	01-Jun-18	See personal investment folder (in Mr. X folder)	Missing March 2015 statements
02-Feb-18	Mr. X	Completed List of assets (CRA form) - assets bought and/or sold	2014 - 2015 - 2016	Done	01-Mar-18	As discussed in our meeting, all assets are reflected in the statements to be provided under this information request.	
02-Feb-18	Mr. X	Property and vehicle insurance policy documents	2014 - 2015 - 2016	In progress			
02-Feb-18	Mr. X	Completed CRA form "Estimated cost of living" - household personal and living expenditures	2014 - 2015 - 2016	No		As discussed in our February 15, 2018 meeting, other information is to be provided first and pertinence of this request is then to be determined	
02-Feb-18	Mr. X	Income Tax Filings - federal and provincial	2014 - 2015 - 2016	Uploaded	08-Mar-18		
02-Feb-18	Mr. X	Private company share purchase/sale agreements	2014 - 2015 - 2016	N/A		No private company shares were bought or sold in the years under audit	
02-Feb-18	Mr. X	A. Organizational chart - entities controlled directly or indirectly as at Dec 31 of every year under review, including country of incorporation, percentage ownership by you and other entities and relationship between them (documents/info re: any entities within/outside Canada which are related or with which an economic relationship exists)	2014 - 2015 - 2016	Uploaded	01-Jun-18	See org chart folder (in Mr. X folder). Please note that all entities controlled are domestic	
02-Feb-18	Mr. X	B. Organizational chart as at Dec 31 of every year under review - entities where a member of your family was beneficially interested which are not included in Org Chart A (documents/info re: any entities within/outside Canada which are related or with which an economic relationship exists)	2014 - 2015 - 2016	Uploaded	01-Jun-18	See org chart folder (in Mr. X folder).	Distinguished from above request on control vs. beneficial ownership.
02-Feb-18	Mr. X	C. Details of all reorganizations and/or restructuring occurring the year prior to 2014 and during the years under examination, including an organization chart prior to and immediately after the reorg, reflecting steps taken in the transaction(s), and arriving at Org charts A/B above (documents/info re: any entities within/outside Canada which are related or with which an economic relationship exists)	2013 - 2014 - 2015 - 2016	No		Provided for within the A and B of the org chart request.	

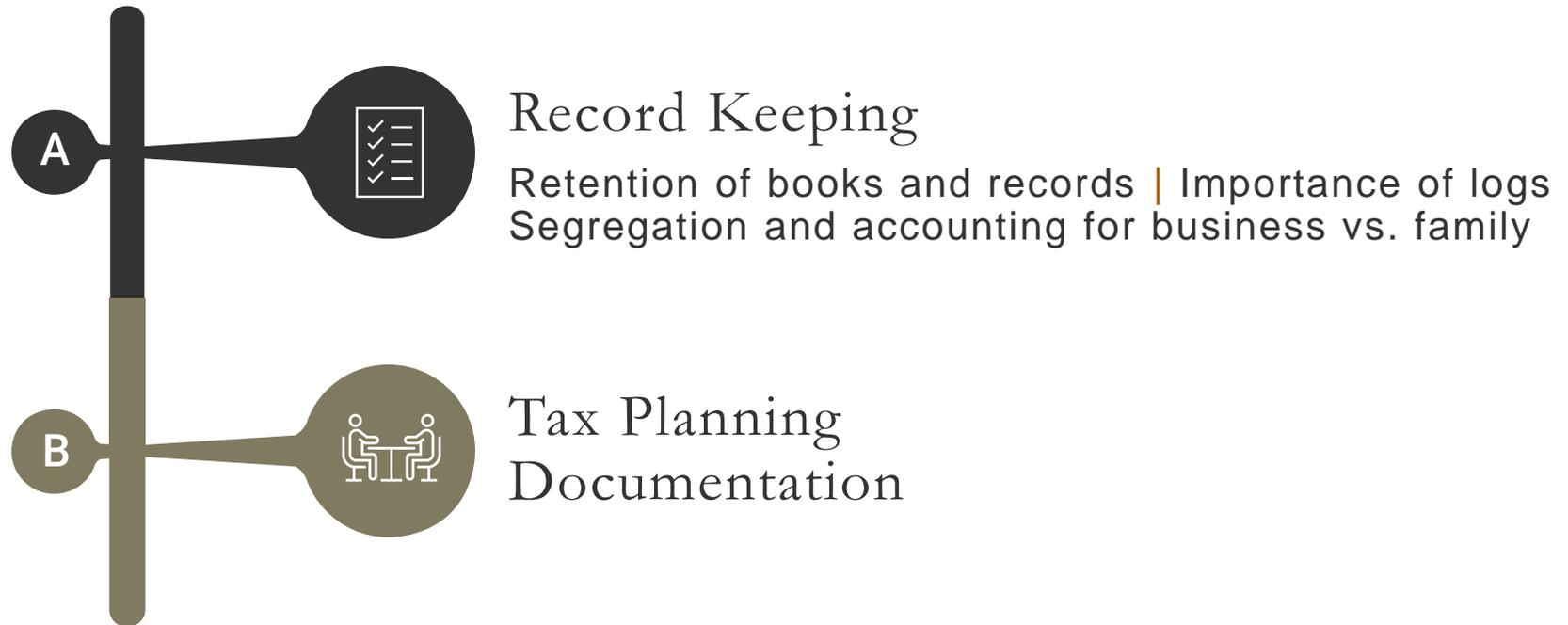
Which Situation Are You In?





Pre-Audit Process

Pre-Audit Process



Pre-Audit Process

Le 30 janvier 2023

Notre référence :

Objet : Gouvernance sur le risque fiscal de la société pour l'année d'imposition 2019

NE :

Monsieur,

Tel que discuté lors de notre conversation téléphonique du 30 janvier 2023, nous planifions actuellement la vérification de et de ses entités liées/associées pour l'année d'imposition mentionnée ci-dessus.

Pour planifier efficacement la présente vérification, nous aurons besoin de certaines informations préalables dans le but d'être en mesure d'élaborer un plan de vérification complet, qui vous sera présenté, par écrit, à une date ultérieure.

Pour que la vérification puisse se dérouler sans délai, veuillez s.v.p. nous fournir la documentation suivante ainsi que les pièces justificatives pour l'année visée d'ici le **2 mars 2023** :

1. Une représentation de la structure corporative du groupe et de l'actionnariat;
2. L'organigramme hiérarchique de la structure fonctionnelle de la société;
3. Les registres des procès-verbaux des réunions du conseil d'administration et de tous ses comités pour l'année visée et le premier trimestre de 2020;
4. Les états financiers détaillés non consolidés et les notes afférentes;
5. Une brève description des activités et des processus associés à la société
6. Exposé-résumé des transactions importantes survenues au niveau de tout le groupe dans le cycle de vérification: acquisitions, dispositions, fusions, liquidations, réorganisations, etc.;
7. Une version complète des déclarations de revenus et les annexes produites;
8. Les feuilles de travail appuyant les annexes produites avec les déclarations de revenus (annexe 001, 004, 005, 008, etc., y compris celles relatives aux ajustements à l'annexe 1);
9. Les cotisations et les nouvelles cotisations des juridictions provinciales;

10. La conciliation entre les déclarations de revenus (IGRF) et les montants aux états financiers;
11. La charte des comptes et la balance de vérification incluant les écritures de fin d'année;
12. Le regroupement des comptes du Grand livre correspondant à la balance de vérification et les états financiers, incluant les feuilles maîtresses et les feuilles de travail comptable;
13. Une analyse des variations de taux de change (à la fois réalisées et non réalisées) rapportées tant d'un point de vue comptable que fiscal, si applicable;
14. Une description des changements de politiques comptables adoptés durant la période de vérification;
15. Veuillez nous fournir les feuilles de travail ainsi que toutes les pièces justificatives (p. ex. copies des contrats, relevés et autres) concernant le produit de disposition (PD) ainsi que le prix de base rajusté (PBR) pour les dispositions suivantes, indiquées à l'annexe 6 :
 -
 -
 -
 -
16. Veuillez nous fournir les feuilles de travail ainsi que toutes les pièces justificatives (p. ex. la déclaration T5013 avec les relevés) concernant les revenus des sociétés de personnes et les rajustements connexes, inscrites aux annexes 001, 004, 006 et 073.
17. Veuillez nous fournir toutes les pièces justificatives (p. ex. preuves de paiement, copies des contrats) concernant les dépenses incluses dans le solde d'ouverture indiqué à la section 5- Frais cumulatifs d'aménagement au Canada (FCAC), Annexe 12.
18. Veuillez nous fournir toutes les pièces justificatives (p. ex. preuves de paiement, copies des contrats) concernant les contrats de prêt avec les sociétés apparentées incluant les sociétés non-résidentes et pour les transactions effectuées au cours de l'année d'imposition 2019.
19. Le détail (sous forme de tableau Excel) des biens acquis par la société dans l'année 2019, comme indiqué à l'annexe 8, pour les catégories d'amortissement suivantes:
 - catégorie 7 (49 520 602\$), catégorie 10 (11 603 690\$), catégorie 14 (1 850 000\$), catégorie 16 (4 891 596\$), catégorie 17 (8 848 322\$), catégorie 53 (104 075 895\$),Les éléments suivants doivent être indiqués par dépense et pour chaque bien acquis :
 - Le nom du bien;
 - Une brève description du bien;
 - La fonction effectuée par le bien;
 - La facture;
 - La date de mise en service;
 - Le bien est acheté (neuf ou usagé), remis à neuf ou construit par vous;
 - La date d'acquisition ou début de la construction;
 - Le produit fabriqué ou transformé par le bien (catégorie 53);
 - Le nom et l'adresse de l'usine dans laquelle il est utilisé.
20. Une brève description du processus de fabrication et transformation de la société, les catégories des biens utilisés dans le processus, avec un schéma du processus, si applicable.

Pre-Audit Process (cont'd)

PROTÉGÉ B / PROTECTED B

21. Copies des contrats d'acquisition, factures d'achat pour chaque bien acquis inscrit dans les catégories énumérées à la question 20. Si le nombre de factures est important, veuillez-nous en informer, car nous vous enverrons un échantillon de factures sur la base de votre fichier Excel demandé à la question 20.
22. Veuillez nous fournir la feuille de travail avec une brève description concernant les ajustements par rapport aux « Réserves comptables » à l'annexe 001.

Veuillez prendre note que nous acceptons une version électronique des documents susmentionnés en utilisant le portail électronique de l'Agence (« Mon dossier d'entreprise »). Nous vous prions d'utiliser le numéro de cas à la première page de cette lettre lorsque vous soumettez les documents.

Suite à une revue plus détaillée, nous pourrions inclure d'autres membres du groupe de sociétés dans notre plan de vérification et aussi examiner certaines transactions spécifiques si nous le jugeons nécessaire.

Par ailleurs, nous aimerions aussi prendre le temps de discuter avec vous des arrangements entourant l'exercice de notre mandat :

- a) La date prévue de début de vérification;
- b) Noms et numéros de téléphone de l'équipe de vérification incluant les spécialistes présents au dossier;
- c) Les noms des différentes personnes-ressources assistant votre société ainsi que leurs coordonnées, si celles-ci sont différentes de l'adresse de la présente correspondance;
- d) Les instructions d'acheminement des communications de l'équipe de vérification et vice-versa;
- e) Les procédures de demandes de renseignements, le calendrier des réunions et leurs fréquences;
- f) Toutes autres questions administratives,

Après la vérification de la documentation demandée par la présente, nous serons alors en mesure de vous présenter et de vous expliquer notre plan de vérification. Veuillez noter qu'au cours de la vérification, il pourrait y avoir des circonstances pour lesquelles nous aurions à modifier notre plan de vérification pour y inclure des enjeux ou des entités additionnelles.

Si vous avez des questions à poser, vous pouvez me joindre au numéro indiqué ci-dessous.

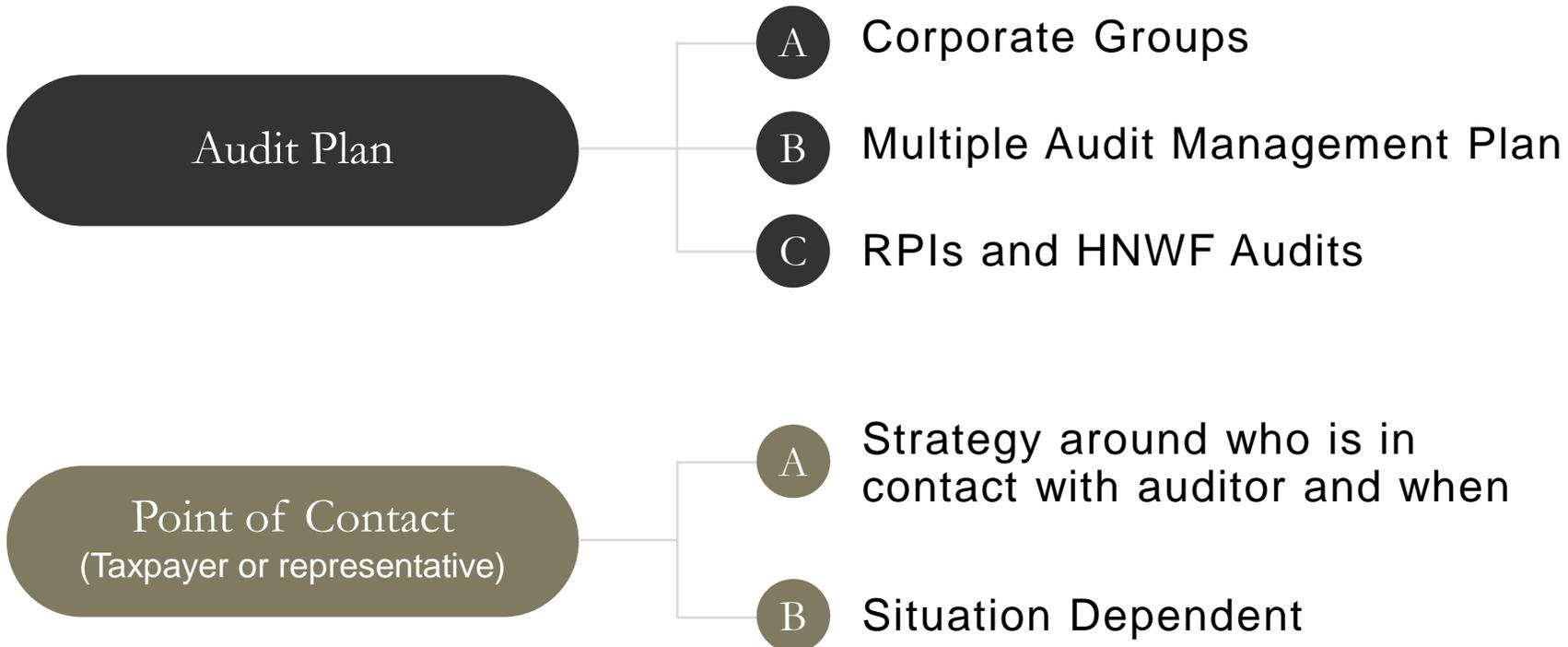
Veuillez agréer, Monsieur, mes salutations distinguées.

Signature numérique de BARRY SRADJOU
Date : 2023.01.30 15:19:37 -0500

Gestionnaire de cas du Secteur international et des grandes entreprises
Bureau des services fiscaux de Montréal
305, Boul. René-Lévesque Ouest, C.P. 42
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Tel : 514-268-1582

Pre-Audit Process

Statute of Limitations

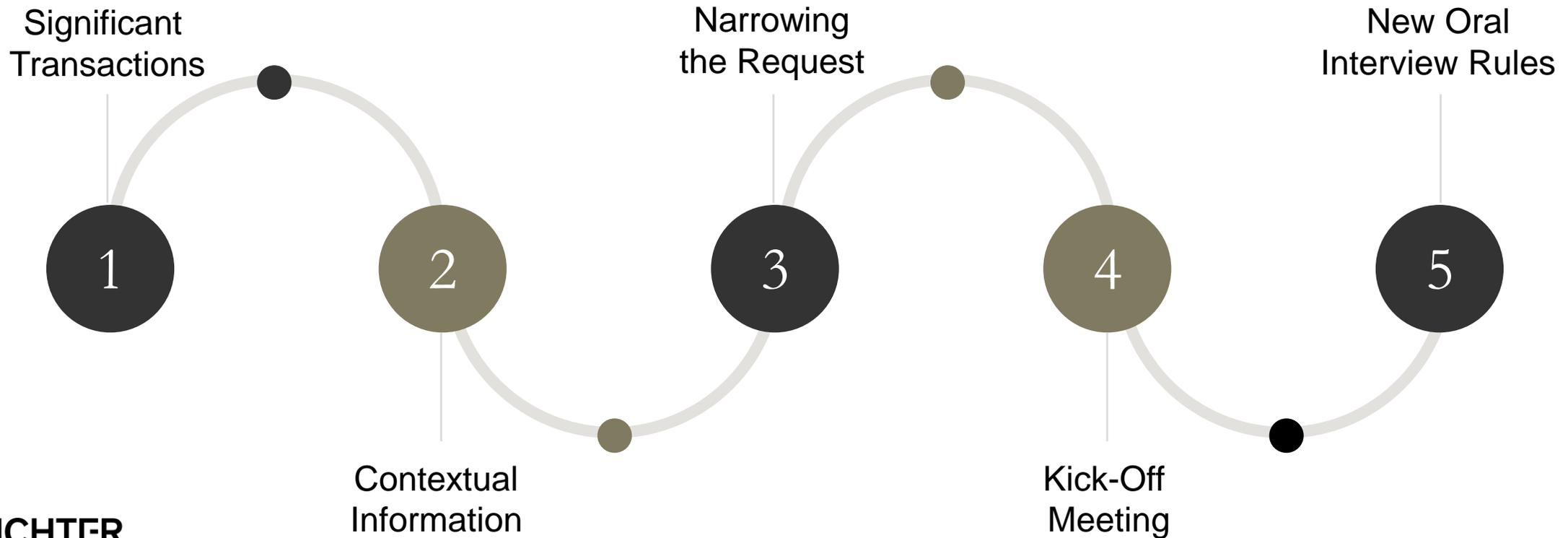




Audit Management

Audit Management

Setting the Stage



Audit Management

Review of Data

- Clean Up Notes
- Isolate Privileged Information
- Answer What is Asked



Initial Submission

- Importance of Cover Letters
- Transfer of Information

Audit Management

Feedback from Auditor/
Follow-up Questions

- Agree on Timeline and
Periodic Status Update

Maintain a
Communication Log

Audit Management

When Push Comes to Shove

Waivers

- Consequences
- Limit the scope of the waiver
- Revocation

Taxpayer Bill of Rights

- *Charter of taxpayers' and mandataries' rights (Qc)*



Troubleshooting

When Push Comes to Shove



Escalation
Involvement of Supervisor or Team Leader |
New Auditor | Other Actors (*Finance, Policy Branches, MPs*) |
Tax Litigator (*Time and place*)



Ombudsman/
Bureau de protection de droit



Access to
Information Request

When Push Comes to Shove

Notice of Objection/
Notice of Appeal – Last Resort

01

Zone of No Return

02

Materiality

03

Large Corporation
Objections

04

Boundaries of
Objections

05

Choice between Objection
+ Litigation (Expedition)



Special Topics

Related Party Initiatives/ HNWF Audits

- Large corporate groups with sophisticated international holdings
- Lengthy audit
- Importance of coordination (*the whole family*)
- Interviewing the auditor and addressing concerns
- Narrowing the scope of the audit
- Setting the stage – doubly important
- Oral interviews

 Canada Revenue Agency / Agence du revenu du Canada

Your file / Votre référence
Our file / Notre référence

Section:
Telephone:
Fax:

Dear _____

Subject: Income tax returns for 2014, 2015 and 2016

Further to our telephone conversation held on _____ I would like to confirm our appointment at your place of business on _____ at 10:00 am.

The purpose of this meeting will be to gather other information about your income tax returns. Consequently, please have available for review, for the tax periods mentioned above, all documents, including the following information:

- All personal investment statements (e.g., for RRSPs, mutual funds, term deposits, etc.);
- All personal bank account statements/passbooks and/or transaction records. The enclosed document entitled *List of bank accounts* must be duly completed;
- All credit card statements, line of credit statements and loan/mortgage documents. The enclosed document entitled *List of credit cards* must be duly completed;
- The enclosed document entitled *List of assets* must be duly completed. This document concerns the assets bought and/or sold for the years 2014, 2015 and 2016;
- All property and vehicle insurance policy documents;
- The enclosed document entitled *Estimated cost of living* must be duly completed. This document concerns your annual household personal and living expenditures for the year 2016;
- Your income tax returns (federal and provincial);
- All loans or advances to businesses, corporations, partnerships or private individuals;
- All private company share purchase / sale agreements;
- All relevant documents for medical expenses, donations and carrying charges/interest expenses claimed on your personal Income tax returns for 2014 to 2016;
- Documents and information relating to any entities both within and outside Canada which you are related to or have an economic relationship with including:
 - a. An organization chart as at December 31st of each year under examination (2014, 2015 and 2016) setting out all *entities* (listed/unlisted, private/public, resident/non-resident, corporations, trusts, bare trusts, partnerships, co-ownerships, joint ventures, Anstalt, Stiftung, Sociedad Anonima, etc.) which you or a member of your *family*, either alone or together, with *related parties* controlled *directly* or *indirectly*. The organization chart should also include the country of incorporation, percentage of ownership by you and by other entities and the relationships between these *entities*.

Related Party Initiatives/ HNWF Audits (cont'd)

-2-

- b. An organization chart as at December 31st of each year under review setting out all *entities* in which a member of your family was *beneficially interested* and that are not already included in the organization chart provided under a. above.
- c. Details of all reorganizations and/or restructuring that occurred during the year immediately prior to 2014 and during the years under examination, 2014, 2015 and 2016. This would include an organization chart prior to and immediately after the reorganization to reflect the steps taken to complete the transaction(s) and arrive at the charts submitted under a. and b. above.

Words or phrases in italics under a. and b. above have specific meanings for the purposes of our request. The definitions for these terms are enclosed.

For all records mentioned above, please provide the same information regarding your spouse and children. Additional information or documents may also be required to complete the audit.

The periods under review and the scope of the audit may be extended to verify other books and records, including personal records, to accurately determine the taxes payable.

The length of the audit will depend on the state of your records, complexity of your tax returns and your cooperation. I will keep you informed and updated throughout the course of the audit.

I will also inform you of any proposed adjustments and, if necessary, you will have a period of 30 days to make any observations and/or statements. I would be pleased to discuss with you any points with which you do not agree.

To help you prepare for the audit, go to Pamphlet RC4188, *What you should know about audits*, at www.canada.ca/cra-forms. In addition, the *Taxpayer Bill of Rights* is a set of 16 rights confirming that the Canada Revenue Agency will serve taxpayers with a high degree of accuracy, professionalism, courtesy, and fairness. For more information, go to *Taxpayer Bill of Rights* at www.canada.ca/taxpayer-rights.

Should you have any questions about this visit, feel free to contact me at the number mentioned above.

At any time during the audit, you may contact my supervisor, _____, at the following number _____

Yours sincerely _____

Audit Division
Canada Revenue Agency

Enclosures

MR. X ENTITIES

Detailed List of Actions

Audit Request Dated February 2, 2018

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Extended Audit Powers

Compelled Oral Interviews

Proposed Process

- Questions in Writing
- Agree on a Timeframe
- Use of a Representative

Disclosure Requirements

- 1 Reportable and Notifiable Transactions
- 2 New GAAR Rule
- 3 Mandatory Disclosure of a Specified Transaction (Quebec)
- 4 Nominee Reporting (Quebec)
- 5 Corporate Registry Disclosures
- 6 Increased General Reporting
Ex: 1134, rollover forms, trust disclosures, etc.

Penalties and Interest Relief

Taxpayer Relief

- “Extraordinary” Circumstances
- Actions of the CRA
- Financial Hardship
- Other Circumstances

Due Diligence Defense

A Post-Pandemic Era

- 1 Catching Up From the Past
- 2 Subsidies: Offsetting Adjustments
- 3 Statute of Limitations
- 4 Interest and Penalties

RICHTER

BUSINESS | FAMILY OFFICE

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