



Canada Revenue
Agency

Agence du revenu
du Canada

What you should know about audits

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What you should know about audits

Audits are an important part of the Canada Revenue Agency's (CRA) range of activities aimed at ensuring the tax system is fair for everyone. During audits, the CRA closely examines books and records of taxpayers to confirm whether they are fulfilling their tax obligations, following tax laws correctly, and receiving any benefits or refunds to which they are entitled.

The vast majority of taxpayers comply with tax laws in Canada. The CRA's

auditing processes help these taxpayers better understand and meet their obligations, and help to maintain public confidence in the fairness and integrity of Canada's tax system.

If you have been selected for an audit, the CRA has information available to help you. Here are some important facts to get you started.

How does the CRA select files for audits?

The CRA selects which files to audit based on a risk assessment. The assessment looks at a number of factors, such as the likelihood or frequency of errors in tax returns or whether there are indications of non-compliance with tax

obligations. The CRA also looks at the information it has on file for a taxpayer, and may compare that information to similar files or consider information from other audits or investigations.

How does the CRA conduct audits?

What is the first step in the audit process?

A CRA auditor will contact you by mail or phone, or both, to begin the audit process and inform you of the date, time, and location of the audit.

Normally, on-site audits take place at your personal residence, your place of business, or at your representative's office. The auditor will present you with a valid identification card upon arrival, and then start the audit. On-site audits can be helpful, because they often allow questions to be addressed quickly and can minimize delays in completing the audit.

If the audit is not conducted on-site, it will take place at a CRA office. The CRA makes the best use of its resources by centralizing the management of some audit files to particular CRA office locations. This means

that you may be assigned an auditor who is located outside your geographic region. In this situation, the auditor will ask that you bring or send any supporting documents required for the audit.

In both cases, the auditor may need to make copies of your electronic records or borrow some of your documents. The auditor will give you a detailed receipt for any borrowed documents and return them as soon as possible.

Sending your records online to the CRA

Auditors are not permitted to receive records by email because information sent this way may not be secure. Your assigned auditor can provide information about how you can submit documents online using the CRA's secure online services.

Did you know?

- Your personal records and the personal or business records of other individuals or entities are legally considered to be part of the items that relate, or may relate, to the tax return being audited, and can be reviewed by a CRA auditor.
- An auditor can examine the records of family members.
- An auditor may ask questions about the operations of your business to the employees who do your accounting entries.

What does an auditor examine during an audit?

The auditor will examine books and records, documents, and information (collectively referred to as records) such as:

- information available to the CRA (such as tax returns previously filed, credit bureau searches, or property database information);
- your business records (such as ledgers, journals, invoices, receipts, contracts, rental records, and bank statements);
- your personal records (such as bank statements, mortgage documents, and credit card statements);
- the personal or business records of other individuals or entities not being audited (for example, a spouse, family members, corporations, partnerships, or a trust [settlor, beneficiary, and trustee]); and
- adjustments made by your bookkeeper or accountant for tax purposes.

During an audit, the auditor may find issues and discuss them with you. You can also raise your concerns with the auditor at any time.

Once the auditor completes the examination of the records provided, a number of things can happen depending on the outcome of the examination:

- **Correct assessment:** If the auditor finds that your previous assessment is correct, nothing more has to be done. You will receive a completion letter and the audit will be closed.
- **More taxes owed or a refund:** If the auditor finds that your return has to be reassessed (which means you will have to pay more taxes or be entitled to a refund), you will receive a proposal letter explaining the reason for the reassessment. You will have 30 days to agree or disagree with the proposal.

If you disagree with the proposal, you are encouraged to contact the auditor to explain why you disagree and provide any additional documents that support your position. The auditor will carefully consider your explanations and respond to your questions about the proposal.

If issues remain unresolved, you can contact the auditor's team leader to discuss further. The team leader's contact information is included in all correspondence sent to you by the auditor.

What happens at the end of the audit?

At the end of the audit, a final letter will be sent to you and one of three things will occur:

- no adjustments will be made to your previous assessment;
- an adjustment resulting in more tax owing will be made (reassessment) and you will have to pay the balance owing; or
- an adjustment resulting in less tax owing will be made (reassessment) and you will be entitled to a refund.

If the adjustment results in more taxes being owed, the auditor can provide you with an estimate of the amount before the CRA issues a notice of assessment or notice of reassessment. This will give you the opportunity to avoid more interest charges by paying all or part of what you owe right away rather than waiting for the notice. For more information, see www.cra.gc.ca/payments.

What if I don't agree with the reassessment?

If you disagree with the reassessment, you have the right to appeal it. For more information, see www.cra-arc.gc.ca/tx/bsnss/tpcs/lf-vnts/ppls/menu-eng.html.

How much time does it take to complete an audit?

The time it takes to complete an audit varies depending on a number of factors, such as: the state of the records; the scope of the audit; potential delays due to missing records; and consultation with other CRA tax specialists.

Well-kept records and co-operation with the auditor will reduce the time it takes to complete an audit. When requested records are not provided or are hard to find, delays can result.

If you no longer have certain records, you must try to obtain copies from the parties that originally created them (for example, financial institutions or suppliers). If these records can't be obtained, speak with the auditor or the auditor's team leader who will work with you to find alternative methods to confirm the amounts reported on your return.

For more information, see www.cra.gc.ca/records.

Your rights and responsibilities

What are your rights?

The Taxpayer Bill of Rights (TBR) is a set of 16 rights that you have as a taxpayer in your relationship with the CRA. These rights confirm the CRA's commitment to serve you with professionalism, courtesy and fairness.

To make sure the interactions of small business with the CRA are as effective and efficient as possible, the Taxpayer Bill of Rights also includes a Commitment to Small Business.

Under the TBR, you have the right to file a complaint if you are not satisfied with the service you received from the CRA. For more information, see www.cra.gc.ca/resolvingdisputes.

To learn more about your rights and what you can expect when you deal with the CRA, see Guide RC17, *Taxpayer Bill of Rights Guide: Understanding your rights as a taxpayer*.

What are your responsibilities?

By law, you have to keep adequate books and records to determine your tax obligations and your entitlements. Generally, books and records must be kept for a minimum of six years.

If you use a computer for your accounting records, you must keep your books and records in an electronically readable format, even if you also keep them on paper. Using

the services of a tax professional does not relieve you of your responsibilities.

For an audit, you must make available to the auditor all of your relevant records

(both paper and electronic) and supporting documents, and provide complete and timely explanations to the auditor's questions.

Need more information?

To get more information about CRA audit programs and policies, or to comment on audit processes, you can contact your tax services office. You will find the telephone number and mailing address of your tax services office at www.cra-arc.gc.ca/cntct/tso-bsf-eng.html.

You can also view the following videos that explain the CRA's tax audit process:

- Why do we audit and what is a tax audit?
- What are your responsibilities and what happens during an audit?
- What are your rights?