How to ring up a $20,000 tax bill

Doing it yourself only works if you actually do it yourself

Tax Talk

Scott Taylor

It's not often that I get frustrated with a client. I've been working with owner/operators for more than 20 years and have yet to meet one who got into the business for the satisfaction of filling out forms and paying taxes.

So it's no surprise when a client says, "Can you explain this in plain English?" or "Why are they sending me this?" or "When is this due?" I'm happy to take those calls because I know how tough it is to manage a business from the seat of a truck. And nothing feels better than to help an owner/operator take control of his finances and earn a better living.

But every now and then I get a call like this one, from a former client.

This owner/operator had us do his quarterly accounting for a few years until he decided he could do it himself. We were supposed to hear from the guy each year to help him file his annual tax return, but after three years passed I assumed he had taken his books to someone else.

In fact, he didn't have time to do his own accounting so he just didn't do it at all. In the three years since he left us, he had filed an income tax return just once, and had only recently managed to file his outstanding GST returns.

It wasn't long before Canada Revenue Agency called him. They wanted to audit one of his 2006 GST returns. He wasn't sure how to handle CRA, and of course wanted to avoid the whole issue about his unfiled income tax returns, so he didn't respond to CRA's phone calls and letters.

Ultimately, CRA denied his GST refunds as non-supported and denied the related expenses on his tax return. Now the guy owes about $20,000 and he's in collections.

That's when he called me for advice.

At this point, I'm thinking he still can halt the collections process by having the audit re-examined. When CRA issues a Notice of Assessment or Re-Assessment, you have 90 days to file a Notice of Objection. When a Notice of Objection is filed, collection actions are stopped immediately while a higher-level CRA employee reviews the case. It's a great way to help ensure that the audit was fair.

Unfortunately, the owner/operator was about 115 days past the Notice of Re-Assessment date.

Now he's in real trouble. Because he ignored CRA's calls and letters, it's going to be hard for the owner/operator to persuade them that he simply made a mistake in his effort to meet his tax obligations.

This isn't the first time I've seen someone let CRA notices pile up unopened or miss filing deadlines. In fact, we have clients who came to us in desperate straits and, after some hard work, now are in complete control of their business. How do they get there? They all take two important steps:

1. Ask for help. Long story short, the owner/operator underestimated how much time it would take to handle his own books. He couldn't get caught up, let his filing deadlines pass, and then ignored the notices from CRA. Any money he thought he'd save in accounting fees is going to be blown in interest and penalties. In this case the guy's options may be limited, but at least now he's getting good advice.

Tax codes are confusing and they change from year to year. If you need help, ask an expert. There's no such thing as a stupid question.

2. Hold quarterly reviews. Ask your accountant to provide financial statements each quarter. With a three-month snapshot, you're in a better position to take advantage of deductions and other tax-saving strategies before the year is over and it's too late.

This won't guarantee a low tax bill, but it will guarantee you the *right* tax bill.

I can't tell you how many times a client has found a receipt for a major repair months after a review of the last three months financial statements clearly showed that a big expense item was missing. This probably would have been overlooked with only an annual review.

Right now, we're reviewing our clients' first nine months of operation and preparing tax estimates so they can take advantage of any further tax deductions and make sure their cash flow is ready at filing time.

No one wants the surprise of a big tax bill.

Instead of counting down the days to a deadline, insist on quarterly tax-planning sessions with your accountant so you can plan, budget, and make adjustments throughout the year. □

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