

File and pay your taxes!



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Most of us agree we pay a significant amount of income tax. Most of us would also agree that we do not enjoy paying taxes. While this may be a common viewpoint, the problem lies when individuals, whether personally or through the corporate entities they control, take it a step further and choose not to pay the taxes they owe. There are many reasons this occurs, some are deliberate, others more innocent. However the underlying problem is these individuals often don't realize the risks associated with being on Canada Revenue Agency's naughty list.

In the accounting world, we deal with these individuals all too often. The following are just a few of the situations that come through our door. Names have been omitted in the interests of keeping reputations intact. These are good, honest people who simply found themselves in over their heads.

The first situation tells the story of a lovely young woman who came in need of help with her personal taxes. She had previously worked as a salaried employee, and her tax return had consisted of little more than a T4, hence filing her taxes on her own had been simple enough. Then, in 2009, her mother passed away. Her mother had operated a sole proprietorship for many years and when she died her daughter took over the business. As a result, her tax return had become more complicated and she needed help. After getting her taxes in order, she noted she would also need help filing her mother's final tax return for 2009. Low and behold, in gathering her mother's information and checking into the status of her filings with CRA, it was discovered she had not filed any tax returns since 2001! To make matters worse, as a sole proprietor, no withholdings had been remitted on the income she earned from 2002 to 2009. Add to that the GST collected on the income she had earned had also not been remitted, nor were any GST returns filed in the same 7-year period. When all was said and done, the combined balance owing for taxes was close to \$170,000! As daunting a bill as that seemed, upon assessment by the CRA, penalties and interest of more than \$105,000 were tacked on, bringing the total outstanding liability up to almost \$275,000! So, in addition to coping with the loss of their mother, the daughter and her siblings are now forced to deal with

repaying this massive debt. Unfortunately this will occur primarily through liquidating estate assets that could have otherwise been passed down in the family.

In another situation, there is the story of a tandem of young, entrepreneurial gentlemen who incorporated a business in the summer of 2007. As is often the case with many business-owners, particularly at the start-up phase, attention given to certain regulatory filings is not necessarily what it should be. Owners are often so busy running their business that matters such as payroll remittances and sales tax filings can be overlooked as the business finds its feet. Unfortunately such was the case with these two individuals. The initial advice sought for assistance with tax preparation was inadequate to say the least. Furthermore, there was a misunderstanding of who was responsible for what when it came to filing T4 summaries and GST returns, and as a result, neither were taken care of. Matters were made worse by the source deductions withheld from payroll never actually being remitted to CRA, nor were any instalments made for GST collected on sales. Upon getting the books and records in order, the client was facing outstanding government remittances of over \$60,000, and that's before any interest and penalties are assessed!

Regardless of the circumstances, taxpayers need to understand the consequences of being delinquent with their tax filings. Equally important is paying the bills. CRA is the last creditor you want to owe money to, their power is significant and to expose yourself, your business, your family or your estate to the risks associated with not filing or paying your tax obligations is a risk not worth taking. If you are in over your head, talk to your accountant. If you don't have an accountant, get one. There are programs, including payment arrangements, CRA offers to get onside with your filings while avoiding some of the penalties that can be assessed if they find you first.

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