

Simeen Gaidhar-Bhanji, Financial Expert Columnist



Simeen Gaidhar-Bhanji, CA is a Partner of Simeen Bhanji Chartered Accountant that offer a variety of services to corporations and individuals ranging from tax planning and consulting, compilation, reviews and audits of financial statements, corporate and personal tax returns, GST/PST services, and consulting for internal control, financing and tax.

How to: Sail through a tax audit

If you're lucky to be in business long enough, odds are you're going to be audited. It's all about chance and the luck of the draw. Auditing is an ongoing process by the Canada Revenue Agency (CRA). And, if you've already experienced an audit, don't think you're home-free!

But also don't worry. I'm going to tell you how to prepare yourself, so that if and when that audit – or repeat audit – does happen, it will be as painless as possible.

For starters, if you subscribe to the shoebox-storage system, you may be in some trouble. This may come as a surprise, but CRA auditors are not required to sort through your documents. On the contrary, it is your responsibility as a taxpayer to ensure that your records are clean and organized. Messy, shoebox-style accounting will inevitably lead to a loss in deductions and – even worse – potentially severe CRA penalties.

To avoid such headaches, and keep those valuable, hard-earned dollars in your pocket, follow these practices that I have developed, both for clients and myself, in record-keeping.

You are required by CRA to keep records for the current year and the six previous years. Keep each year's documents filed and separate in case an audit occurs and you are required to produce a specific year's records. This ensures that you will provide auditors with only the documents they are requesting, rather than opening a Pandora's box of confusion in the process.

Many of our small business clients keep an accordion file for each year, the contents sorted either by month or by item.

I sort my accordion file by month. Each month consists of three files: revenue, expenses and banking documents. It just happens to be the easiest way for me to access documents – you may be different.

For example, I sorted a client's file by banking, fuel, repairs, subcontracts, etc., because he owns a trucking company. He keeps his file in his truck, allowing him to incur and file expenses right on the spot. A similar system works extremely well for our real estate clients, as they spend much of their time on the road going from listing to listing. They can take a client out for dinner and file the receipt before they're out the restaurant door!

Another great practice I encourage clients to do is write comments on their receipts. If you take a customer out to dinner, write their name on top of the receipt as well as the reason for the dinner. It'll be tough seven years from now to rack your brain trying to figure out whom the dinner was with and why.

For clients with vehicles, we recommend they keep a mini-calendar on hand. Every time they take a drive for business, they document the reason and the kilometres on the calendar. This serves as a log in the event that CRA poses picky questions. Remember that, when writing off the business portion of the

vehicle expenses, you are expected to produce a log.

Documenting your expenses and revenue in real time leads to accurate documents. It ensures that you get all your write-offs. Trying after the fact to backtrack, you'll find you're missing documentation and receipts. It is often difficult to recall why you made certain purchases. Most clients have iPhones or Blackberrys with apps for tracking items such as kilometres or business expenses. In other words: recordkeeping, live.

Technology allows for other conveniences. For clients who purchase investments or have contracts or agreements, it is a good idea to scan these documents to a hard drive for safekeeping.

Some clients scan bank statements and credit card statements, as these are often difficult to obtain after a few years.

Our office has made our files paperless, and we share this technology with clients on request. We can scan in all their key documents, including bank statements, contracts, credit card statements, investments and agreements. Ask your accountant if they'll do the same for you. It never hurts to have back-up.

The preceding is for information purposes only. Prior to making any decisions, please contact your accountant for advice.

Simeen Gaidhar-Bhanji, CA, owns Simeen Bhanji Chartered Accountants, which offers a variety of services to corporations and individuals, ranging from tax planning and consulting, compilation, reviews and audits of financial statements, corporate and personal tax returns, HST services, and consulting for internal control, financing and tax.