

Audits are getting worse



Audits are getting worse. Much worse. And while I have a skewed perspective in that I only see the audits that go badly, the many audit victims that have consulted with me have been on the rise as of late. Their reassessments have become increasingly incorrect – especially when the net worth method is employed. Unfortunately and often inappropriately, this quick and crude methodology is being used in place of an actual audit with alarming frequency.

And the real problem for the taxpayer is that at the moment an auditor sends a wildly inaccurate proposal letter, they

trigger a process that may ultimately take tens of thousands of dollars in legal fees to undo or to mitigate. To prove that the auditor made errors (often because they didn't actually look at all the books and records and chose to use the net-worth method), a taxpayer may have no option but to spend a small fortune. Sure, spending \$15,000 in legal fees has been known to undo a \$200,000 assessment. But I don't view this as \$185,000 saved. I view this as a needless \$15,000 cost resulting from an auditor's carelessness or lack of interest.

And while reassessments stemming from careless audits can generally be reduced with the proper evidence, the problem is that it also becomes increasingly costly as the process unfolds. At each stage, from responding to the auditor's proposal letter to filing representations with the Appeals Officer to dealing with the lawyer from the Department of Justice during the Tax Court appeal, I have found that the correct outcome is increasingly likely to be achieved. So it is always tempting to carry on the fight. But at a certain point funds become limited.



Enter audit insurance.

Until just about a year ago I had no idea that audit insurance was available in Canada until Richard Little of PFP told me about the story of their coverage. Created with the help of Grant Thornton, DAS is the Canadian underwriter.

Since then I have been telling all my clients about this, and have been referring my clients to PFP. And since the coverage is extremely cost-effective

I actually offer to pay for a policy for all new clients at my law firm – That's the best endorsement I can possibly give!

And at least I know that if my clients are audited in the

future that the insurance is good for the bill! It covers your fees to represent them during an audit. Plus it covers legal fees. And why not lawyer up? You owe it to your clients to let them know audit insurance exists. And as your client's most trusted advisor, you probably should have a chat with them about it. They'll thank you. At my firm Barrett Tax Law, we specialize in supporting accountants across the country through our Accountant Alliance Program, and I make sure that I let each accountant know about audit insurance.

Although there is no legal duty for an accountant to mention or encourage their clients to participate in such an insurance program, it makes good business sense.

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