Top 10 Revenue Canada Adjustments

Revenue Canada Agency: Kitchener District

David Letterman has his nightly top ten list. Not wanting to be outdone, the Kitchener district office of Revenue Canada has put together its top ten list of adjustments made on tax audits. In reverse order, the top ten adjustments are:

1. Add-backs under paragraph 18 (1)(e) - Apparently many taxpayers are not adding back contingent warranty reserves.

2. Denial of Allowable Business Investment Loss Claims - Often, ABILs are claimed when a company is not an SBC. ABIL claims are also often disallowed because the person claiming the loss cannot meet the conditions under paragraph 50(1) (this provision determined when debts are established to be bad, or shares of insolvent corporations are considered to be disposed of).

3. Failure to Add-back Meals and Entertainment Expenses - Also, the Department has been making many adjustments in this area when taxpayers fail to document the reason for the meals and entertainment (it's always a good idea to write on the back of the receipts, who was taken out and why).

4. Remuneration Not Paid Within 180 Days of Year-end (subsection 78(4) - In addition to bonuses not being paid on time, apparently taxpayers are failing to appreciate that this subsection also applies to other remuneration.

5. Income Omissions - It's interesting to note that Revenue Canda specifically mentioned that many taxpayers fail to report executor's fees among other types of income.

6. Personal Expenses Claimed - This included overstatements by taxpayers of the percentage of business versus personal use (e.g. use of an automobile for business or employment purposes) in addition to expenses which are 100% personal.

7. CCA Schedule Errors - Included under this category of adjustments are dispositions that are not properly reflected on CCA schedules, and failure to use Class 10.1 when appropriate.

8. Automobile Benefits – Revenue Canada is apparently constantly adjusting returns for the failure to report standby charges, failure to report related operating benefits, denying reduced standby charges because the taxpayer cannot prove business mileage and adjusting benefit inclusions because taxpayers have claimed trips from home to

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work (and back again), as business travel.

9. Denial of Losses Because of the Reasonable Expectation of Profit Doctrine - The main application of the REOP test is with rental properties and farms.

And the Number 1 Source of Adjustments:

10. Shareholder benefits and Appropriations - This includes failure to report section 80.4 benefits for shareholder debit balances as well as income inclusions under subsections 15(1) and (2).

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