CRA: 2 Tax Mistakes That Could Get You Audited

Description

Tax season is here. And it's a good time to tread carefully. When filing taxes, many Canadians like to claim as many deductions and credits as possible. By doing so, you can lower your tax bill. But if you make major filing errors or claim tax breaks you're not entitled to, you could land yourself in hot water. In a worst-case scenario, you could even get audited. In this article, I'll explore two common tax mistakes that get people audited and how to avoid them.

Income tax discrepancies

Discrepancies on your tax returns are perhaps the single easiest way to get yourself audited. When the CRA reviews your tax documents, it's easy for them to tell what figures should add up to what. If something doesn't add up, that could get you audited.

The risk of income tax discrepancies is particularly serious for self-employed people. When you're self-employed you have to submit both a regular tax return and an HST return. If your reported revenue on one doesn't match the other, you can expect a call from the CRA — if not an audit.

Home office expenses

One of the most common ways for business owners to lower their taxes is to claim home office expenses. Claiming some such expenses is legit. The problem comes when you claim more than you're entitled to. Normally, an office is a single room. Relatively few businesses require, say, half of a house for exclusive use. If you're claiming *that* much of your home as office space, you run the risk of being audited. That doesn't mean the deduction won't hold up. It is possible for a person to use a large portion of their home as an office and never use it for any other purpose. But it's quite unlikely.

Note: I'm talking about home office *business* deductions here, not the new $2-per-day work-from-home deduction.

A legit way to lower your taxes

As you've seen, aggressively trying to lower your taxes can get you audited by the CRA. Insofar as you're trying to do that with employment or business income, it's just a fact of life. Claiming truckloads of questionable business deductions is prone to arousing the CRA's curiosity.

When it comes to investments, it's a different story.

If you lower your taxes by holding stocks like **Fortis** (TSX:FTS)(NYSE:FTS) in a TFSA, you're unlikely to run into any trouble at all. The CRA allows you to contribute up to $75,500 in a TFSA. Any investments bought with these contributions are tax free. Over time, that can add up to some heavy tax savings. Fortis stock, for example, has a 3.7% dividend yield. A $75,500 position in it pays $2,793 in dividends every single year. Held in a TFSA, none of those dividends are taxable. Same with capital gains. If you realized a 20% gain on $75,500 worth of FTS shares plus $2,793 in dividends, you'd have $17,893 in income that you'd pay no taxes on whatsoever. In a taxable account, you'd probably pay thousands. The TFSA is the clear winner. And totally approved of by the CRA!

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