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To learn more about
McIntyre & Associates, visit us
online at: www.mcintyreca.com

Questions? Call (613) 726-7788
and we will be happy to
address any of your questions.

Income Tax Audits

The income tax system in Canada is based on self-assessment. Canada Revenue Agency (CRA) uses a number of different types of reviews and audits to ensure that the correct amount of income tax is collected.

CRA has different forms of review programs for income tax returns. The basic function of these programs is to verify that the slips to support a deduction exist, or that the income that appears on a slip has been reported. If McIntyre & Associates prepares your tax return we may deal directly with CRA to handle these requests. In some cases CRA's requests are issued before the income tax return has even been assessed.

While these review programs are not an audit, they may feel like one. The true audit can take one of two forms: a desk audit or a field audit.

In the case of a desk audit a CRA agent will review your tax return and ask you for documentation to support one or more of your deductions. This request will usually come in the form of a letter and you will be required to respond within 30 days. This process allows the auditor to verify claims (such as automobile expenses) without ever leaving his or her office.

The second type of audit is known as a field audit and is more common for corporations and self-employed people such as doctors and contractors. An agent from CRA will visit your home or office to review your records. In many cases more than one taxation year may be reviewed.

Who can expect to be audited?

Certain individuals may be examined more frequently than others. Salespeople claiming expenses against commission income must often submit receipts to CRA. In particular they are asked to support claims made for meals, entertainment, automobile and home office expenses. It is important to have these claims well documented. Keeping a mileage log and making notes on meal receipts detailing who was there and why, are good habits to develop. Mileage logs can be difficult to maintain, but many of the new generation mobile phones allow for applications to be used to track mileage. If you would like McIntyre & Associates to send you a mileage log, please [contact Elaine](#).

Businesses that are behind in submitting payroll or HST forms or payments create an area of risk for CRA and are often the focus for further follow-up.

Inconsistencies between the gross sales numbers on an HST return compared to the sales amount on your financial statements or personal income tax returns may also generate some additional audits by CRA.

Individuals reporting business income can expect that being audited is only a matter of time. The auditor may be looking for income that has not been reported for tax purposes. They will often compare expense claims

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against the determined average for people in the same business.

Larger businesses are audited more frequently than smaller ones. Many large businesses are audited every three years. Smaller businesses will often escape this audit routine if they have few issues when they are audited.

Employees are rarely the target of a complete audit. This being said, employees with significant stock transactions or deductions such as automobile expenses may be required to support their claims.

What to do if you are audited
While your first reaction might be to panic, it is important to remember

that certain professions and industries are often chosen for review and that being chosen may have nothing to do with the details of your return.

Receiving a call from CRA can create a sense of urgency and you may feel you need to react immediately to resolve the issue. If the time and day the auditor suggests is inconvenient, say so. With a good reason, the auditor will usually grant an extension.

Most importantly, involve McIntyre & Associates. We can be of great assistance before, during and after an audit. In many cases we can have the audit occur on our premises. This prevents disruption to your business

and ensures the auditor only has access to the information requested. We will help you answer questions and we can explain any changes to your tax return that the auditor proposes. We can also negotiate with the auditor so that disagreements can be settled at the audit stage. As well, should you need to file a notice of objection for any reassessment notices issued by the auditor, we can help you do this in the most effective manner.

While tax audits can be a cause of stress, they are an unfortunate fact of life. With the right preparation and our assistance the experience does not have to be negative. ■

New Accounting Standards for Private Enterprises

All private enterprises that currently follow Canadian GAAP and that do not adopt International Financial Reporting Standards (IFRS) will be required to transition to new Accounting Standards for Private Enterprises (ASPE) for years beginning on or after January 1, 2011.

These new “made-in-Canada” financial reporting standards were designed specifically for private enterprises and address the needs of the users and the fact that private enterprises generally have limited resources to apply complex accounting standards. The standards are available for early adoption beginning with 2009 calendar year-end financial reporting.

In general, ASPE will retain most of the current accounting standards and will simplify others. Simplified areas include financial instruments, asset retirement obligations, employee future benefits, income taxes, and long-term investments. The new standards may also reduce the burden of note disclosure requirements.

A specific section for first-time adoption is included in the new standards. This section requires private enterprises to adopt the standards retrospectively, and provides alternatives for specific situations where retrospective application may be difficult or costly. This section also provides for a one-time ability to increase the value of capital assets (e.g. land and

buildings) to fair market value, with an offsetting increase in retained earnings. While this entry may have a positive effect on your balance sheet, keep in mind that it leads to increased amortization expense and therefore reduced net income in future years. Evidence of this increase in value (e.g. professional appraisal) is required to support the write-up.

If you would like further information on how the new accounting standards for private enterprises will affect your company, please contact us. ■

What's New at McIntyre & Associates



On September 11, 2010, Jim and Judy participated in a 100 km bike tour along the Rideau River in support of cancer research at the Ottawa Hospital Research Institute. Just over 300 riders rode the Rideau and raised \$901,632.

A heartfelt thank you to all who supported the ride!

If you would like to support the cause, or join the McIntyre & Associates team for the ride in 2011, please let us know. ■

www.ridetherideau.ca.



Introducing Ross Hamm

We are pleased to welcome Ross Hamm to the McIntyre & Associates team. Ross will be joining us on November 1, and he will be working as a staff accountant. Ross has recently moved to Ottawa from Edmonton, where he spent close to three years working in a CA firm.

Regular Office Hours

We have returned to our regular office hours.

Reception
Monday to Friday
8:30 am to 4:30 pm

Drop Box
Monday to Friday
7:00 am to 6:00 pm

CRA's Prescribed Interest Rates

The prescribed interest rates for the fourth quarter of 2010 are as follows:

- 1% to calculate a deemed interest benefit on subsidized employee and shareholder loans;
- 3% on refunds of income tax overpayments; and
- 5% on payments of overdue income taxes, insufficient income tax instalments, unremitted employee source deductions, CPP contributions or EI premiums, and unpaid penalties.

These rates are in effect from October 1, 2010 to December 31, 2010.

Has your contact information changed?

If your contact information has changed recently, please let us know.

contactupdate@mcintyreca.com

McIntyre & Associates Professional Corporation

The opinions and advice in this newsletter are provided for the general guidance and benefit of McIntyre & Associates' clients, based on information that we believe to be accurate. We cannot guarantee its accuracy or completeness for individual circumstances. While we strive to provide reliable material herein, we cannot account for all industry conditions and legislative changes that occur. Should you have any questions or concerns regarding the contents of this newsletter, please contact us.

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