It's important to note that **being reviewed** once doesn't mean you won't be reviewed again. "Although returns are selected taking into account the results of previous reviews (to avoid repeated reviews of compliant taxpayers), it is possible for a taxpayer to be selected several years in a row, depending on their compliance history and the types of claims made on their returns each year," says Branch.

In the event of a review, it's also important to distinguish what will be examined according to the types of returns that are likely to be selected. "Income and expenses, for example, will be examined more closely for self-employed workers, who are more targeted than employees," says CPA Marc-André Couët, auditor, assurance manager at JSG CPA.

In addition, certain types of deductions or credits may be reviewed as well, such as donations and medical expenses, adds FCPA Bruce Ball, vice-president of taxation at CPA Canada.

Couët agrees. "When individuals request large donations or large medical expenses, the government requests a copy of either the donation receipt or the medical bills along with the details," he says.

Here are other things the CRA may review for accuracy:

1. Capital gain related to the disposition of property for taxpayers who flip real estate.
2. Consistent losses from self-employment income to check if there is a reasonable expectation of profit in the future, for those who report losses year after year.
3. Vehicle expenses for business purposes for those who claim 100 per cent of their expenses, to make sure their numbers are accurate.
4. If an income-splitting system is in place, salary reasonability will be checked for those who have family members as employees, to ensure that the expense is fair and reasonable in relation to the workload and compared to other employees.

"There is also a good chance that CRA will ask for proof if [you are] claiming a foreign tax credit," adds Ball.

## How do reviews differ from audits?

Although there are several types of reviews, the process itself is simple and fast in comparison to an audit.

The review process starts when the taxpayer receives a letter from the CRA explaining that they want to verify the accuracy of certain information, such as the amounts entered, says Gosselin. "Even if tax filing was done perfectly," adds Ball, "there will still be spot checks to make sure the deduction or credit actually exists. In some cases, the CRA just wants a copy of the receipts, like donations."

"However, in some cases," adds Gosselin, "taxpayers who file their own returns may not have all the information to know which expenses are deductible and how to calculate them."

Branch notes that these errors occur mainly in the initial claims for certain new deductions, such as medical expenses, tuition fees and moving expenses. There are many reasons why adjustments may be made, particularly since the CRA has to comply with a variety of tax laws (such as the ***Income Tax Act*** and Income Tax Regulations, as well as provincial and territorial income tax laws), which require that it request supporting documents.

While a review might be completed in a few weeks, an audit can take months or even years, says Gosselin. "Audits are initiated when something comes to the CRA's attention, such as an indication of fraud, a serious omission or a major error," he says.

One major red flag that can trigger an audit, says Gosselin, is a mismatch between a taxpayer's declared income and their lifestyle – especially if they are also a shareholder of a company and there is a discrepancy between their return and that of the company.

If that is the case, the taxpayer can possibly be asked to provide almost all of the information used to complete the return. From there, the CRA can keep requesting additional supporting documents until it is satisfied that it has everything it needs to issue a new notice of assessment.

“In rare cases, the CRA may even request access to all of a person’s bank accounts, as well as those of spouses and children,” says Gosselin.

Of course, in some cases, there may be a perfectly reasonable explanation for some incongruities. “A person might have won the lottery, received a gift or borrowed money,” says Gosselin. This is why it is important to keep records on these items, explains Ball, in case the CRA does ask.

“While an audit often creates stress for the taxpayer, remember that the auditor is a human being who’s trying to understand the financial story of the years passed,” says Gosselin. “Communication is key: you need to understand what made them think something was wrong and cooperate.”

## What can you do to prepare?

The CRA has up to three years (sometimes up to **four years**) from the date of the original notice of assessment to carry out a review but, in the case of suspected fraud or misrepresentation, there is no limitation period.

“That’s why keeping a digital record of everything, especially a justification of every single deposit in your personal bank account, is a good idea,” stresses Gosselin. “Without proof, the situation can become complicated, and a harmless transaction can be difficult to trace and justify years later.”

Gosselin adds that the same principle applies when you lend money to a loved one. “You are allowed to do this, and without charging interest, but how will the auditor know whether the repayments are income?” he says. His advice: “Keep tangible records of all unusual banking transactions, both deposits and withdrawals, for at least seven years.”

## How will the pandemic affect process?

Just as the pandemic has changed so many taxpayers’ ways of working, so will it bring its own set of complications for CRA auditors this year. In lieu of on-site visits for comprehensive audits, explains Branch, the CRA is encouraging virtual meetings. “In-person meetings are reserved for exceptional circumstances,” she says.

“The CRA will still presumably send letters for reviews,” says Ball.

Also, since a number of new programs were introduced this year, it remains to be seen how CRA auditors will deal with certain issues, like for those who have claimed home office expenses. As Gosselin points out, “We don’t know how far they will go in verifying that those who received it were entitled to it,” he says.

Given that it’s impossible to answer these questions for the time being, it’s probably best to adopt a wait-and-see attitude, just as Gosselin intends to do.

In the meantime, you can help yourself by checking your records and backup. That way, you’ll be prepared no matter what kinds of questions come your way.

WEALTH MANAGEMENT

# 5 financial mistakes to avoid when you're young

**As a fresh graduate, saving for the future can be hard to envision. But being money-wise in these earlier years can have exponential pay-offs in your later years.**

According to experts, avoiding several spending traps when you're early in your career can help set you up for a more stable financial future.

## 1. Accumulating credit card debt

Spending within your means may seem obvious, but when you're fresh out of school and looking for a job, this can be challenging.

"I think a lot of young people, even in university, don't really have steady employment and end up spending more than they would have spent in cash," says CPA David Trahair, a personal finance expert and author of CPA Canada's free practical guide, Survive and thrive: Move ahead financially after losing your job.

Credit cards in and of themselves aren't bad – in fact they're a helpful way to establish a credit history – but it's important to understand what you're signing up for. High-interest rate cards can accumulate debt quickly, if you're not paying down the balance each month, Trahair says. Spending only what you can afford – or only what you must, where possible – can set people up for better financial health, since they are actively trying to keep balances low.

If you do find yourself in a position where you need to take on debt, try to use a **lower interest rate, point-free card**. "The benefit of the points rewards is often less than one per cent a year," says Trahair. "It doesn't make sense to carry a balance when the credit card rate is as high as 20 per cent or more."

Another option is to obtain an unsecured line of credit, he says, to avoid high-interest rate credit cards. However, without having previous past credit to build up a good credit score, a parent may have to guarantee the credit card or loan to qualify the candidate.

## 2. Investing before paying off debt

While the idea of saving and growing money is attractive, investing money only makes sense if your credit card debt is paid down, says Trahair.

"When you're in credit card debt, the company is charging you interest," he says. "To save, you're taking money that would otherwise be spent to pay down that credit card." With companies charging between 20 to 24 per cent interest, credit card debt quickly accumulates.

"People like the idea that they have savings," says Trahair. "They'll say, 'So I owe $10,000, but I have $2,000 of savings.' They're in worse shape than the person that only has $8,000 on that credit card [because of the accumulating interest]. The best investment is paying down that credit card debt."

## 3. Delaying life insurance investments

Often when you're young, obtaining a life insurance policy isn't top of mind – but it should be, says CPA Garth Sheriff, who runs CPD consulting firm Sheriff Consulting.

“Theoretically, it’s when you’re the healthiest,” he says. “You’re more likely to get a lower premium plan and, if you get something that you can lock into, it can also be a savings return vehicle. It's not only a safety net, but it also builds equity.”

Plans such as **universal life insurance** and whole life, he says, work like investment policy funds that have a cash surrender value – meaning you don’t just acquire funds in death, but the cash value builds up as savings. Each plan has its own risk tier, so be sure to research the appropriate plan and available options, he says.

## 4. Not setting an end goal

Understanding why you are trying to save money leads to a more successful outcome, says Trahair. While this goal may be different for everyone, ultimately, each person has a life target they want to meet, whether it’s buying a home or planning for retirement.

“The best thing you could do for your personal finances is track where your money’s going,” he says. Trahair recommends using free budgeting apps or those available through banking services to help identify spending habits.

Budgeting, he says, requires historical information. But, if you’re just graduating or starting out on your own, you won’t have this data. If you track your spending even for just one month, you’ll reveal a strong financial picture, as most people tend to have the same habits (save for the odd month where there may be a big-ticket item purchase or vacation, etc.), he says.

Reducing the number of spending sources is also advised. “If you have three or four bank accounts and three or four credit cards, this exercise is going to be very difficult,” he adds.

## 5. Living paycheque to paycheque

This is the least desirable scenario for anyone. Sheriff recommends striving for six months to a years’ worth of funds if possible – and start that saving habit when you’re young. Having a financial safety net has the added benefit of improving your borrowing power in the future.

“That early time in your life, as you’re building your credit history and your ability to borrow, is really important,” he says. “Even if you don’t know what your plan is.”

Whether you’re saving for an additional designation or taking a year off, Sheriff says being prepared for the unexpected can help you remain in good financial standing and possibly avoid additional stress and debt, adding, “You never know what life is going to throw at you.”

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