



THE PRACTITIONER'S VIEW

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IT'S TAX SEASON AGAIN, so...

it's not surprising that this issue of The Practitioner's View is dedicated to tax topics.

NEW LOCATION

As of February 25, 2002, CCRA's business and individual tax enquiries and payment services will be located at the **Ralston Building, 1557 Hollis Street**, in Halifax. Telephone, fax numbers and mailing address are unchanged.

This move will create a single point of contact for individuals doing business with CCRA. All CCRA programs and services for clients in mainland Nova Scotia will be located at the Ralston Building, where most tax services will be offered.

CCRA CONTACT LIST

An updated contact list for the Halifax Tax Services Office has been prepared by CCRA, including staff changes to May 2002. Watch for this information in the current Institute mail out which includes SCAN.

T1, T2, AND PAYMENT PROCESSING TIPS

(For those members not e-filing, the following articles are reprinted from the ICABC News 'N Views – February 2002).

CCRA has passed along some suggestions to help avoid those costly delays in the processing of client tax returns. As well, since a frequent complaint from practitioners is errors in allocating payments, the Agency has provided some tips on how to make that process run more smoothly.

TIPS FROM CCRA FOR INDIVIDUAL RETURNS PROCESSING

General

- Affix the client's personalized label when submitting computer-prepared returns where there is no change of address or name. This speeds up processing when the return goes through the initial data entry stages.

- Attach only the relevant schedules as any additional paper causes delays in handling at the mail and data entry stages.

Schedules, Deductions and Credits

- Enter on Line 230 the total of all spousal and child support payments, and enter on Line 220 the deductible amount only.
- Attach a detailed listing of amounts when claiming charitable donations or medical expenses and identify any amounts carried-forward.
- Provide a breakdown and the reason for travel if filing medical expense travel claims.
- Attach a copy of the form T1-M when claiming moving expenses.
- If transferring tuition and education credits from a child or spouse, ensure the applicable forms are signed, complete Schedule 11, and include the students' SIN if available.
- The local tax office reviews all new Disability Tax Credit claims and any previously allowed on a temporary basis only, which are due for follow-up review. The T2201 claim form is reviewed for completeness and a determination is made whether the claim qualifies. There is a referral process where files can be forwarded to a medical advisory group in Ottawa. If a disability claim has been allowed in the prior year, a copy of the T2201 is not required in the subsequent years' returns.

Others

- Include a copy of the death certificate when filing deceased returns.
- Complete a T1 Adjustment Request and submit any applicable revised schedules when an adjustment is required. Do not file an amended T1, which will only delay processing of the adjustment.
- Send adjustment requests under separate cover from unassessed returns to avoid delays in processing the initial assessment.
- On the T1013 Consent form, specify if it is the firm or an individual being given authorization.
- Accompany a request for a review under the Fairness Legislation with specific details and any supporting documentation.

TIPS FOR T2 CORPORATE RETURNS

Transfers Between Accounts (e.g. HST to Corporate Accounts)

Simple transfers between accounts for a business can usually be done over the telephone. However, unless it is of an urgent nature, CCRA prefers more complex transfer requests either faxed or mailed in for processing. To avoid

long telephone wait times, CCRA suggests telephone contact be initiated during non-peak hours.

First Year Filers & Installment Interest

The system is set up to accept returns for corporations that file for a fiscal period ending within 14 months of the date of incorporation. Some corporations are not active until well after the date of incorporation and the first year actually filed is for a period ending after this 14-month window. These returns are not considered first year filings. Headquarters has advised that the system won't be changed because these corporations should be filing returns for the missing periods. In T2 accounts, CCRA will correct these on an individual basis by inputting nil installment information so the system will not charge the interest.

PAYMENT PROCESSING

Tax payments are processed at various offices, depending on the nature of the payment:

- Ottawa Technology Centre processes all payments made at financial institutions.
- Tax Services Offices process payments submitted at their client service counters.

The most common causes of misallocated payments for individuals are:

- Confusion between tax year and calendar year.
- Monthly payments for arrears being identified by the client as installment payments.
- The use of an incorrect remittance form and/or incomplete client information.

When a misallocation occurs, details should be provided to CCRA. Not only will this allow the correction to be made, but also supports CCRA with trend monitoring and early identification of training issues.

The following tips will help payments to be allocated correctly:

- Whenever possible, ensure the proper remittance/return form is completed and accompanies the cheque.
- If the payment pertains to a business number (BN), ensure that the proper extension is identified (e.g. RC0001 or RC0002 etc. for Corporate, RP0001 for Payroll, etc.) and that the correct tax year-end is indicated. If the payment is processed after the 7th of the month, it will not show on the Statement of Account until the following month.
- When a payment accompanies a request for a T1 adjustment, ensure the payment clearly identifies that it is for the requested reassessment so the amount is credited to the correct tax year.
- The accounting system that applies to HST processing is unique. Payments received with HST returns will not appear on the client's account until the return has completed processing.

- Ensure the proper account number, period dates, and installment payments are correctly reflected on HST returns. If installment information is not available through your client, Business Windows in the Tax Services Office can provide this information.
- When making payments for April 30, consider taking advantage of CCRA's post-dated service. The submission of post-dated cheques will bypass the volume delays encountered during the first week of May. This is especially helpful when E-filing debit returns.

MOST COMMON TAXPAYER ERRORS

(Reprinted from the ICABC News 'N Views – February 2001)

CCRA has provided information about the most common errors encountered by the Agency in processing personal tax returns. Of course, the list included in Appendix A does not include everything, but keeping these common errors in mind can save you and your clients some aggravation this tax season.

INCOME TAX MATTERS

(The following articles discuss several simple and effective ways to help protect you and your clients from misunderstandings that may arise from time to time: reprinted from the ICABC News 'N Views – February 2002)

INCOME TAX TRANSMITTAL LETTERS

A properly written transmittal letter to your clients accompanying the income tax returns will serve to minimize instances of discontented clients asserting that interest and penalties incurred are a result of your not communicating appropriate information to them. Many practitioners believe that such a letter is not necessary as they personally meet each client and go over all the issues that a good transmittal letter would cover. While this may be true, a transmittal letter would provide a permanent record of this discussion with your client in the event a problem arises at a later date. It also serves as a handy reference for your client. We suggest that a hard copy of such a transmittal letter be kept in your client file.

The letter (either your own or one that is included with your income tax return preparation software) should include the following items:

- The date, as evidence of when you communicated with and issued the income tax return to your client. It is important to print a copy of the letter for your file, as computer programs will automatically date the letter on the date printed if required in the future.
- Filing instruction, including the due dates for the return being filed and for the payment of any balances owing.
- Instalment requirements for the next taxation year.

- Information regarding balances carrying forward such as RRSP contribution limits and undeducted amounts as appropriate.

In addition, you may wish to address other issues such as your involvement (if any) with foreign asset reporting or the fact that such a requirement does exist but that you have not done anything to meet that requirement.

Also, if you file income tax returns for clients in paper form, it is a good practice to have a transmittal letter to CCRA. The letter should detail the types of returns being filed, and the clients' names and identification numbers if more than one return is being filed at the same time. The letter should be sent in duplicate so CCRA can receipt one copy and return it to you as evidence of filing.

DOCUMENTATION OF DISCUSSIONS WITH CLIENTS

Much information included in tax returns is gathered through meetings and telephone conversations with clients. We strongly recommend that you take steps to document the subject matter and conclusions of these meetings and discussions. Documentation should, as a minimum, include a memo to the client's file and in certain circumstances may be a follow-up letter to the client summarizing the conversation and conclusions reached. Insurers tell us that an increasing number of claims are being made against accountants alleging damages arising from verbal advice given and as we are all aware, client's whose actions have resulted in financial loss or an unforeseen outcome sometime have a very selective memory.

COMPILATION OF INCOME TAX INFORMATION

Also, you are reminded that, except in rare circumstances, the preparation of a number of personal income tax forms, (i.e. self employment and rental income schedules) is a compilation engagement as envisioned by Section 9200 of the CICA Handbook. Accordingly, all pages of each schedule prepared and given to the client should be stamped with a Notice to Reader or refer to a separate Notice to Reader. Further, your file should contain adequate support for the significant figures included both in the schedules and in the rest of your clients' return. Be careful - copies of these schedules are frequently distributed by your clients to third parties!

As a reminder, GIF1 that is produced in the preparation of a corporate income tax return is also a compilation engagement and a Notice to Reader should accompany copies of the GIF1 that are distributed to your client. Some T2 software packages prepare very readable, user-friendly GIF1 schedules which have been presented to third parties for lending purposes.

IFA GRADUATE DIPLOMA PROGRAM

Members interested in the CA•IFA specialist designation should watch for a brochure in the April CA Magazine mailing regarding the Diploma in Investigative and Forensic

Accounting (DIFA). The Rotman School of Management and the Ecole des Hautes Etudes Commerciales offers this part-time graduate-level program, which forms the education foundation for the designation.

The Registration deadline for the program is **May 31, 2002** for program commencement in July/August.

Copies of the brochure are available upon request from ICANS.

ELIGIBILITY OF PRIVATE CORPORATION SHARES TO BE HELD AS AN RRSP INVESTMENT

Members are sometimes asked by RRSP trustees to sign a certificate providing assurance that a client's shares in a private corporation constitute a "qualified investment" for RRSP purposes. This most often arises where the member or firm provides assurance or accounting services for the company whose shares are in question. Shareholders or trustees frequently perceive that this is a "simple" request flowing out of the engagement.

In the September 1998 issue of "Practice Advice" from the Assurance Standards Department at CICA, the advice to practitioners was **NOT TO SIGN** such certificates. The reasoning behind this advice is that an audit or review does not provide any assurance that an entity's shares constitute a "qualified investment", which requires consideration of both the nature of the corporation and the relationship of the annuitant to the corporation. The view was expressed that it is more appropriate to have management prepare these certificates.

If the client still wants the member to be involved in addressing the trustees' request, such as reviewing the corporation's and the annuitant's compliance with income tax legislation, the member should consider this request as a separate engagement and obtain the appropriate engagement and representation letters.

It is unlikely that practitioners could provide any assurance as to the value of the corporation's shares unless a complete business valuation was performed. Of course, members should undertake valuation assignments only if they are qualified and make the appropriate disclosures. Moreover, members should consider whether there is any potential or perceived conflict of interest when dealing with a prospective acquirer of such shares.

INFORMATION SECURITY – SHOULD YOU BE CONCERNED?

If you haven't given much thought to the security of the information you transmit and store electronically, then the answer is a resounding yes. But what are the risks, and how do you protect yourself and your clients?

There are two basic concerns related to the transmission and storage of electronic information: the risk of loss, and the risk of compromise.

Valuable information should be treated as any other valuable – guard it against loss, and insure any losses that might occur. Before you can treat information as valuable, however, you must recognize it as such. What is the value of the information stored on your network server? On your employees' desktop computers? On their laptops? Their PDAs? You will probably agree that this information is valuable enough to protect. You will probably also agree that its exact value is difficult to measure.

Much like the value of a business, the value of a given piece of information will vary depending on the context. Let's assume we are talking about working papers to support a client's financial statements. If that information is lost or destroyed due to a technical failure or accident, the value can be roughly measured by the efforts required to reconstruct it – potentially quite expensive, but fairly straightforward.

Consider the value of that same information should it be misused or stolen. Would it create problems for your client if financial details were to become available to the competition, customers, investors, employees, or the press? What would that incident cost your client? How would you measure the damage to your firm's business as a result? This may sound like the worst-case scenario, but there are some things you can do to mitigate the loss of a device containing confidential information. When a device is lost or stolen, you are aware of the loss, and can act appropriately to control the damage. If you have prepared for this possibility, the information on that device will be protected from unauthorized access.

Now consider the real worst-case scenario: what would be the consequences if you were not aware of the loss? Because information does not have a physical form, it may be compromised and "stolen" with no obvious evidence of the loss. A compromise via Internet or network access may allow information to be available over an extended period of time, without your knowledge. If someone is able to access information from a remote location, theft can occur undetected over a period of days, weeks, months, or even years. That scenario, although less likely than a "traditional" theft, is far more costly.

Fortunately there are many things you can do to protect yourself and your clients. Basic physical security and comprehensive data backup procedures can protect your information from loss or destruction due to technical failure or accident. Password-protected devices and data encryption can help prevent information stored on lost or stolen devices from being compromised. Basic network and Internet security practices can prevent unauthorized access to your information over your networks and the Internet. Intrusion detection systems can warn you when unauthorized access attempts occur, so that you remain aware of the threats and ensure you are protected against them. These measures are not limited to "big business" –

effective, affordable protection is available for the sole practitioner as well.

The foundation for everything you do is your information security policy, however. A strong policy recognizes the value of the information you need to protect, defines appropriate access and use, and outlines the risks that need to be addressed. From that foundation, you can build a comprehensive collection of tactics to meet your goals. Technical solutions play an important role, but so do things like employee education. If every employee is aware that basic Internet e-mail is absolutely insecure, for example, the risk of confidential information being included in or attached to a mail message can be expected to decrease dramatically.

With any business risk, there are always things you can do to reduce risk for both yourself and your clients. The public expects the same level of confidentiality from their CA as they expect from their doctor or lawyer; and we can't afford to betray that trust.

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SCHOLARSHIPS AND ACADEMIC GRANTS

Johnson Scholarships and Academic Grants were developed as a goodwill gesture, to show appreciation to those clients who have contributed to the growth and development of Johnson Incorporated.

There are 80 scholarships of \$1,000 each, along with 20 Academic Grants, also, of \$1,000 each. Both are distributed on a national basis to Johnson clients. Members/employees (and their dependents) who hold a Johnson Home-Auto Policy, a MEDOC Policy or are enrolled in the Client Sponsored Benefit Plan administered by Johnson Incorporated are eligible to apply.

The application deadline for 2002 is **September 15th**. The application process is available online. Guidelines and application forms are located at www.johnson.ca. The application is also available by phoning 1-877-328-7878, fax (709) 737-1580, email at scholarshipsandgrants@johnson.ca or by mail at, 95 Elizabeth Avenue, PO Box 12049, St. John's, Nfld., A1B 1R7.

SUGGESTIONS FOR THE NEXT ISSUE?

Contact **Wenda Bennett, CA** at the Institute wbennett@icans.ns.ca or (902) 425-3291.

COMMON TAX RETURN ERRORS

In processing tax returns, CCRA finds the following most common errors:

Most adjustments to returns are made in the following areas:

- Employment benefits (Subsection 6(1));
- Deductions from employment income (Section 8);
- Determination of profit or loss from a business or property (Section 9);
- Shareholder benefits (Subsection 15 (1));
- Limitation on deductions from business or property income (Subsection 18 (1));
- Provisions concerning allowable deductions (Subsection 20 (1));
- Deduction for scientific research and experimental development (Subsection 37 (1));
- Personal tax credits (Section 118).

Most common bookkeeping and technical errors:

- Arithmetical errors;
- Duplication of expenses;
- Picking up the wrong “net income” figure from financial statements to T2S (1);
- Failure to apply the half-year rule on CCA schedules;
- Dropping a UCC class when it has reached zero balance even though there are assets remaining that may be subject to a future recapture;
- Deducting capital items, including depreciable and non-depreciable property and life insurance premiums;
- Premature or inappropriate write-off of bad debts;
- Failing to understand when and how claims for office in the home expense are allowable.

Areas that frequently result in adjustments are automobile, personal, and meals and entertainment expenses:

- Incorrect calculation of taxable automobile benefits;
- Not including “to and from work” in personal mileage;
- Failing to apply the luxury automobile restriction;
- Deducting car allowances that are not based on distance;
- Inadequate documentation to establish expenses were laid out to earn income, particularly meals and entertainment, travel, customer gifts, and logs to support business versus personal automobile mileage;
- Using credit card statements to support expenses instead of actual receipts;
- Claims that appear to be based solely on estimates;
- Failing to maintain separate records for business and personal expenses;
- Deducting food, beverage or entertainment expenses unless they are for the purpose of earning income;
- Not subjecting food, beverage or entertainment expenses to the fifty per cent rule;
- Failing to self-assess for promotional food, beverage or entertainment, such as gifts of liquor or sporting event tickets.