AFTER YOU FILE………

Many Canadians are breathing a sigh of relief now that their 2013 personal tax return filing is behind them (self-employed taxpayers still have until 16 June 2014 to file since 15 June falls on a Sunday). But for the Canada Revenue Agency (CRA), the bulk of the work is just beginning.

So what exactly happens to your tax return after you file? Here's a rundown of the processing procedures, the part you never see. The first steps for the CRA depend on how it receives the returns. Returns may be filed with the CRA in one of three ways:

- Efiled returns are prepared and electronically submitted by the tax return preparation service that prepares the return on behalf of the taxpayer. Most returns prepared for a fee by a tax return preparation service are required to be Efiled.
- Netfiled returns are prepared by the taxpayer and submitted by the taxpayer via the internet using tax preparation software or a web application that has been certified by the CRA.
- Paper-filed returns are mailed to the tax centre serving the area where the taxpayer resides.

Before processing the returns, if the final tax payment has been remitted on paper, the CRA cashes any cheques it receives.

The first part of the processing stage for paper returns is data entry. Here, the information included on the return is entered into the CRA's computer system. If the return has been prepared using CRA-certified tax preparation software, all the information in the return, which has been coded in a bar code appearing on the first page of the return, is captured using a bar code reader. For other paper returns, the information is keyed into the CRA's system.

Efile and Netfile returns are not part of the data-input phase because the information, once validated, goes directly into the CRA's computer system. Once these returns are in the system, they're treated just like paper returns.

This process results in the production of Notices of Assessment and refund cheques, where applicable. In order to issue the Notices of Assessment and/or refunds as quickly as possible, the CRA processes most returns without manually reviewing the information reported. However, all returns are ultimately screened by the CRA's computer system and may be subject to review at a later time.

Initial assessment

Because the initial assessment is based on the information included on the various lines of your return as filed, certain computation errors may be detected and corrected. However, there is no validation of the individual line items. So if, for example, you included Canadian dividends on the interest line, the CRA won't calculate any dividend tax credit you may have claimed and this will be reflected in your assessment. In addition, for paper-filed returns that the CRA must key manually, there is a potential for input errors, which can result in assessments that differ from the return as filed.

If the initial assessment you receive does not agree with your return as filed, in many cases the difference results from an error, either a keying error or a taxpayer input error (for example, the use of an inappropriate line item, or missing an item on the information slip). Review your Notice of Assessment carefully when you receive it so that you can correct any errors as efficiently as possible.

Frequently, the problem can be resolved by calling the enquiries number found on your Notice of Assessment. CRA officers have access to taxpayer information through their electronic database and can often request corrections on the spot. If you call the CRA to discuss your assessment, be sure to have a copy of your return on hand because the CRA will ask questions about it in order to verify your identity.

You may also be able to correct errors online using “My Account,” depending on the nature of the change or correction.

Returns selected for review

Each spring, the CRA processes more than 27 million returns, without conducting any manual review on the majority of them, as noted above. Some, however, are selected for further review at varying points in the CRA’s processing timeline. The process of selecting returns for review is the same whether the return is filed on paper or electronically.

There are a number of reasons why a return may be selected for review, including:

- Random selection
- Comparison of information on returns to information received from third-party sources, such as T4 information slips
- Types of deductions or credits claimed and an individual’s review history (for example, if a taxpayer’s return was selected in a previous year and the review resulted in an adjustment)

When a tax return is selected for review, it’s important to note that it does not represent a tax audit. The selection for review may occur at any point in the assessment cycle:

- Pre-assessment review, before the notice of assessment is issued
- Processing review, after the notice of assessment is issued
- Matching programs, which are post-assessment reviews to compare the information on an individual’s income tax return to information provided by third-party sources such as employers or financial institutions
- Special assessment programs either pre or post assessment to identify and gather information on trends and situations of non-compliance

Matching programs include matching the return information with the T slips that are in the CRA’s system (employment income from your employer, interest and dividends from the payors, etc.) and linking returns between spouses and other family members. The family linking ensures that appropriate family income is used for claims like the GST/HST credit or the Child Tax Benefit, that valid personal amounts or other credits are being claimed (for example, where credits are transferred to partners or parents) or to ensure that certain deductions are valid (such as the child-care deduction, which is generally only available to the lower-income spouse). If discrepancies arise during this matching and linking stage, reassessments may be issued, or in some cases, where additional information is necessary, the CRA will request that the taxpayer provide that information.

As part of this post-assessment review, the CRA selects a percentage of the returns filed for further scrutiny. It targets specific claim items and asks the selected taxpayers to provide support, generally copies of receipts, for these claims. Items that have been subject to post- assessment review in the past include donations, moving expenses, child-care expenses, tuition and education amounts, foreign tax credits and carrying charges. Depending on the results of the review, the CRA may choose to target the same claim items for a number of years.

Once a return has been selected for review, the CRA will try to verify the claim based on the information in their file. Where additional information is required the CRA contacts the taxpayer or the authorized representative who prepared the return. The requested information may be submitted by mail or fax, or submitted electronically using "My Account" or "Represent a Client."

If the taxpayer does not respond on a timely basis or is unable to provide adequate support for a claim, the CRA will issue a reassessment, perhaps denying a claim completely or adjusting an income or expense figure based on the information on file, so it is always important to respond to these requests on a timely basis.

Educational letters

Since 2010, the CRA has implemented a letter campaign, sending "educational letters" to inform selected taxpayers about the tax obligations and to encourage them to correct any past inaccuracies, if applicable. These letters are mailed to individuals in selected groups in which the CRA feels that taxpayers are at risk of misunderstanding their obligations about their rental, business, professional or employment activities. Some letters may notify taxpayers that the CRA may conduct an audit in their activity group.

The CRA notes that it will send approximately 33,000 letters in 2014. Receiving this kind of letter does not mean that the taxpayer will be selected for audit. Sometimes it just identifies areas where common errors or misunderstanding of tax law have occurred. It also does not mean that the tax returns filed were incorrect.

If you receive a letter, review your returns and make sure that your income and deductions have been reported correctly. If you find errors, you should request an adjustment to correct them or speak to your EY advisor about the Voluntary Disclosure Program.

Field audit

The “real audit,” or what’s known as the field audit, only applies to business or professional income. The CRA selects a taxpayer for field audit if he or she receives a high-risk assessment as determined by the CRA system. The risk assessment is generated by a scoring of various risk factors associated with the return, including but not limited to the type of business, the type and magnitude of expenses claimed, variances in the level of revenue or expenses in relation to other similar businesses.

The CRA lists four common ways in which returns are selected for audit:

- CRA computer-generated lists – for example, comparing selected information of taxpayers in similar businesses or occupations
- Audit projects where, for example, if a particular group of taxpayers is determined to have significant rate of non-compliance its members may be audited on a local, regional or national basis
- Leads, which include information from other audits or investigations, including, for example, information provided to the CRA under the new Offshore Tax Informant Program
- Secondary files that are associated with other selected files.

In the field audit, the CRA auditor comes to the taxpayer’s place of business and examines their books and records. The taxpayer will have plenty of notice and can usually arrange for a suitable time for the audit to begin. The length of the audit varies greatly depending on how cooperative the taxpayer is, the availability and condition of the records and, of course, the discrepancies that are discovered. When the CRA undertakes a field audit, it generally examines two years, the most recent return and the preceding year.

By the time this annual input, review, assessment and reassessment process has wound down, it’s the early part of the next year and time to begin all over again.

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