



## **ITD Global Conference on Taxation of Small and Medium Enterprises**

### **SME Audit and Verification Strategies and Techniques Based on Risk Detection and Risk Selection – Parallel Session 4, Stream B**

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Canada Revenue  
Agency

Agence du revenu  
du Canada

Canada

# *The Canadian Taxation System*

- Self-assessment system
- Programs administered:
  - Income Tax
  - Value Added Taxes (GST/HST)
  - Canada Pension Plan and Employment Insurance
  - Excise Taxes and Duties
  - Economic incentives and income-tested social benefits
- Provincial/ territorial taxes

# *Defining Tax Compliance*

- “Compliance” means:
  - Registering
  - Filing
  - Reporting
  - Paying
- “Non-compliance”



# *CRA Approach to Risk Management*

- Horizontal management of compliance
- Compliance Management Framework (CMF)
- Compliance Review I and II
- Organizational approaches to managing risk



# *What strategies are available to cost effectively manage the SME audit program and optimize results?*

- Service/Education
- Outreach
- Third party reporting
- Partnering and Intelligence-Gathering
- Auditing/Verification
- Assisted Compliance
- Enforcement
- Disclosures

## *What challenges do SMEs pose to auditing and verification activities?*

- Incomplete business or tax records
- Weaker internal controls and less breadth/ depth of management
- Underreporting income/ overstating deductions or tax credits
- Cash-basis and transact in cash
- Electronic suppression of sales
- Reduced availability/ reliability of third-party information

## *What challenges do SMEs pose to auditing and verification activities (continued) ?*

- Audit cooperation
- “Source of last resort” for financing
- Timeliness
- High rates of bankruptcy/ Business turnover
- Identity theft/ Multi-cell fraud
- Internet/ Virtual economy/ Cross-border transactions
- Non-resident maintained books and records

## *How do risk management techniques support this effort?*

- Monitor tax data relative to socioeconomic change
- Analyse program results
- Monitor and evaluate programs
- Conducting surveys and studies
- Building relationships with foreign tax administrations



# *CRA's Systems-based Approach to Risk Management*

- Macro indicators
- Systems-based initial screening of tax returns
- GST/HST edit checks
- Data matching
- COMPASS - Compliance, Measurement, Profiling and Assessment System
- Compliance Laboratory
- General Index of Financial Information (GIFI)

*How can tax administrations identify and control “fiscal dwarfism” i.e. medium to large firms segmenting to avoid the “spotlight” and/or to benefit from favourable tax schemes and treatment?*

- “Whole of corporate group” approach
- “Related Parties Initiative”
- “Leeds Castle” and JITSIC
- Statutory reporting
- National workload identification and control
- Local tax office management of large business
- Exchange of Information
- Partnerships and Trusts

# SME Audit and Verification Strategies and Techniques Based on Risk Detection and Risk Selection

Conclusions

Questions

