Tax memo

Canadian tax updates

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CRA risk assessment audit approach – What it can mean for your corporation

Update on the CRA's move to a "risk assessment" audit approach.

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The Canada Revenue Agency (CRA) has now advanced to the next stage of categorizing large corporations in implementing its new risk assessment approach of selecting files for audit.

In October 2010, we outlined the CRA's new approach.[1] This *Tax memo* reviews the CRA's progress and explains what to expect if your corporation is selected.

Implementation

In the fall of 2011, the CRA announced that it had selected 50 of the approximately 1,100 large corporations to be "risk assessed." No details were provided as to how those 50 corporations were chosen.

Several have received a letter from the CRA requesting an interview with the corporation's CEO, CFO and/or Tax Director. The purpose of the interview is to:

- allow the CRA to explain how it is redefining its risk-based approach and the expected implications for the corporation; and
- enhance the CRA's understanding of how the corporation manages its tax positions and tax risk, and of the corporate governance processes.

Each large corporation will be subject to a CRA risk assessment. Therefore, these initial CRA communications can help corporate management prepare responses for its CRA interview.

The letter from the CRA states that during the meeting it will:

- provide an overview of the CRA's approach to large business compliance;
- discuss the findings and observations noted during its initial internal risk assessment;
- consider corporate governance as it relates to the management of tax risk;
- talk about an "engaged approach" to compliance and corresponding benefits;
- address issues of concern for the next audit cycle; and
- discuss the move toward a more open and transparent relationship.

1. For further information, see our October 20, 2010 *Tax memo* "Risk Assessment – The CRA's New Audit Approach" (at **www.pwc.com/ca**).

We understand that the initial risk assessment completed by the CRA is based on several factors, including:

- audit history;
- industry sector issues;
- unusual or complex transactions;
- corporate structure;
- major acquisitions and disposals;
- international transactions;
- participation in aggressive tax planning; and
- openness and transparency.

The CRA can gather information to assess these factors from the corporation's relationship with the large case file team, past audit reports, corporate elections, specific information returns (i.e., T1134s), published corporate information, financial statement disclosures, etc.

Tax risk management and corporate governance

Through detailed questions, the CRA has identified 12 topics that will help prepare corporate officials for its discussion on corporate governance to manage tax risk. The questions are generic – not tailored to any specific corporation or industry. These are summarized as follows:

1. Details regarding the corporation's **internal tax function**, including the number of staff, and their roles and responsibilities.
2. Details of any **formal framework for identifying and assessing the major tax risks** associated with normal ongoing operations, of steps taken to address material risks and of the individuals who oversee tax risk management.
3. Extent and frequency of **tax risk reviews**.
4. A summary of the **tax matters that the board of directors and senior management get involved in**.
5. **Use of tax intermediaries** and the extent of their involvement in tax risk management.
6. How the taxpayer **monitors the risk of non-compliance** and what steps are taken when a potential issue is identified.
7. **Systems and processes** to ensure that data and information for tax purposes are accurate, reliable and maintained in accordance with the legislation and CRA policy.
8. **Use of external tax advisers** for tax planning and fee arrangements for this work (e.g., contingency basis).
9. Consistency of the corporation's **tax strategy** with the overall business strategy.
10. Details of any **risk management committee**, including its members, their roles and whether the CRA can access minutes of the meetings.
11. The corporation's **top five tax priorities**.
12. An open discussion of any **other information** regarding tax risk that the taxpayer believes is relevant to the CRA in understanding the business and defining its tax risk assessment.

PwC can help

PwC has an array of people, tools and services to help you deal with the CRA's new risk assessment approach:

- Our Tax Controversy and Dispute Resolution (TCDR) team includes former CRA officials who can prepare you for when your corporation is selected under the CRA's new risk assessment approach. We can help you better understand and evaluate the affect of this new initiative on your company and how best to manage it.
- The Tax Function Effectiveness team can help you to evaluate and assess your tax risk management and corporate governance processes for tax.
- PwC has developed the proprietary "Tax Risk Profiler" framework to help you identify, quantify and assess tax risk. This specialized diagnostic review evaluates a company's risk profile.

Please contact your PwC tax adviser or the individuals listed on page 3 for more information about this and other CRA developments, and how PwC can help you prevent, manage and resolve tax disputes.

PwC contacts

Tax Controversy and Dispute Resolution	Rick Biscaro[1]	416 814 5868	richard.s.biscaro@ca.pwc.com
	Sharon Gulliver[1]	613 755 4372	sharon.l.gulliver@ca.pwc.com
	Marc Vanasse[1]	613 782 2973	marc.vanasse@ca.pwc.com
Tax Function Effectiveness	Nicole Clark	604 806 7781	nicole.f.clark@ca.pwc.com
	Liam Fitzgerald	416 869 2601	liam.m.fitzgerald@ca.pwc.com
	John Gotts	905 972 4125	john.gotts@ca.pwc.com
	Genevieve Groulx	514 205 5055	genevieve.groulx@ca.pwc.com
	Spence McDonnell	416 869 2328	spence.n.mcdonnell@ca.pwc.com
	Leanne Sereda	403 509 7586	leanne.a.sereda@ca.pwc.com

1. Member of PwC's Canadian National Tax Services (see **www.pwc.com/ca/cnts**) and global TCDR network (see **www.pwc.com/ca/tcdr**).

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