



Inside the CRA's Audit Crackdown:

What Canadian Taxpayers
Need to Know in 2025.

A Practical Guide
to Navigating CRA
Audits



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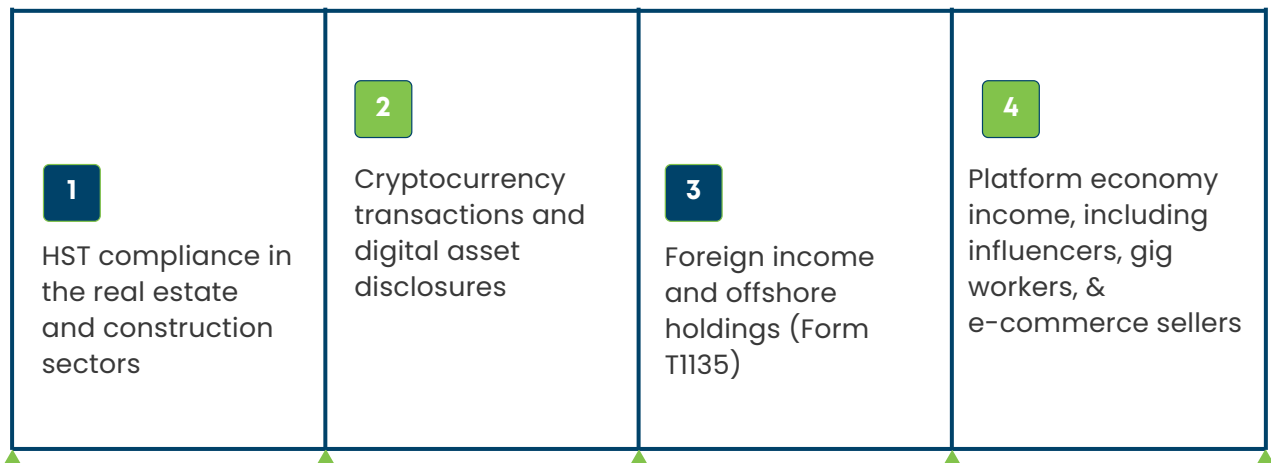
- Final tips to reduce audit risk and stay informed
- When to seek professional or legal support

1. INTRODUCTION:

The Canada Revenue Agency (CRA) has significantly stepped up its audit efforts, conducting nearly 96,000 audits in 2023-24—a sharp increase from 62,660 the previous year. This surge highlights the growing need for Canadian individuals and businesses to understand their tax obligations and be audit-ready.

While most taxpayers strive to comply with the law, CRA audits are used both to enforce tax compliance and educate the public, maintaining trust in the tax system. Depending on the taxpayer’s activity, audits can range from straightforward to complex.

The CRA’s 2025 audit focus includes four key areas:



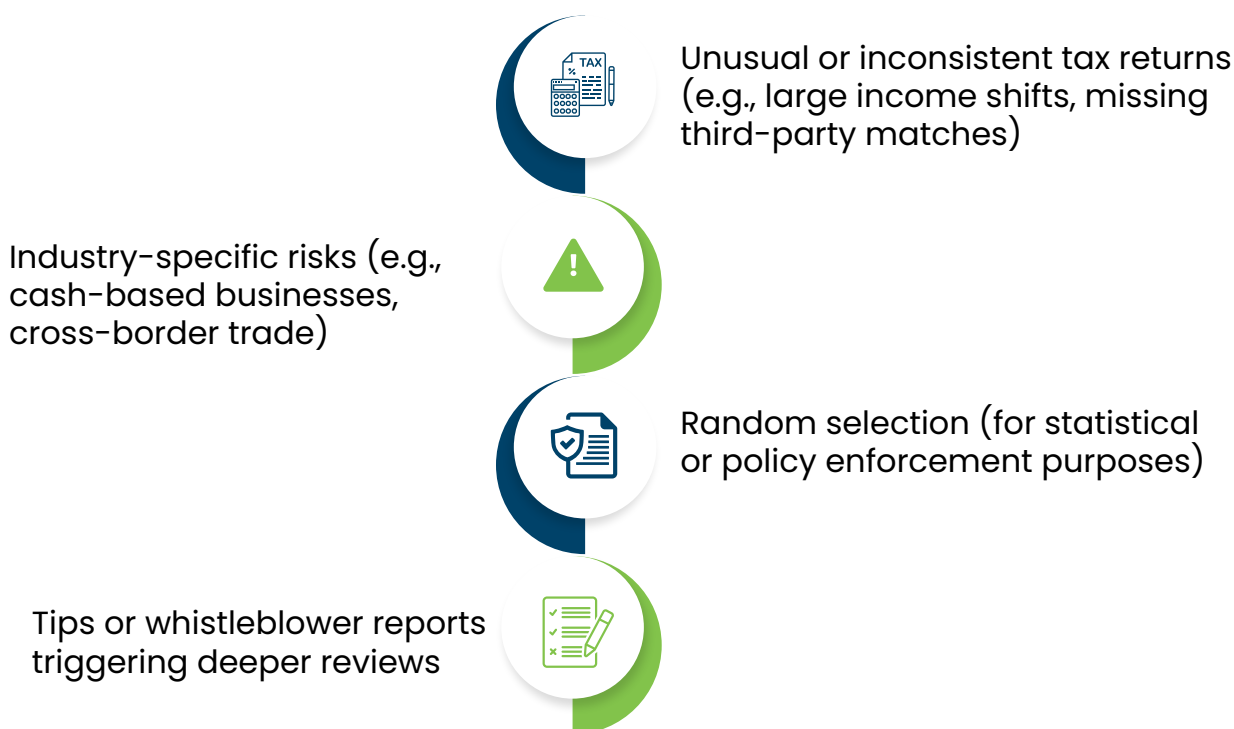
Whether you’re a crypto trader, Airbnb host, or real estate renovator, the CRA is watching more closely than ever. Proactive recordkeeping and knowledge of audit triggers can prevent costly penalties and disruptions.

2. WHAT YOU SHOULD KNOW ABOUT CRA AUDITS

Understanding CRA audits is essential for all taxpayers and their advisors.

How Does the CRA Select Files for Audit?

Files are chosen using a risk-based model, which may include:



How Are CRA Audits Conducted?

Audits are typically initiated by mail or phone. Depending on the case, they may be:



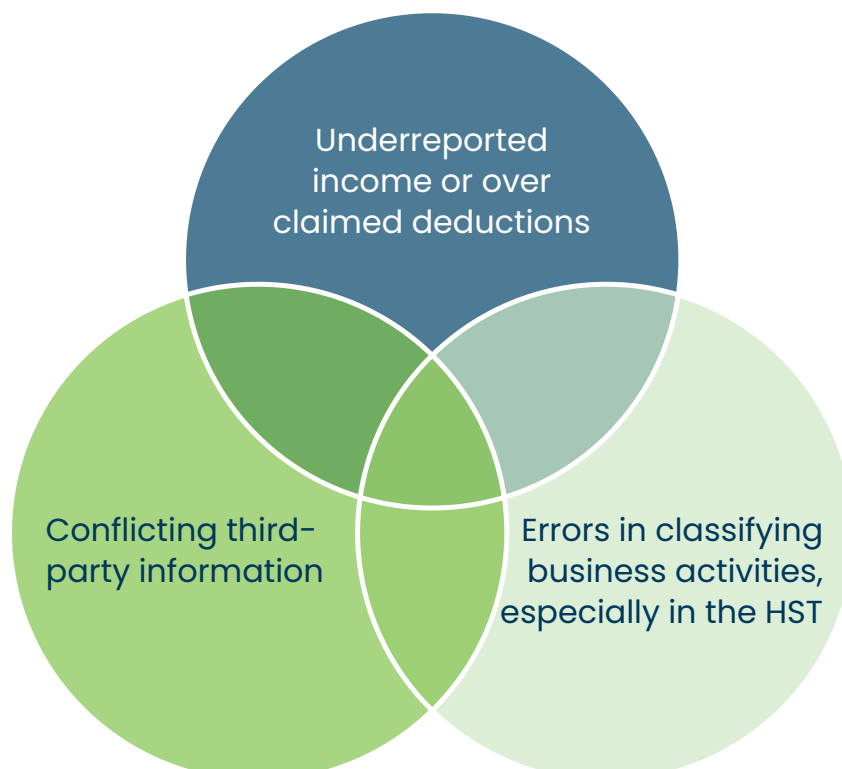
During the audit, the CRA may review:



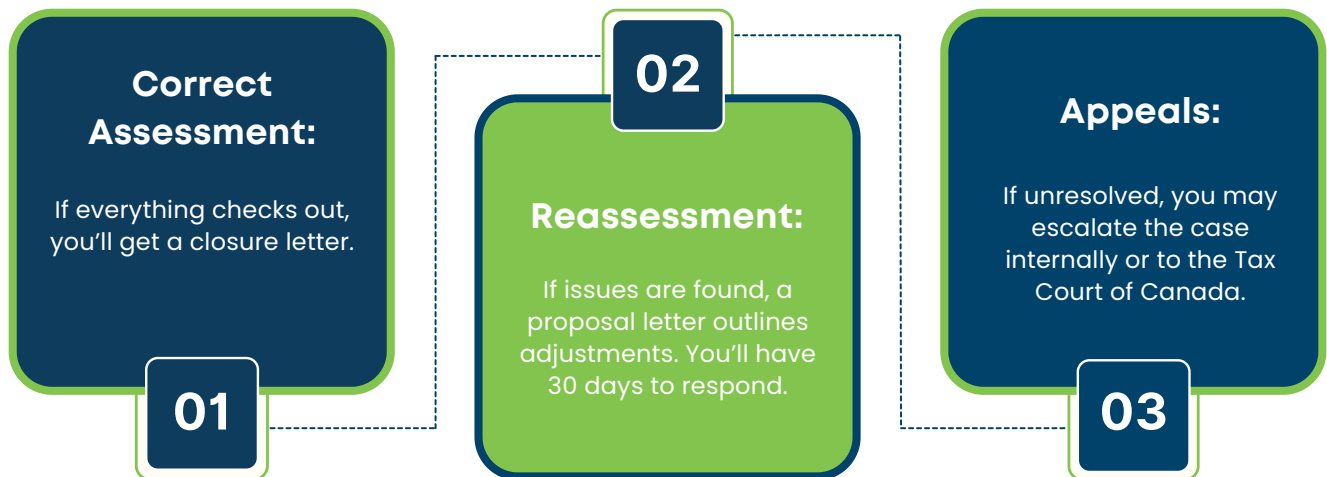
If needed, digital records will be copied, and receipts issued for physical files.

What Is the CRA Looking For?

CRA auditors compare your returns to external data and check for:



After the Audit: What Happens?



Audit Timelines

Audits typically range from a few weeks to several months, depending on:



The complexity of your case



Whether all records are available and organised



Delays caused by incomplete documents

Your Rights as a Taxpayer

You're entitled to:

- Fair, respectful treatment
- Access to CRA audit findings and decisions
- The right to dispute reassessments or file an appeal
- Maintaining clear, accurate records
- Responding promptly to CRA requests
- Providing all relevant supporting documentation



3. HIGH-RISK AREAS FOR CRA AUDITS

CRA's latest audit trends are highly concentrated in areas with complex tax treatment, high non-compliance rates, or new digital income streams.

HST Builder Audits: A Top Priority

Many builders unknowingly fall under the “builder” definition in the Excise Tax Act, which requires them to charge and remit HST.

Common mistakes include:

- Renting instead of selling a newly built or renovated home
- Misclassifying use (personal vs. commercial)
- Incorrectly claiming input tax credits

In 2023–2024, CRA conducted 2,270 audits and assessed over \$209.4 million in penalties related to HST compliance in real estate.

Foreign Assets: Form T1135 Non-Compliance

If you own foreign property worth over \$100,000, you must file Form T1135—even if it generates no income.

Key points:

- Failure to file = automatic penalties, even for honest oversight
- CRA now uses global data-sharing agreements for offshore asset tracking
- Foreign investment reporting is a top audit trigger

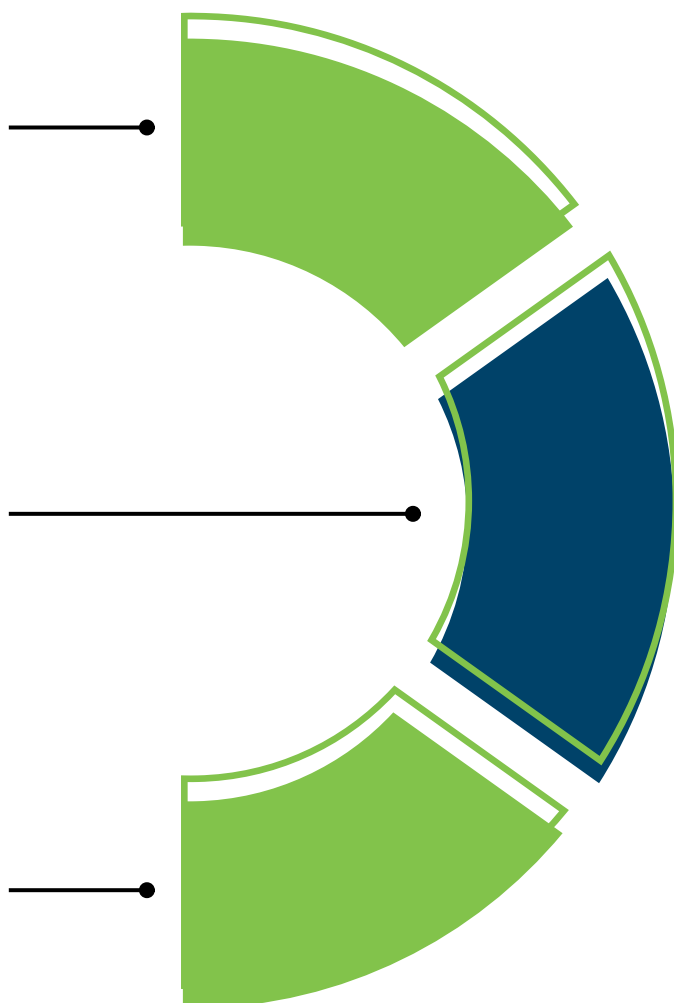
Cryptocurrency Transactions: A Digital Risk Zone

Cryptocurrency investors are under increasing scrutiny.
Misconceptions are common:

Myth: Crypto is untraceable.
Reality: Canadian
exchanges must report
transactions above \$10,000.

While \$10,000+
transactions may raise
flags under anti-money
laundering rules, all crypto
income must be reported,
regardless of amount.

Unreported gains, losses,
or transfers = audit red
flags



4. HOW TO PREPARE FOR A CRA AUDIT

Facing a Canada Revenue Agency (CRA) audit can be intimidating, but proper preparation, clear documentation, and professional support can help manage the process. This section highlights strategies to minimise audit risks and respond effectively during an audit.

Best Practices for Documentation & E-Bookkeeping

Accurate and consistent record-keeping is crucial for CRA audit, as businesses must maintain detailed records for all income & expense claims.

1

Maintain Complete and Organised Records

Keep all invoices, receipts, bank statements, payroll records, and tax filings. Store both physical and digital copies where possible. Label and categorise records according to CRA standards (e.g., by expense type or fiscal quarter).

2

Use Cloud-Based Bookkeeping Software

Adopting e-bookkeeping solutions like QuickBooks, Xero, or Wave ensures secure, regularly backed-up records that are accessible in real time. Automation reduces manual errors and enhances audit trail integrity.

3

Retention Policies

The CRA mandates businesses keep records for a minimum of six years post-tax year. Establish a structured archiving policy with secure digital storage and regular reviews.

4

Reconcile Regularly

Perform monthly reconciliations of accounts to catch discrepancies early. A consistent reconciliation process improves data accuracy.

How to Respond to CRA Inquiries & Avoid Stress

Receiving a notice of audit doesn't necessarily mean wrongdoing. However, the way you respond significantly impacts the outcome.

01 **Remain Calm and Compliant**

Respond to CRA inquiries in a timely and professional manner. Delayed or defensive responses can raise additional concerns.

02 **Understand the Scope of the Audit**

CRA audits can range from simple information requests to in-depth, full-scope investigations. Clarify what the CRA is examining—whether it's GST/HST filings, payroll remittances, or corporate income tax.

03 **Designate a Point of Contact**

Assign a dedicated representative—either a financial controller or external accountant—who can manage communications with CRA. Centralised communication ensures consistency and avoids conflicting statements.

04 **Provide Clear and Accurate Responses**

When submitting documents or explanations, ensure they directly address CRA's questions. Avoid over-disclosing or providing unrelated information that could broaden the audit.

05 **Document Everything**

Keep a detailed log of all correspondence with the CRA, including emails, letters, and phone conversations. This log can be crucial if any disputes arise later.

Working with a Tax Professional or Accountant

Involving a qualified tax professional is one of the most effective ways to reduce audit risks and manage an ongoing audit.



01

Pre-Audit Review

Have your accountant perform regular pre-audit reviews to ensure compliance with CRA expectations. This involves checking for common audit triggers like large expense claims, home office deductions, and inconsistent revenue reporting.



02

Professional Representation

CRA audits vary from basic information requests to comprehensive investigations, focusing on areas such as GST/HST filings, payroll remittances, or corporate income tax.



03

Strategic Planning & Risk Management

In addition to reactive support, professionals can help you implement systems and practices that reduce the likelihood of future audits. This includes tax planning, industry benchmarking, and risk assessments.

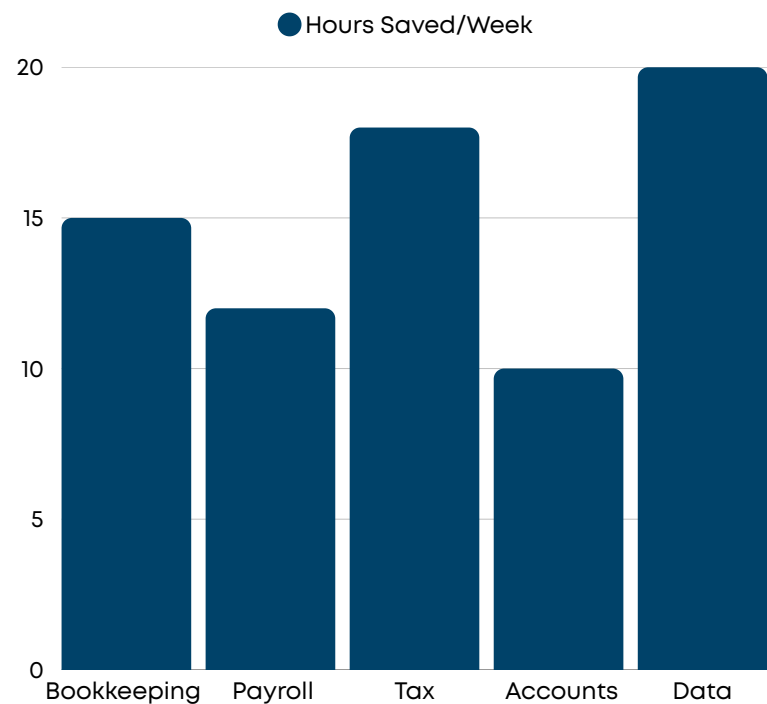


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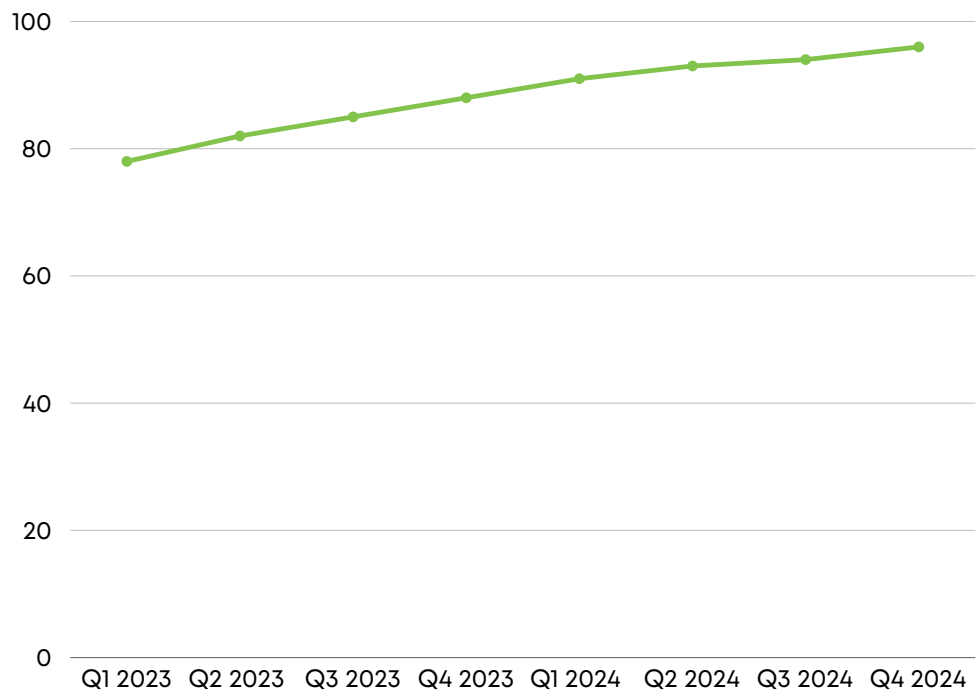
Appeals and Dispute Resolution

If the audit results in a reassessment that you believe is incorrect, a tax advisor can guide you through the appeals process, including filing Notices of Objection and representing your case.

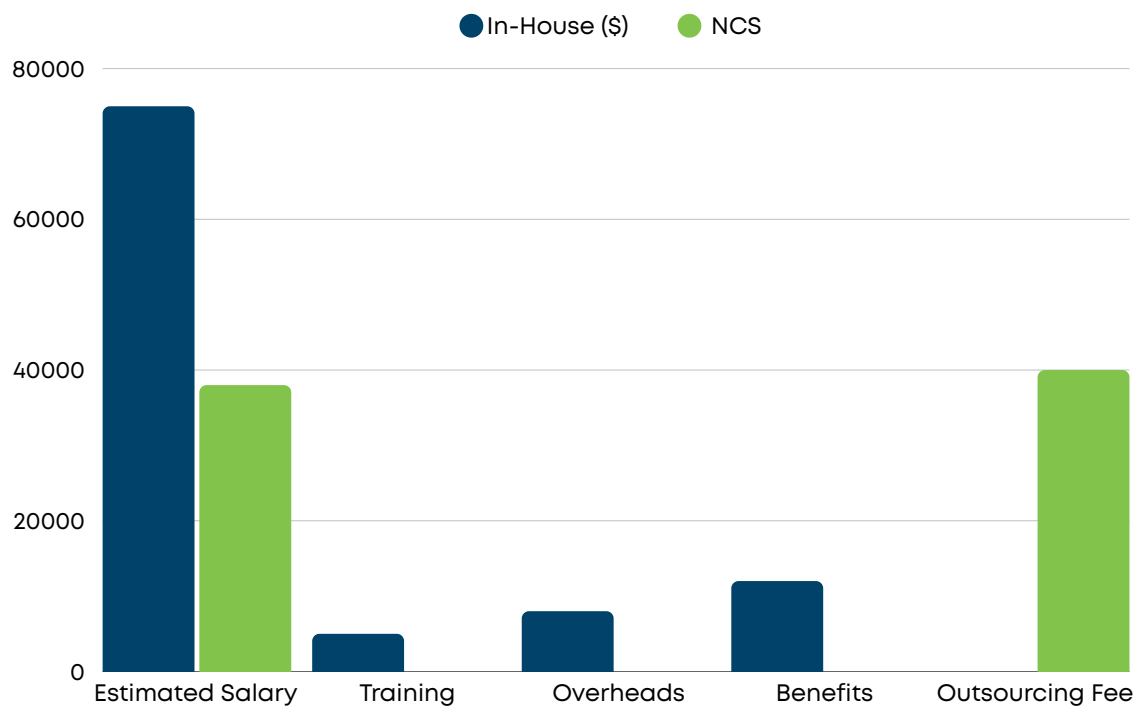
Time Spent vs Tasks Delegated to NCS GLOBAL



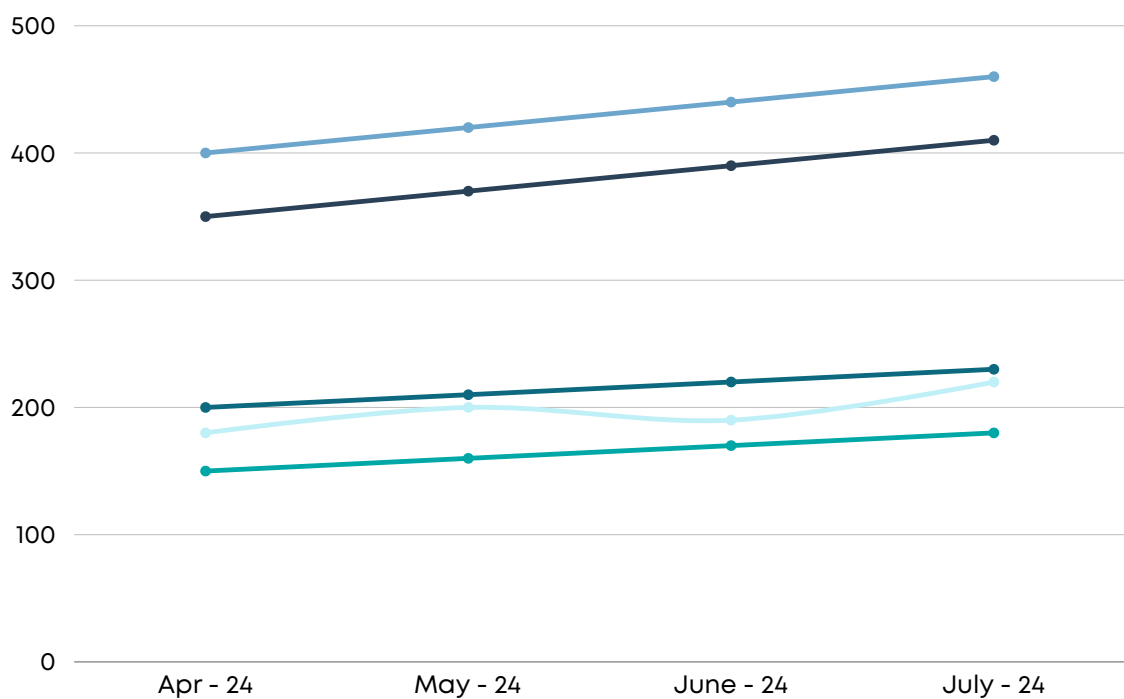
Client Satisfaction Over Time



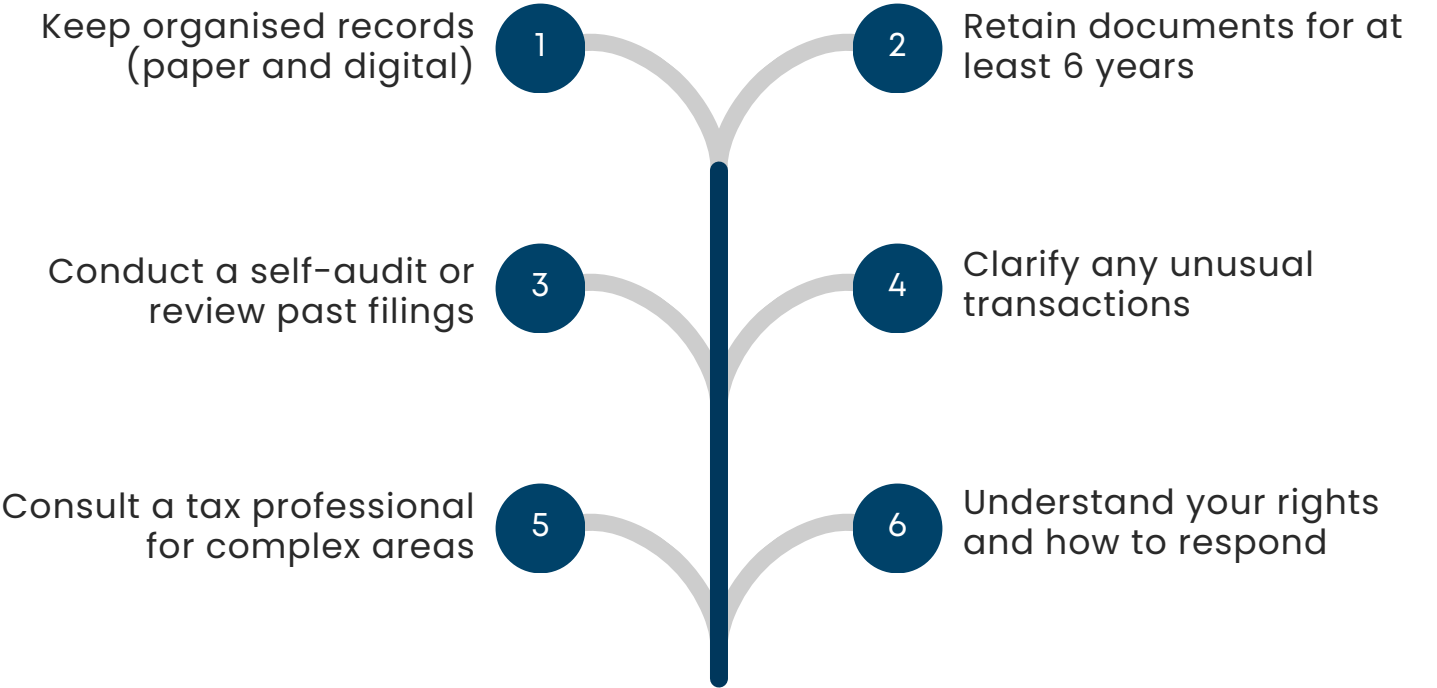
COST SAVINGS: NCS VS IN-HOUSE HIRING



MONTHLY VOLUME OF TASKS HANDLED BY NCS



Summary: Audit Readiness Checklist



5. WHAT HAPPENS DURING AND AFTER A CRA AUDIT

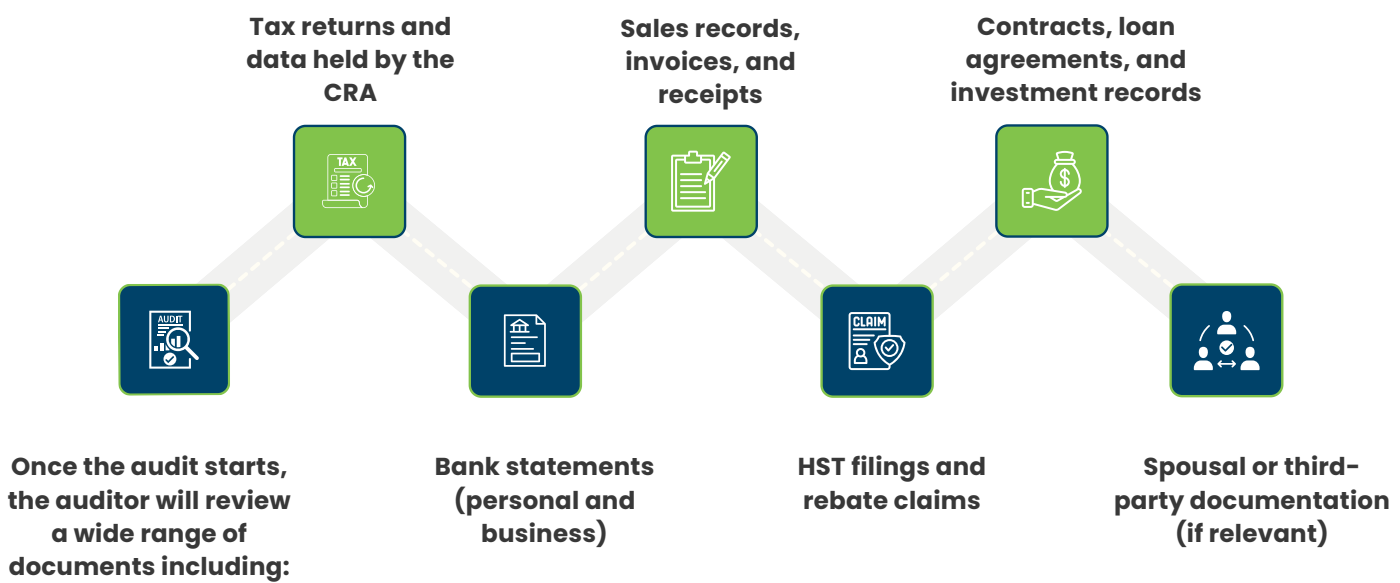
Receiving a Canada Revenue Agency (CRA) audit notice can be intimidating, even with compliant tax filings. Understanding the process—from initial contact to final assessment—can help you handle it confidently.

Step 1: Initial Contact from the CRA

The audit process begins when a CRA auditor contacts you, typically by phone, mail, or both. The auditor will provide key information, including:

- The scope and focus of the audit
- The date, time, and location (on-site or at a CRA office)
- A list of requested documents you'll need to provide

Step 2: Document Review



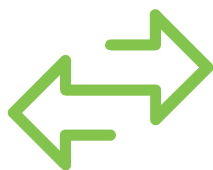
For digital records, auditors may request access to accounting software or electronic files. Any documents removed for review will be returned after assessment.

Step 3: Ongoing Communication



Step 4: Audit Results and Reassessment

CRA will deliver one of the following outcomes after the audit ends:



NO CHANGE

If your tax filings are accurate, you'll receive a completion letter stating that no adjustments are required. The audit is closed.



REASSESSMENT – REFUND DUE

If the auditor finds underpaid taxes, the CRA will send a proposal letter detailing changes and additional taxes owed. You have 30 days to respond before a Notice of Reassessment is issued.



REASSESSMENT – REFUND DUE

If you've overpaid, a reassessment and refund will follow.

Tip: To avoid interest, you can pre-pay any estimated amounts owed before receiving the final reassessment.

Step 5: If You Disagree with the Outcome

You have several options:

01

Respond to the proposal letter within 30 days with supporting documentation.

03

File a formal Notice of Objection via the CRA's Appeals Division.

02

Escalate to the auditor's team leader.

04

If unresolved, the matter can proceed to the Tax Court of Canada.

Recommendation: Consult a tax professional or legal advisor to strengthen your position and ensure all procedures are followed.

How Long Does a CRA Audit Take?

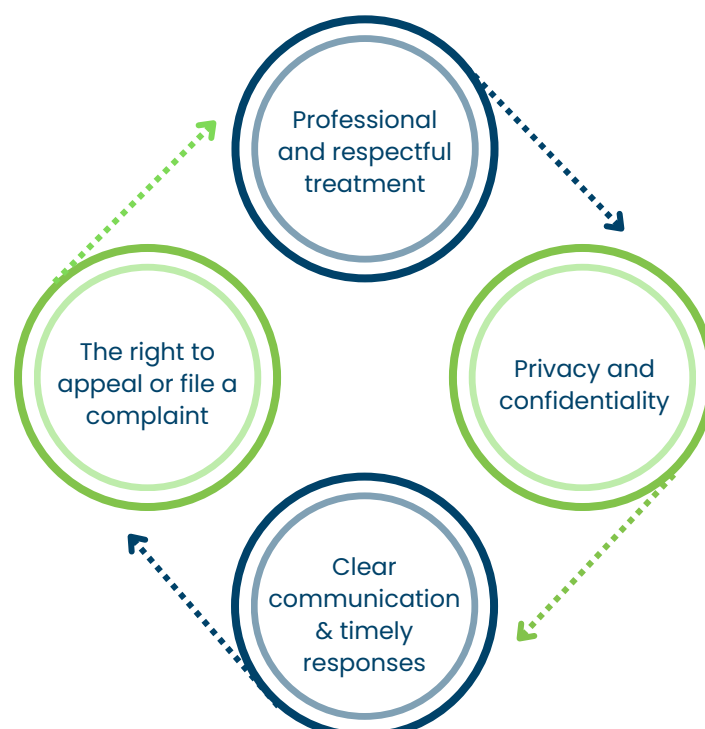
There's no set timeframe. Audit duration depends on:

- 1 The complexity of your financials
- 2 How quickly you provide documentation
- 3 The availability and clarity of your records
- 4 Involvement of additional CRA specialists

Some audits wrap up in weeks; others, especially those covering multiple years or complex situations, can take months.

6. STAYING COMPLIANT: PROACTIVE STRATEGIES

You are protected by the **Taxpayer Bill of Rights**, which guarantees:



Reducing Your Risk of a CRA Audit

CRA audits often arise due to red flags or inconsistencies. While there’s no foolproof way to avoid them, the following strategies will significantly reduce your risk:



File Accurate and Consistent Returns

Match all income slips and third-party data. Use CRA-certified tax software to auto-fill information where possible.



Explain Significant Changes

Large fluctuations in income, expenses, or claims should be documented and justified.



Be Cautious With Deductions

Claims such as home office or mileage must be well-supported. Maintain receipts, logs, and calculations.



Register and Remit HST Correctly

If you exceed \$30,000 in revenue, register for HST. File accurate returns, especially if involved in real estate or renovations.



Disclose Foreign Assets and Crypto

File Form T1135 for foreign holdings over \$100,000. Report all crypto transactions and income. Keep detailed records.



Separate Business and Personal Finances

Use distinct bank accounts and credit cards. Keep itemised receipts and clear records of business expenses.



Maintain Good Recordkeeping

Keep all supporting documents for 6 years and back them up digitally. Use software to track all transactions.



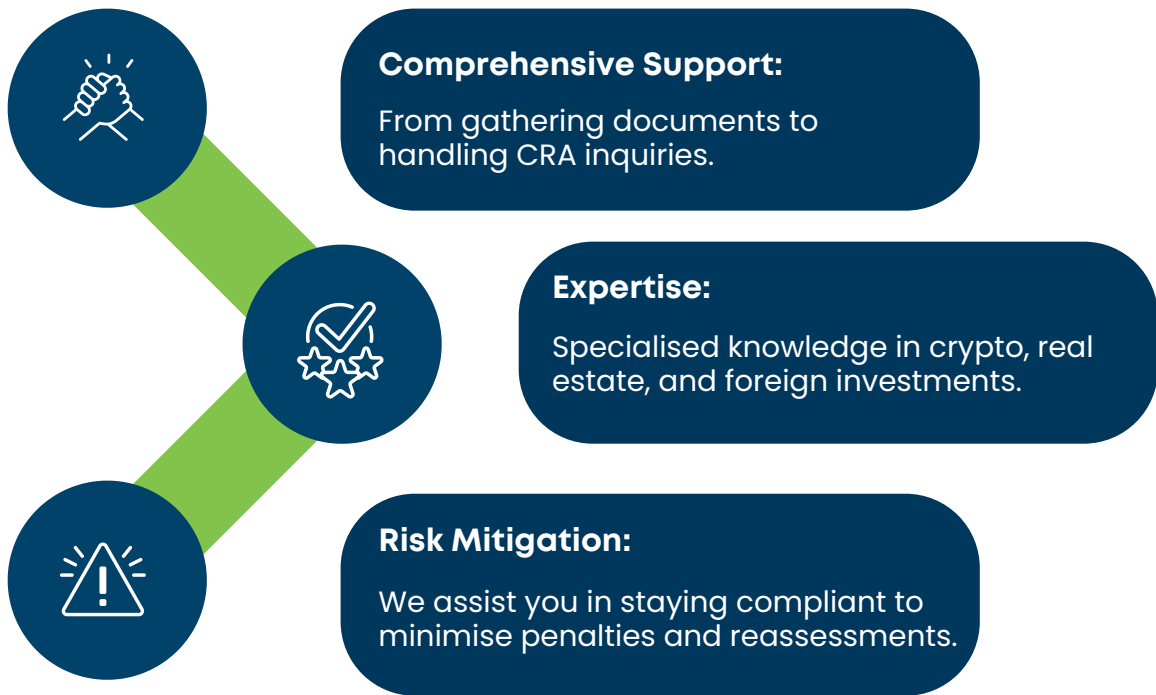
Consult a Tax Professional

Professionals can identify red flags, prepare accurate filings, and represent you in CRA communications.

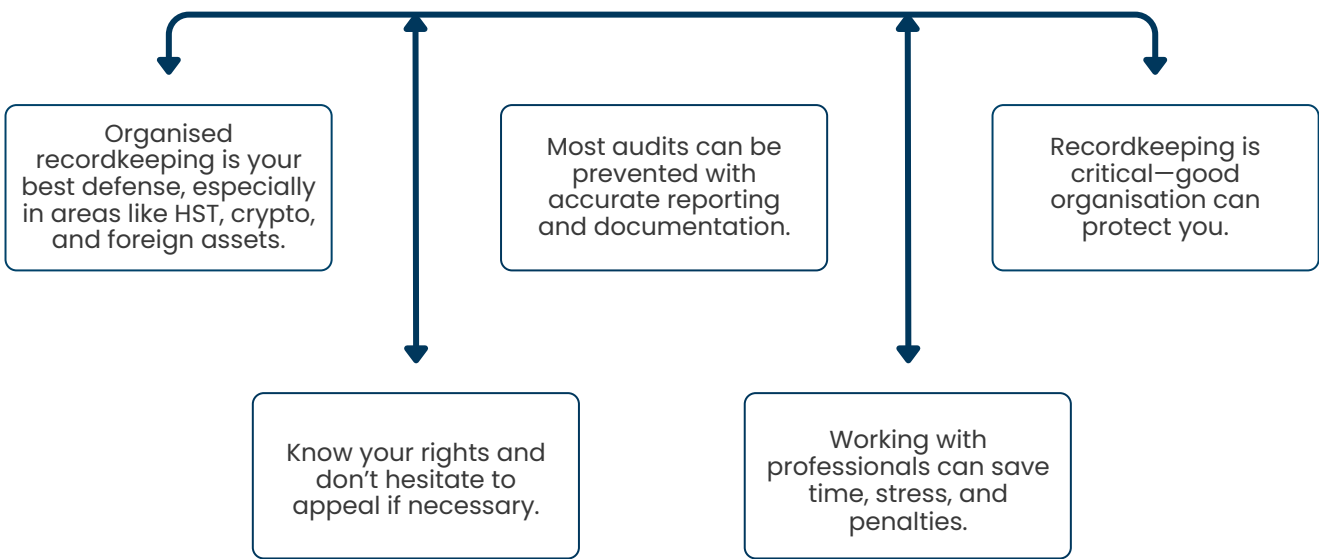
**NCS GLOBAL – Your Strategic Partner
for CRA Audit Support**

At NCS, we specialise in supporting individuals and businesses through the CRA audit process.

How NCS Can Help:



7. CONCLUSION





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