

Tax Tip

Week of December 5, 2011

Beware Natural Person Tax Scam

This scam sounds too extreme but a number of gullible Canadians have committed tax fraud because they believed the “natural person” argument. According to CRA’s website, one of the most common false arguments tax protesters use is the natural vs. legal person argument, in which they treat themselves as two separate people for income tax purposes. They define the natural person as the individual that performs the labour required to earn income, and the legal person as the legal entity that the federal government creates through the issuance and use of the social insurance number (SIN). Tax protesters allege that the legal person has to file an income tax and benefit return, and that income received belongs to the natural person and is therefore not subject to Canadian income tax.

Canadian courts have repeatedly and consistently rejected all arguments made in these tax protester schemes. For those involved in tax protester schemes, the CRA will reassess income tax and interest, and charge penalties. In some cases these individuals will be prosecuted for tax evasion. If convicted, they could face significant fines and possibly jail time.

For example, the courts fined an Ontario tax protester approximately \$522,000, which represented 150% of the federal taxes evaded. In addition, the individual was given a one year conditional sentence, and was ordered to pay the fine imposed prior to the expiry of the conditional sentence; ordered to remain in Ontario and surrender his passport; and ordered to perform 180 hours of community service.

Individuals who would like to correct their tax affairs can voluntarily come forward, and they may not be penalized or prosecuted if they make a valid disclosure before they become aware of any compliance action being taken by the CRA against them. These individuals may only have to pay the taxes owing, plus interest.