

Tax Tip

Week of February 14, 2011

Valentines Day Tax Trap

This tax trap was shared by a CRA auditor. When auditing a small business, the auditor, often through small, talk attempts to determine the date of the owner's anniversary and spouse's birthday. With this information, the auditor reviews the expense accounts of the owner to determine if there a dinner for two expensed on any of the following dates:

- Spouse's anniversary
- Spouse's birthday
- Valentines day

Certain individuals will expense personal items such as meals and entertainment. However, as the auditor pointed out many of these non-deductible items are reasonably easy to spot. It is amazing how many taxpayers take out a major customer to a romantic dinner on February 14. When a taxpayer makes such a transgression, the issue is not simply the addback of the non-deductible personal item; rather it changes the nature of the audit. The auditor will take the approach that fraud has been discovered not a simple bookkeeping mistake. It transfers the power in negotiations to CRA's advantage.

Expensing personal items is wrong but many taxpayers are just stupid on such items and make it easy for CRA to discover.