



Educating the Business Owner “Voluntary Disclosure”

Taxpayer Compliance

If you are losing sleep because of unreported income or unfiled tax returns, your situation is probably not as bad as you fear.

The Canadian income tax system is based on self-assessment. Taxpayers sometimes fail to report all income that they should, either through inadvertence or due to the extreme complexities of the Canadian tax system.

Taxpayers may sometimes neglect to file tax returns at all. They neglect to file one year, then they are afraid to file the next year's tax return because of the old unfiled return. A series of unfiled returns then builds up. **Dynamic Business Solutions** can help.

Below is an outline of CRA's policies and reasoning pertaining to “voluntary disclosure”

Revenue Canada Policy

Revenue Canada's policy is to promote voluntary compliance with the tax laws. It has, therefore, a policy to encourage taxpayers, both individuals and corporations, to come forward to report any previously unreported income or to file returns that were not previously filed.

To encourage this voluntary compliance, Revenue Canada has a policy of not undertaking prosecutions or even applying civil penalties, including late filing penalties, on any voluntary disclosures.

Furthermore, the identity of anyone making a voluntary disclosure will be held in confidence. This is a marked contrast to Revenue Canada's position with tax prosecutions where they seek the maximum publicity possible.

Requirements for Voluntary Disclosure

To meet Revenue Canada's criteria, the taxpayer must initiate the voluntary disclosure. If Revenue Canada has begun audit or enforcement action, or has demanded that returns be filed, the disclosure is not considered to be voluntary and full penalties will be applied.

The disclosure must include enough details to allow all of the facts to be verified.

The taxpayer must pay the total amount of any taxes and interest owing at the time of disclosure, or make acceptable payment arrangements.

Incomplete Disclosure

If the disclosure is initiated by the taxpayer but is incomplete, the disclosed information will be considered to be voluntary. However, the taxpayer will be subject to civil penalties or prosecution relating to any substantial undisclosed amounts.

Timing of Disclosure

A voluntary disclosure is effective from the time the taxpayer or his representatives contact Revenue Canada, even if detailed submissions are not made at that time. Therefore, for example, a taxpayer who has not filed tax returns for several years need not have them ready when first contacting Revenue Canada. However the taxpayer will have to come to an agreement with Revenue Canada as to what period of time will be required to submit all necessary information. The initial contact will be considered to be the date of the voluntary disclosure.

Unfiled Tax Returns

A taxpayer who **voluntarily files unfiled returns** will only be required to pay the tax owing on the reported income with interest. No late filing penalty will be charged.

Unreported Income

Where a taxpayer has failed to report income, including foreign source income, and **voluntarily reports** it, only the tax owing on the unreported income plus interest on it will be charged

Note: information taken from Tax and Business articles – 1998 vol 4&6.

If any of the above situations concern you and / or your business, Dynamic Business Solutions can help. **Dynamic Business Solutions** is an Independent Business Consulting and Tax Services company that offers tax preparations, tax consulting and financial business process solutions too small and medium size businesses. **Annual service agreements are available with payment terms.**

“Give Me a Call I Can Help”

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