

Tax and Revenue Administration (TRA)

Alberta Corporate Income Tax Act

Information Circular CT-10R2

The Tax Audit

Last updated: September 2, 2020

NOTE: This information circular is intended to explain legislation and provide specific information. Every effort has been made to ensure the contents are accurate. However, if a discrepancy should occur in interpretation between this information circular and governing legislation, the legislation takes precedence.

The Tax Audit

This Information Circular explains the policies and practices of TRA concerning the audit of records and books pursuant to the *Alberta Corporate Tax Act* (the Act). The topics discussed include:

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Overview

1. TRA's policies and practices relating to the audit of records apply to all entities subject to the provisions of the Act. The following list is a summary of the types of entities, each of which is referred to as "taxpayer" in this circular:
 - a. corporations with a permanent establishment in Alberta, whether or not they are required to file Alberta corporate income tax returns;
 - b. insurance corporations, as defined in Part 9 of the Act;
2. Taxpayers are required to keep records and books of account in a form that will enable Alberta taxes payable and refundable tax credits to be determined.

3. The Act requires taxpayers to keep their records and books of account in Alberta. However, upon request, TRA may provide a taxpayer with written permission to maintain records and books elsewhere. For additional information on the requirements concerning records and books, refer to [Information Circular CT-13, Records and Books](#).
4. If a taxpayer has received permission to keep its records and books outside of Canada, it must, upon request, forward the records, books and other supporting documentation to TRA or to its business location in Canada at its own cost, or arrange to have TRA audit staff visit at the location of the records and books. The taxpayer will be responsible for absorbing any incremental costs incurred by TRA in sending auditors outside of Canada.
5. Under the Act, TRA auditors are authorized to:
 - a. enter a taxpayer's business premises or any other premise where relevant records and books are kept;
 - b. audit all records and books and other supporting documentation pertinent to the determination of taxes and refundable tax credits under the Act; and
 - c. examine inventory or property.

The Act also provides auditors with the right to reasonable assistance and explanations that may be required from the owners or managers of the business or property, or from other persons on the premises.

6. Auditors may make copies of any documentation examined.

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Audit Objectives

7. The Alberta income tax system operates on the principle of self-assessment and relies on voluntary taxpayer compliance. Self-assessment includes proper determination of entitlement to Alberta tax credits.
8. Maintenance of the self-assessment system and public confidence in its integrity requires an audit function to monitor and ensure compliance with the Act.
9. The objectives of TRA's audit function are to:
 - a. encourage voluntary compliance with the law;
 - b. ensure the provisions of the Act are applied and interpreted uniformly and within the intended context; and

- c. identify those who fail to voluntarily comply with the law, and enforce compliance in those cases.

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Audit Selection

10. TRA uses various file selection criteria to generate a list of potential audits for review.
11. The audit selection criteria focus on claims for Alberta incentives and on returns showing taxable income allocated to more than one jurisdiction.
12. If a significant lack of compliance with the Act is determined for a tax credit or in a certain calculation, special audit projects covering that tax credit or calculation may be undertaken.

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Audit Scope and Procedures

13. As the Act adopts most of the provisions of the federal *Income Tax Act* (the federal Act) relating to the calculation of taxable income for corporations, it is TRA's general policy to accept taxable income as determined for federal purposes and then make adjustments provided for by the Act. As a result, TRA generally concentrates its audit efforts on the deductions and tax credits unique to Alberta legislation (including insurance premiums tax). TRA will, however, undertake the audit of taxable income if there is concern that an area is not being reviewed federally, such as files with different federal and Alberta discretionary deductions (e.g., capital cost allowance). In addition, TRA conducts audits of corporations that allocate taxable income among different provincial jurisdictions. Care is taken to avoid duplication of any audit effort undertaken by the CRA.
14. There are two types of audits performed: desk audits and field audits. Desk audits are conducted at TRA's offices while field audits are conducted at the taxpayer's place of business or at another location mutually agreed upon by the taxpayer and TRA. The type of audit performed is determined by the nature of the issues involved, the dollar amount of taxes and credits under review, and the volume of records to be reviewed.
15. In most cases, one auditor will be solely responsible for a specific audit. However, for larger and more complex assignments, the audit may be conducted by a team consisting of a leader who co-ordinates the entire audit, and one or more auditors who are assigned specific audit responsibilities. The team approach reduces the length of time auditors spend at the taxpayer's business premises.

16. When a taxpayer has been selected for audit, the auditor will:
 - a. perform a preliminary review of the current and prior years' returns or applications and financial statements, if applicable, and any other information available to TRA;
 - b. contact the taxpayer and explain the purpose of the contact;
 - c. for field audits, arrange a mutually agreeable date to commence the audit, ensure the records and books necessary for the audit and appropriate space will be available at the taxpayer's business premises to enable the audit to be performed; and
 - d. contact the taxpayer's accounting representative, if necessary, to obtain copies of working papers that normally link the taxpayer's records to the filed returns.
17. In the course of a desk audit, the auditor may require certain records to verify an issue under review. The auditor will request that the taxpayer arrange to have these records sent to TRA. Upon completion of the audit, the records will be returned to the taxpayer.
18. Upon arrival at the business premises for a field audit, the auditor will present an official identification card. Before beginning the examination of the books and records, a discussion may be held with the appropriate officials regarding the general nature of the business, the accounting system, the basic accounting procedures, and the intended scope and length of the audit. A tour of the premises will enable the auditor to acquire a better understanding of the business processes. Co-operation in this regard will permit a faster and more efficient audit.
19. The auditor, under the advice and direction of a supervisor, determines the extent of the audit. The decision as to which records to examine and what audit techniques to employ is made by the auditor. Records frequently reviewed during the course of an audit include the general ledger, minute book, share register, applicable legal agreements and source documents such as joint venture billings, land records, cancelled cheques and invoices.
20. Every effort is made by the auditor to complete the review of the books and records as soon as possible. The time spent by the auditor at the taxpayer's office can be reduced by having available, at the start of the audit, any information previously requested by the auditor.
21. Excessive delays by the taxpayer in providing information can result in an audit being finalized, and a reassessment processed, based on available information. If a dispute arises as a result of such reassessment, the taxpayer will be required to provide all missing or withheld information before any adjustments to the reassessment are considered.

22. The auditor will document and fully discuss with the taxpayer, during and at the conclusion of the audit, any inconsistencies, questions or issues which may form the basis of a reassessment.
23. At the conclusion of the audit, the auditor will review the results of the audit with the taxpayer or the taxpayer's representative.

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Reassessment

24. If, in the auditor's opinion, a reassessment is warranted based on adjustments determined during the audit, TRA will provide an explanation to the taxpayer detailing all proposed changes. A reasonable period of time will be provided for the taxpayer or the taxpayer's representative to discuss the proposed adjustments with TRA or to provide further documentation.
25. A taxpayer who disagrees with a reassessment has the right to file a Notice of Objection with the Objections and Appeals section of the Tax Services branch, which is distinct and separate from the Audit branch. An independent review of all relevant facts and law would then be undertaken by the Objections and Appeals section before confirming, vacating, or varying the reassessment.
26. A taxpayer may appeal a decision of Tax Services to the Court of Queen's Bench of Alberta. This court's decision may be further appealed to the Court of Appeal of Alberta and from there, with leave, to the Supreme Court of Canada. For additional information on objections and appeals, refer to [Information Circular CT-8, Objections and Appeals](#).

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Tax Avoidance / Tax Credit Maximization

27. Taxpayers are entitled to arrange their affairs to keep their taxes to a minimum, provided they do so within the framework of the law. TRA distinguishes between legitimate tax planning and those schemes dependent for their success on deceit or concealment of material matters. Taxpayers may expect that TRA will thoroughly investigate and challenge any schemes or affairs arranged in an artificial manner for the purpose of acquiring the benefit of tax credits, or deferring, reducing, or avoiding tax payable under the Act.
28. The Act imposes penalties for false statements. A taxpayer is liable for an administrative penalty, even when there is no tax owing, if TRA finds that a filed return or application contained false statements or omissions under conditions constituting gross negligence. As applicable, the penalty is the greater of \$100 or 50% of the total of:

- a. the amount, if any, by which
 - (i) the tax that would have been payable if the false statement or omission had not been made exceeds
 - (ii) the tax that would have been payable if the return had been assessed as filed by the taxpayer; and
 - b. the amount, if any, by which
 - (i) the refundable tax credits that would have been payable to the taxpayer if they were calculated as filed by the taxpayer exceeds
 - (ii) the refundable tax credits that would have been payable if the amount relating to the false statement or omission were excluded.
29. Taxpayers who wilfully attempt to evade the payment of tax, or claim a refundable tax credit greater than that to which they are entitled, are subject, on conviction by a court, to fines. Individuals convicted of tax evasion are also subject to fines or imprisonment.

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Voluntary Disclosures

30. TRA's policy is to reinforce the self-assessment nature of the tax and tax credit programs administered in Alberta. Therefore, TRA encourages any submission demonstrating the intent to voluntarily redress previous contraventions of the Act. For additional information on voluntary disclosures, refer to [Information Circular CT-11, Voluntary Disclosures](#).

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Contact Information and Useful Links

Email Tax and Revenue Administration (TRA):	TRA.Revenue@gov.ab.ca
Visit our website:	tra.alberta.ca
Subscribe to receive email updates:	tra.alberta.ca/subscribe.html
TRA Client Self-Service (TRACS):	tra.alberta.ca/tracs