



On the Hook

Tax preparers will have to register with government

If you're an advisor who prepares your clients' tax returns, you will be particularly interested in the Canada Revenue Agency's (CRA) recent proposal to have tax return preparers registered with the government.

On January 17, 2014, the CRA, in an effort to improve tax compliance, announced the Registration of Tax Preparers Program (RTPP). One of its objectives is to identify and address common and recurring errors made by tax preparers *before* tax returns are filed.

While 70 per cent of personal and corporate tax returns are prepared by tax preparers, the CRA says it continues to identify errors in income tax returns. For example, in 2010-11 the CRA disallowed almost one of every five claims that were made for key tax credits and deductions. Also, in 2011-12 the CRA assessed over \$1 billion in additional tax, primarily by comparing information on taxpayer returns to information provided by employers, financial institutions and other sources. Since following up on these errors to ensure proper compliance uses significant CRA resources, the CRA is introducing the RTPP to try to minimize errors made by tax preparers.

The RTPP would initially require registration for all individuals who prepare T1 (personal) or T2 (corporate) income tax returns for a fee, including accountants who belong to a provincially regulated body and employees of businesses that offer income tax preparation services for a fee. Each registered individual would be assigned a personal identification number (PIN). Firms that employ at least one registered tax preparer would also be given an entity identification number (EIN). Both the PIN and EIN would be disclosed on any applicable tax returns that are prepared so that the CRA will be able to track the returns prepared by an individual or entity.

Tax preparers who are not compensat-

ed for their efforts would not be required to register under the RTPP. The CRA specifically said that the program would not apply to individuals who prepare tax returns as a volunteer, prepare income tax returns for their employers, provide only typing, reproduction, or other mechanical assistance in preparing returns or are not held accountable by their employer for the completeness and accuracy of the return.

THE TAKE-AWAY

The Registration of Tax Preparers Program (TPP) would initially require registration for all individuals who prepare T1 (personal) or T2 (corporate) income tax returns for a fee, including accountants who belong to a provincially regulated body and employees of businesses that offer income tax preparation services for a fee.

No fee would be charged for registration and any individual can apply. Although the CRA is considering publishing a list of registered tax preparers, this list would not necessarily be a source for finding qualified tax preparers. Noting that "the goal of this program ... is to identify which tax preparers are making errors and to work with them to prevent these errors before the tax return is filed," for now the CRA has no plans to introduce standards

for the certification of tax preparers.

Once tax preparers are registered, the CRA would be able to collect data about the types of errors that are made by specific tax preparers and then work with these preparers to prevent these same errors in the future. The CRA outlined a strategic approach to address non-compliance issues that could include education, follow-up visits, development of action plans and audits of the tax preparer's clients when non-compliance persists.

While it is expected that the vast majority of tax preparers will be diligent in their efforts to correct any non-compliance, the CRA acknowledges that there may be tax preparers who fail to take reasonable care and exercise proper due diligence to correct errors or who may be deliberately non-compliant. In these cases the CRA would consider additional sanctions, which could include reporting the tax preparer to a provincially regulated accounting or legal body, assessing a penalty, introducing a period of monitoring, or revoking a tax preparer's electronic filing privileges.

Egregious infractions may also result in de-registration or application of third-party civil penalties for the tax preparer. The CRA noted that under the Income Tax Act, sanctions apply to "persons who counsel and assist others in making false statements when they file their returns or who are willfully blind to obvious 'errors' when preparing, filing or assisting another person in filing a return." Penalties generally range from \$1,000 to \$100,000 but can be greater if false statements are made in the course of a tax planning or valuation activity.

The CRA expects to implement the program during the 2016-17 fiscal year. The program could also be ultimately expanded to include registration or preparers for other types of tax returns, including GST/HST returns and T3 trust returns.

If you have concerns on how the new registration may affect you and the preparation of personal T1 tax returns for your clients, you should convey those in writing to the CRA during the current consultation period, which ends May 31, 2014. **■**

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