

## CRA moves forward with international audits despite continued backlog

January 20, 2021

The COVID-19 pandemic brought delays, backlogs, and closures across the Canada Revenue Agency (CRA) in 2020. The audit division was no different. In March 2020, the CRA announced that it was suspending the vast majority of audit activity for a minimum of four weeks, other than audits involving the very largest taxpayers. This suspension meant that the CRA ceased requests for information relating to existing audits, finalizing existing audits, and issuing reassessments. Further, deadlines for information or document requests were suspended and no action was required from taxpayers under audit during this time. This suspension remained in effect until June 2020, though audits of small and medium businesses did not resume until late fall. In spite of the resulting backlog, the CRA has signalled its continued intention to increase its audit function and to prioritize international audits.

Despite any impact of the COVID-19 pandemic, the government of Canada has not waived its commitment to combat international tax evasion. In order to target complex tax schemes, such as offshore tax evasion, Canada has invested \$350 million dollars annually since 2016. The 2020 Fall Economic Statement, presented by Finance Minister Chrystia Freeland in November 2020 proposed investing an additional \$606 million for five years and hiring “offshore-focused auditors to focus on individuals who avoid taxes by hiding income and assets offshore.”

At the November 2020 Society of Trust and Estate Practitioners (STEP) Roundtable, the CRA provided an update on the status of audits resulting from its Offshore Tax Informant Program (OTIP). The CRA launched OTIP in 2016 as part of its stated efforts to fight international tax evasion and aggressive tax avoidance. The program allows individuals who provide information related to suspected major international tax evasion and aggressive tax avoidance to receive financial rewards where the tip leads to the collection of taxes owing. Since its establishment, the program has garnered much interest from tax practitioners and taxpayers alike. To that end, the CRA indicated that:

As of December 31, 2019, the OTIP has received nearly 5,500 calls of which of [sic] over 1,600 have been from potential informants, received over 750 written submissions and has entered into nearly 50 contracts with informants.

... [O]ver 150 audits of taxpayers have been completed, nearly \$60 million has been assessed of which approximately \$20 million has been collected and over 300 audits of taxpayers are in progress.

At the same time the CRA is focusing on international audits, amendments to the Income Tax Act (Act) have been made to facilitate these often complex and time-consuming audits. By way of example, recent changes to subsection 152(4) of the Act have extended the reassessment period for taxpayers by three years in respect of income arising in connection with a foreign affiliate of the taxpayer. Pursuant to the Technical Notes to the provision, these changes recognized the complexity of audits involving foreign affiliates and seek to ensure that the CRA has an opportunity to properly examine all activities in respect of foreign affiliates that are relevant to the Canadian tax base.

Audits in respect of foreign affiliates are generally quite time-consuming, for both the CRA and the taxpayer under audit. These audits often involve the CRA issuing requirements for information located in foreign jurisdictions and requesting the exchange of information from a tax treaty or Tax Information Exchange partner.

**Given the CRA's focus on international activity and the increasing investment by the Canadian government, taxpayers should expect this level of audit activity to continue or increase in the coming years despite the suspensions, delays and backlog caused by the COVID-19 pandemic. Along with the CRA's stated intention and early activity in conducting prompt audits in relation to various COVID-19 benefits, the level of tax audit and dispute activity is likely to increase.**

As these international audits are typically complex and difficult to navigate, taxpayers who receive audit inquiries would benefit from discussing the matter with a qualified professional. With expertise navigating all stages of the tax disputes process, from audit **to appeals in the Tax Court of Canada, BLG's Tax Group can assist you in navigating** the tax disputes process in a strategic manner. As communication with our team is protected by solicitor-client privilege, we can help you deal with tax disputes in a manner that provides maximum protection for your sensitive legal records.

If you have any questions or would like to discuss your specific circumstances, reach out to [BLG's Tax Group](#) or any of the contacts listed below.

By

[Elizabeth Egberts](#), [Laurie Goldbach](#)

Expertise

[Tax](#), [Capital Markets](#)

---

## BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 725 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

[blg.com](http://blg.com)

### BLG Offices

#### Calgary

Centennial Place, East Tower  
520 3rd Avenue S.W.  
Calgary, AB, Canada  
T2P 0R3

T 403.232.9500  
F 403.266.1395

#### Ottawa

World Exchange Plaza  
100 Queen Street  
Ottawa, ON, Canada  
K1P 1J9

T 613.237.5160  
F 613.230.8842

#### Vancouver

1200 Waterfront Centre  
200 Burrard Street  
Vancouver, BC, Canada  
V7X 1T2

T 604.687.5744  
F 604.687.1415

#### Montréal

1000 De La Gauchetière Street West  
Suite 900  
Montréal, QC, Canada  
H3B 5H4

T 514.954.2555  
F 514.879.9015

#### Toronto

Bay Adelaide Centre, East Tower  
22 Adelaide Street West  
Toronto, ON, Canada  
M5H 4E3

T 416.367.6000  
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing [unsubscribe@blg.com](mailto:unsubscribe@blg.com) or manage your subscription preferences at [blg.com/MyPreferences](http://blg.com/MyPreferences). If you feel you have received this message in error please contact [communications@blg.com](mailto:communications@blg.com). BLG's privacy policy for publications may be found at [blg.com/en/privacy](http://blg.com/en/privacy).

© 2023 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.