

Canada's New Registration of Tax Preparers Program

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Introduction

The Canada Revenue Agency (CRA) recently announced its intention to introduce a registration system for tax preparers who prepare tax returns for a fee. The Registration of Tax Preparers Program (RTPP), if implemented, will require tax preparers to register with the CRA during its 2016-2017 fiscal year. The CRA released information on its website regarding the RTPP and announced that it will be consulting with stakeholders until the end of May 2014. The CRA also released a Consultation Paper where it explains its position on the new program. It also discusses some brief examples of other countries (United States, Australia and the United Kingdom) that have introduced similar tax registration programs.

Objectives of the RTPP

When announcing the RTPP, the CRA stated the following when describing the purpose of the new program:

“[The new RTPP] will allow the CRA to assess individual tax preparer compliance, identify and assess risks, and evaluate where recurring errors occur. As a result, taxpayers and their representatives will have a better understanding of their tax obligations and responsibilities and it is expected that the need for traditional, ‘after the fact’ interventions with taxpayers, such as auditing a taxpayer’s tax return, will decrease.

A well-informed and competent tax preparer community can prevent recurring errors, possibly saving taxpayers from costly problems later on and reducing red tape for business.

As part of the RTPP, the CRA will implement a strategic compliance approach to help tax preparers improve the accuracy and completeness of returns. Where errors are found in returns prepared by a tax preparer, the CRA will visit the tax preparer and discuss the errors. Where errors continue, possible interventions include follow up visits, action plans, or auditing of the tax preparer’s clients.”

CRA had been openly musing for over a year that it was considering introducing such a system. Some commentators have been very supportive of the CRA exploring this type of program. Others, however, argue that there is no upside to a registration system and ultimately people should be free to exercise their freedom to do business in Canada. Some tax professionals have also argued that forced registration of tax preparers may ultimately lead to the regulation of the tax profession. All of those points of view are interesting and good. Hopefully there will be a healthy debate during the consultation period that the CRA will undertake.

Some Additional Comments on the RTPP

Here are some points and observations arising from a review of the CRA information that was released as part of the announcement of the RTPP:

1. It is proposed that only tax preparers who prepare personal (T1s) and corporate returns (T2s) will be required to register with the CRA. Accordingly, tax preparers who only prepare trust returns (T3s), partnership returns (T5013s), certain slips like T4s, T5s, GST returns or election forms (such as T2057s for section 85 rollovers) will not be required to register. It appears, though, that the registration requirement will expand over time.

2. Registration will be required at an individual level whereby such individuals will be required to obtain a personal identification number (PIN) through an online registration system. Accordingly, registration will not be limited to just businesses or firms that prepare tax returns for a fee. This appears to make sense since the objectives of the registration system could be frustrated if individuals working for a firm could avoid registration and it was only the business that was required to be registered. The United States follows this model as well.
3. Business entities that prepare a tax return for a fee will also need to apply for an entity identification number (EIN). When submitting returns, both a PIN and EIN will need to be disclosed.
4. Both resident and non-resident preparers will be required to register. Again, this is not surprising given the fact that the United States follows a similar model.
5. Such a registration program could be safely ignored if it did not have any “teeth.” This will be one of the matters that the CRA will be consulting stakeholders on, but the CRA has indicated preparers who continue to make errors, are deliberately non-compliant, or fail to take reasonable care or exercise proper diligence could be sanctioned. Such sanctions could be reporting to the preparer’s professional body (if applicable), assessing a penalty, and imposing a period of monitoring or loss of registration.
6. No fee will be charged to become registered under the RTPP. This is unlike the United States where fees must be paid.
7. Volunteer tax preparers who do not prepare returns for a fee will not need to be registered.
8. The CRA has stated it is considering the merits of publishing a list of registered tax preparers. Such lists are published by the United States for their registered tax preparers. The benefit of doing this is that the public would be able to easily verify if their tax preparer is registered with the CRA and in good standing.
9. Unlike the United States, it does not appear that the new RTPP contemplates any minimum standards for registrants. In other words, everyone is welcome to register. In fact, the material published by the CRA says that no one will be refused. In addition, there appears to be no ongoing professional development or education requirements. The new RTPP will also not be a certification program. This approach is interesting and, as mentioned, certainly very different than the U.S. tax registration program. Whereas the U.S. program is “tough to enter” and “easy to exit” (because of sanctions or lack of ongoing professional development), the Canadian approach appears to be “easy to enter” and “easy to exit” (if sanctions are imposed).
10. Is the new RTPP the beginning of a “slippery slope” where the objective of the Canadian Government is to ultimately regulate the entire tax profession? The author doesn’t think so – the legal and accounting professions do a phenomenal job of regulating their members. Time will obviously tell.
11. It will be interesting to see the reaction of the insurance industry that insures tax preparers / professionals. Will it make the registration of preparers and firms a mandatory condition of eligibility for insurance? If an individual is sanctioned, will it cancel such person’s insurance?
12. Will the definition of tax preparation include the amendment of a tax return or the dispute of an assessed tax return, which could result in an amendment to a previously filed return? This could be relevant for firms who do not engage in the preparation of tax returns but simply assist taxpayers with dispute resolution matters involving their tax returns.

In our view, the introduction of the RTPP is a watershed moment for tax administration and compliance in Canada. Tax professionals should take notice and participate in the development of this new program through the CRA consultation process.

About the Author

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