

## **Employment Q&A: The impact of a dental office audit**

**Q:** *If I am a self-employed dental hygienist and a practice I work for has been audited by Canada Revenue Agency (CRA) and my earnings have been deemed to be employment income instead of self-employed business income, how does this affect me?*

**A:** When the Trust Examiner (payroll auditor) reviews the payroll records of the practice, the examination includes amounts paid to all workers – employees and those considered to be self-employed. If the examiner determines that specific workers should in fact be considered employees, he/she would raise assessments for the CPP and EI premiums that should have been deducted and remitted by the dental practice.

There are two possible scenarios that could take place. First, if the dentist appeals the decision made by CRA and is successful, you will not be affected. Second, if the ruling is upheld, the outcome is quite different.

The assessment would normally include one year prior, plus the current year. For example, if the audit took place now, the assessment would cover the year 2005 and up until July 2006. If you are still working for the dentist that is audited, the dentist can deduct from your current on-going remuneration the portion that should have been deducted. The dentist would be allowed to deduct, per month, the CPP and EI premiums that should have been paid, plus the current CPP and EI premiums. However, the practice cannot recover a contribution amount that has been outstanding for more than 12 months.

Upon completion of the audit, CRA will issue you a T-4 slip showing your earnings, CPP and EI that should have been deducted. The CRA copy of the T-4 slip will then be forwarded for processing and associated with your personal tax return, which will then be reassessed based on the T-4 submitted. The re-assessment process will take into consideration any contribution you made towards CPP based on self-employment business income. At this time, CRA may disallow/review any expenses you had claimed against self-employed income. Taking into consideration your CPP contributions and possible disallowable expense deductions, you may be in a refund or tax payable situation.

It would be advisable to obtain an official ruling from CRA to determine the status of your employment allowing you to accurately report your earnings on your personal tax return. However, if this is not possible, it is imperative that you retain all receipts and documentation of expenses deducted from your earnings and claim all your income.