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Product protects against huge audit bills

By GEOFF KIRBYSON

An Australian company is hoping a ground-breaking insurance product for tax investigation will catch on in Canada.

It won't have the widespread appeal of life, house or travel insurance, of course, but Cameron McLary, business development manager for Accountancy Insurance, believes Audit Shield can carve out a niche that will keep both accountants and their clients happy.

The genesis of Audit Shield happened 13 years ago in Australia when the national taxation office received additional government funding to conduct audits, resulting in a big jump in people and corporations having to provide more documentation and explanations as their tax returns were put under new scrutiny.

"It was causing headaches for the accounting firms when they got a lot of audit activity and had to pass on the costs to their clients," he says.

A similar budget increase for the Canada Revenue Agency a couple



KELTZ

of years ago, enabling it to increase its audit activity, was the impetus to enter the Canadian market late last year, McLary says.

He says Audit Shield provides peace of mind to clients that they won't incur any unexpected audit fees or out-of-pocket expenses in the event of an audit, inquiry, investigation, review or request for infor-

"Their back is up one way or the other and they may be nervous or upset. Now we say, 'don't worry, we'll take a look. There's no charge to you. We'll do the best to ensure the outcome of the audit is successful.'"

Michael Keltz, sole practitioner

mation. The product covers corporate and personal tax filings, GST filings, employer compliance audits and business audits.

It also keeps accountants happy because they can be confident they'll be compensated for their work and they won't have to have that awkward conversation with their clients when they hand over their invoice.

"It's designed for accountants in public practice to communicate to their clients that they have the option to establish some cover. It protects them against professional fees associated with any audits, reviews or investigations, anything the accountants need to do to respond on the client's behalf," he says.

McLary says it's not uncommon

for an accountant to spend between 10 and 20 hours handling such work on behalf of clients and up to 50 hours in extreme cases.

The cost to the client depends on their top line. If their revenue is less than \$500,000, they would pay \$305 annually to get a maximum of \$10,000 worth of accounting services. A client that brings in more than \$100 million in revenue is looking at a fee of \$4,110 each year for an upper limit of \$50,000 worth of services.

To be clear, the accountants aren't actually selling an insurance product to their clients. Instead, they're agreeing with their client to limit the amount of fees they would incur in the event of an audit and then the accountant would claim

that same amount under their coverage with Accountancy Insurance.

McLary says Audit Shield has been taken out by more than 2,000 firms in Australia and more than 500 in New Zealand, where it expanded five years ago. McLary believes Canada could represent the biggest opportunity for its company yet.

It has been ramping up its efforts to get the word out through this spring and summer by attending conferences and meeting directly with accounting firms across the country.

"We see the Canadian market as more substantial than Australia but

[See Firm on page 17](#)

Firm believes Canada a promising market

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exactly how much is difficult to know," he says.

McLary says 34 firms across the country have signed up for the insurance and his team is in discussions with another 60 or so.

It settles about \$1 million worth of claims every month, primarily in Australia and New Zealand, but that will increase with more Canadian business coming on stream.

David Beer, Toronto-based senior tax manager at Schwartz Levitsky Feldman LLP, says Audit Shield makes sense for a certain segment of his clients, just like other forms of insurance do.

"They pay a little bit against the possibility of having to pay a lot for our time if the Canada Revenue Agency looks at them in depth. It's good for us because if we do have to look in-depth at a client's situation, it's covered by the insurance com-



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pany. I think everybody wins," he says.

Michael Keltz, a Toronto-based sole practitioner, agrees. He has seen the need for this type of insur-

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Candace Nancke, Loren Nancke & Company

ance for about five years. Back then, he noticed an uptick in the number of his clients receiving notices from the CRA about their online returns and asking to see receipts for their RRSP contributions, charitable donations and other items.

"It was taking up a lot of billable hours and we were doing it at no charge to the client. I thought, 'this is ridiculous,'" he says.

When a client gets audited, Keltz says their natural reaction is to think it's because the accountant made some kind of error.

"Their back is up one way or the other and they may be nervous or

upset. Now we say, 'don't worry, we'll take a look. There's no charge to you. We'll do the best to ensure the outcome of the audit is successful,'" he says.

"The worst-case scenario is they get a reassessment from CRA but now [insured clients] aren't paying more fees on top of that to the accountant."

Keltz doesn't think all of his clients will take out the insurance but he believes it will remain constant.

"I didn't expect more than 10 per cent of my clients to get it and we had nearly 20 per cent," he says.

Candace Nancke, Vancouver-

based managing partner at Loren Nancke & Company and a regular volunteer for the Chartered Professional Accountants of Canada, believes the audit insurance will be welcomed by people throughout industry.

"I don't see any downside to it. It would give peace of mind for the client. It can be a big fear for them, 'Oh my God, CRA is going to audit me!' It would be a cost versus benefit. How well am I going to sleep at night? As a business, you'd want to pass the cost of [the work] on to your client somehow," she says.