

Fact Sheet

November 2006

Proceeds of Crime Are Taxable

The Canada Revenue Agency (CRA) has the authority to use a certain number of tools to enforce the provisions of the *Income Tax Act*, including **civil and criminal action** possibly leading to fines, penalties, and even imprisonment.

Like legitimate incomes, proceeds of crime are taxable. This is an enforcement principle of the Act; its purpose is not only to ensure fairness of the tax system, but also to reduce profits from crime and to help counter the lure of profit that motivates criminal activity. Thus, the tax system becomes an important tool in combatting crime.

As part of its Special Enforcement Program (SEP), the CRA audits persons suspected of deriving income from organized crime or any other criminal activity. These audits may lead to a reassessment and applicable penalties and interest. CRA collections officers also take the necessary action to collect these amounts if no payment is made, including the seizure of goods from the taxpayer concerned. In 2005-06, the CRA conducted 1,349 audits of taxpayers suspected of earning income from illegal activities. These audits resulted in the identification of more than \$80 million in additional tax owing.

In addition, the CRA operates the Criminal Investigation Program (CIP). Through this program, the CRA investigates suspected cases of tax evasion, fraud and other serious violations of tax laws. In 2005-06, criminal investigations led to 293 convictions for tax evasion or fraud. Courts across Canada imposed close to \$14.4 million in fines and more than 33 years of jail sentences. These convictions related to revenue loss of \$13.4 million. The CRA obtained convictions in 94% of cases prosecuted.

In addition to fines imposed by the courts, which can represent up to 200% of the taxes evaded, taxpayers are still obligated to pay the taxes owed, as well any other civil penalties and interest imposed by the CRA.

Court convictions are publicized in the media to communicate the consequences of tax evasion and fraud committed against the Canadian public and to maximize the deterrent effect of these convictions. The information provided to the media is derived strictly from public court documents and not from confidential files that may be held by the CRA. This confidential information is always protected pursuant to **section 241** of the *Income Tax Act* and **section 295** of the *Excise Tax Act*.

The CRA works closely with the Royal Canadian Mounted Police (RCMP), local and provincial police departments, as well as with other law enforcement agencies in order to



reduce the lure of profit relative to criminal activities. It is also a full partner of the Integrated Proceeds of Crime Unit (IPCU), which operates in 12 Canadian cities under the direction of the RCMP. These units investigate organized crime activities pursuant to provisions of the *Criminal Code* on proceeds of crime.

Taxpayers are encouraged to contact the CRA through the **Voluntary Disclosures Program** to disclose any previously unreported information before compliance or enforcement actions are initiated by the CRA.

Related topics:

- Audits and Investigations
- Alert: Tax evasion has consequences!
- Circular 98-1R – Collections Policies
- Fairness and Taxpayer Rights: Overview
- Voluntary Disclosures Program