

Private Campground Owners and the Small Business Deduction

By John Bakator

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Most private campground owners operate businesses that can be described to be a small or medium sized business. Most of these businesses are incorporated and as such seek to claim the “small business deduction” (SBD) in calculating taxes payable.

The Canada Revenue Agency (CRA) perceives the SBD as a high-risk area of non-compliance through multiplying claims and by non-qualifying entities making claims.

Advancements in technology has permitted the CRA to manage compliance risk in a more surgical manner from offices and without a personal visit to businesses.



In today’s environment, the CRA can conduct statistical analysis from data sets obtained from tax returns and other agencies such as Statistics Canada to identify pockets or areas of potential non-compliance.

Consider what the [CRA stated](#) in 2014-2015 regarding compliance in the Small and Medium taxpayer demographic:

Enhanced focus on high risk

“By using advanced business intelligence, we are improving our ability to select the highest-risk files and develop more focused strategies. This makes better use of information and ultimately improves our ability to implement novel approaches based on the level of risk, such as sector-specific letter writing campaigns and specialized audit teams to supplement the CRA’s traditional audit approaches.

One initiative arising from the enhanced focus on high risk is the Industry Campaign Approach, which encourages voluntary tax compliance within various industry sectors by collaborating with industry associations and other external stakeholders to give businesses sector-specific tax information focused on helping them comply with their tax obligations. This approach will enhance the CRA’s relationships with selected industry sectors and provide them with more useful information on how to avoid potential tax pitfalls. It is also providing industry benchmarks which businesses may find helpful in assessing their financial performance compared with others in the same sector.

In 2014-2015, the CRA hosted a number of information and

engagement sessions with associations representing businesses in the Mining and Oil and Gas Support Services Sector. The associations provided input to the CRA on how to improve communication materials, including our website and letters to new businesses and repeat late-filers on how to avoid common tax pitfalls.

We have also continued to improve our ability to identify false claims and detect suspicious patterns of behaviour. In 2013-2014, the CRA developed an identity theft strategy to reduce the risk of identity theft. As the work is complex and highly technical, we centralized workloads and created specialized teams to best use our technical knowledge to detect and prevent these cases. Since we began using advanced business intelligence, we identified more than 1,000 cases of identity theft and raised more than \$2.1 million in assessments in 2014-2015.”

From the same publication, the CRA identifies industries it sees as being inherently involved in the “underground economy”. They include:

- Accommodations and Food services;
- Retail trade;
- Finance, insurance, **real estate**, rental, leasing and holding companies;
- Residential construction.

All of this serves to inform specific taxpayer groups about particular audit risk levels. In other words, have the odds increased to be audited by the CRA if I own and operate a campground?

The traditional underground economy types of audit focused on unreported income (revenue) and/or overstated expenses (fictional or personal). We can see the scope of potential audit issues have increased significantly by virtue of what the CRA deems is part of the “underground economy”.

The inherent nature of operating a campground business falls into the real estate, rental and leasing areas of the CRA definition.

So, what does this mean to you as a campground owner?

On the face of it, the CRA seems to be interested in making itself known and influence reporting habits of groups of taxpayers. In the case of campground businesses, a very effective and efficient compliance project would be to focus on examining the eligibility of claims for the Small Business Deduction (SBD). It is beyond the scope of this article to discuss all of the elements of the eligibility of the SBD, but there are two elements that is worth pointing out. Namely, the meaning of “active business” and “full time employee” requirements.

Generally speaking, active business is income from any business but excludes – a “specified investment business” and “personal services business” which do not qualify for the SBD.

Is it possible to earn active business income from real property?

The answer is yes, and the key relates to **numbers and kinds of services provided to customers.**



Hotels and motels are also rental businesses that generate income by renting out rooms for short periods of time but consider the kinds and numbers of services provided to guests. They could

include, room service (food preparation), concierge type services (dry cleaning, reservation services, information services), entertainment in the form of television (movie rentals), providing Wi-Fi, free parking and anything else you might think can be found from hotels and motels.

Based on this, it would seem prudent to develop as many services for guests as possible that is congruent with your business model but could lead a person to believe an active business was carried on as opposed to earning passive income.

The point to be made is, if your business has the opportunity to develop other lines of revenue in your campground it may be prudent to talk to your accountant to see if that is a viable option. Consider the following potential services you might be able to provide at no cost or low cost (this list is not intended to be all inclusive only your imagination and financing will influence your end choice):

- Electrical and water services for recreational vehicles;
- Dump stations;
- RV repairs
- Entertainment (in the form of movies, entertainers, comedians, etc.);
- “Glamping” accommodations – canvas tents with wood sides for patrons who wish to be in the outdoors but still in a “cabin”;
- Food, refreshments, gas, propane;
- Walking tours;
- Playground
- Laundromat
- Arcade Games
- Wood Sales
- Child minding services;
- Special experiences (I once visited a campsite in Australia where the owner seeded a small patch of land with opals, and invited patrons to search for them!)

Remember, you might be able to out-source some services e.g. laundry services, special equipment rentals etc. but make sure that you receive some income in return.

When the CRA selects a group of taxpayers worthy of their attention, it should be noted that the population is not audited

in total as a general approach. Instead, potential auditees are assessed based on their idea of “potential” – although there are exceptions. So, if your business is selected for audit, the CRA auditor will attempt to gather all information upfront prior to making contact with you.

The CRA Auditor will look to obtain information on the internet to gauge what your website says about your business, are you active on social media and do you have a reservation system? Remember the more exposure your campground has online, the information is more easily accessible to CRA which is what you want!

If it is clear that your campsite is rather sparse in terms of services, the more likely it will be of interest to the auditor. When I say, web site information, I am not referring to written marketing materials, I am referring specifically to the use of media such as photographs and video.

Testimonials from customers and video highlighting the services provided at your campground may influence an auditor to perceive the audit risk to be low and move on to another business. In the end, it’s the services you offer that can ultimately make the difference!

Finally, I would be remiss to say that the specific issues and remedies can only be identified by consulting with your tax professionals and what is offered here is a general discussion of potential issues.

I would also recommend that it is wise to have CRA Tax Audit Insurance from a provider such as PFP Inc. available to CCRVC Members and Affiliate Campground Owners.

Bio of Author



John Bakator is a Chartered Professional Accountant who lives in Cochrane AB. His 31-year career with the Canada Revenue Agency included tours within the investigations area, small and medium business audit, large case audits and management of the training and learning of auditors.

John has designed, developed and delivered various of training courses to CRA auditors.

If you wish to contact John, he can be reached by email: john@fulcrumcfc.com or 403.969.1957



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