



Canada Revenue Agency Ministerial Transition

Briefing Binder

– November 2015

Part 3

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SECTION 4

Immediate Decisions

Décisions immédiates

4a

Treasury Board business

Affaires du Conseil du Trésor

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Treasury Board Business refers to Treasury Board submissions, remission orders, and Governor-in-Council appointments.

The Treasury Board Submission

A Treasury Board submission is an official Cabinet document seeking specific authorities or approvals from the Treasury Board (TB), usually to authorize the implementation of a program or project or to execute a major procurement in support of government operations. Without a TB submission, a sponsoring minister (or ministers) would not otherwise be able to undertake the proposed initiative, as it would be outside the minister's authorities.

The TB Submission Process

The objective of the TB submission process is to ensure that initiatives are aligned with Government of Canada priorities and that they are designed, implemented and delivered to realize their intended results, while achieving value for money.

TB submissions are the result of interaction between the sponsoring government organization and the Treasury Board Secretariat (TBS), which guides and supports organizations during all phases of a TB submission. A TB submission transforms policy objectives previously approved by another Cabinet committee into an initiative that will achieve those objectives. Legislation, Treasury Board policies or previous Cabinet decisions provide direction as to when Treasury Board approval is required.

The final submission package, once signed by the sponsoring minister (or ministers), is sent to the TBS, where advice to the Treasury Board based on the TB submission, input from internal consultations, and any additional relevant information the organization has provided is prepared. This confidential advice, known as a *précis*, provides an overview of the submission, an assessment of the risks and mitigation strategies, an analysis of the costing, and recommendations.

During this period prior to the Treasury Board meeting, the program sector may come to the organization with additional requests for clarification or more information for the TBS program sector assistant secretary presenting the submission.

The Treasury Board usually meets once a week when Parliament is in session, or as needed. Submission complexity and the number of submissions being considered at the same time may affect a submission's timeline.

CRA TB Submissions

Typically, the CRA produces submissions seeking funding for legislative measures and enhanced compliance measures which are announced or included in the Federal Budget each year, along with an annual submission relating to Advertising. In addition, every three years, a TB Submission for the administrative costs recoverable from the Canada Pension Plan (CPP) and Employment Insurance (EI) account is also submitted.

Treasury Board Business

Cabinet
Confidence

69(1)(g) re (a)

DISCLOSED
PURSUANT TO
THE ATIA
A-081455

Remission Orders

A remission order is an extraordinary measure to provide relief from tax, interest, penalty, duty or other debt, under certain circumstances, when such relief is not otherwise available under the existing tax laws. A remission may be granted if the Governor in Council considers that collecting the tax or enforcing the penalty is unreasonable or unjust. It may also be granted if it is considered to not be in the public interest if it were denied. Generally, all other avenues for relief, such as the taxpayer relief, should be exhausted before remission will be considered.

Remission orders do not change assessments. Once authorized by the Minister of National Revenue, remission orders grant a complete or partial forgiveness of amounts assessed. If a taxpayer has paid any part of the assessed debts covered under a remission order, these amounts are refundable.

The Minister of National Revenue may recommend remission of amounts paid or payable for:

- Federal and provincial income tax
- Former federal sales tax (FST)
- Goods and services tax/ harmonized sales tax (GST/HST)
- Excise tax or duty
- Interest and penalties
- Air travelers security charge
- Softwood lumber charge

Most remission orders relate to a particular person and identify all taxpayers who will benefit and the specific amounts for each taxpayer. A general remission order covers a group of persons adversely affected by the same set of circumstances and includes all taxpayers who meet the criteria or conditions set out in the order.

Requests for remission of tax are examined by CRA's Remission Committee composed of a group of senior officials of the CRA. Once approved by the Minister of National Revenue, the proposed remission order is sent to the Privy Council Office to be brought before the Treasury Board (Governor in Council). When the remission has been approved by the Governor in Council, the CRA can make the necessary adjustments.

Since these recommendations are discretionary administrative decisions, when the remission is denied, there is no formal right of appeal. However, unsuccessful applicants are entitled to apply for a judicial review of the decision by the Federal Court of Canada, within 30 days after the decision is communicated.

69(1)(g) re (a)

Governor-in-Council Appointments

The *Canada Revenue Agency Act* establishes a governance structure for the Agency, which includes a Board of Management. The Board comprises 15 members appointed by the Governor in Council to serve “at pleasure”, including 11 Directors nominated by the provinces/territories. A Director’s term on the Board can be up to three years and is renewable twice. The term of three provincial/territorial Board members is up for renewal: New Brunswick, Alberta and Northwest Territories. The Minister will need to approve and recommend their appointment to the Treasury Board (Governor in Council).

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Delegations

Délégations

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Delegations provide the legal framework under which officers of the Canada Revenue Agency (CRA) can exercise, on behalf of the Minister, a wide variety of powers and duties. Existing delegations remain valid following a change in Ministers. However, they should be reviewed shortly after the new Minister is appointed.

Background

The Minister is responsible for the administration of federal tax legislation and other subjects assigned by Parliament or the Governor in Council. The various Acts administered by the Canada Revenue Agency (CRA), such as the *Income Tax Act* and the *Excise Tax Act*, often assign powers and duties to the Minister.

The Canada Revenue Agency is also responsible for fulfilling all legislative requirements outlined in the *Access to Information Act* (ATIA) and the *Privacy Act* (PA) and Regulations. Section 73 of the ATIA and section 73 of the PA authorize the head of a government institution to designate, by order, one or more officers or employees of that institution to exercise or perform any of the powers, duties or functions of the head of the institution that are specified in the order.

In most cases, these powers and duties must be exercised so frequently that it is not feasible or practical for the Minister to personally perform all of these responsibilities. For this reason, and to allow for greater efficiency in providing timely service to the public, the Minister can authorize other CRA officials to exercise these powers and duties.

The powers that are delegated are part of the wide range of day-to-day activities carried out by CRA officials (such as requesting information, waiving or cancelling interest and penalties, conducting audits or investigating frauds). Most powers can be delegated; however, the Minister cannot delegate any powers pertaining to regulation-making authorities or the provision of reports and recommendations to the Governor in Council.

Certain powers of a more sensitive nature are not delegated and are exercised personally by the Minister, such as the issuance of security certificates under the *Charities Registration (Security Information) Act* which revoke or deny registration of charities involved in supporting terrorism.

Current Status

The legislation permits the delegation of the Minister's powers and duties to CRA officials through administrative delegation instruments. These instruments can take the form of a formal authorization document, memorandum or letter. New instruments are usually needed when new legislation comes into effect or to reflect internal reorganizations/title changes.

Previously signed delegation instruments continue to remain valid even when there is a change in ministers. However, they should be reviewed soon after a new Minister is appointed to determine if adjustments are required.

Delegation instruments are prepared in accordance with established policies and in consultation with the implicated CRA branches to ensure that ministerial powers are delegated to the appropriate levels. All instruments are reviewed and approved by Legal Services before they are submitted for the Minister's signature.

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4c

Message to employees

Message aux employés

Message to employees

It gives me great pleasure to greet you today as the Minister of National Revenue for the Government of Canada.

I am well aware of the important role that the Canada Revenue Agency serves – providing guidance and support to Canadians, both as individuals and businesses, in understanding and meeting their tax obligations, while also taking steps to ensure that those obligations are respected and Canada's revenue base is protected. In fulfilling these roles, you are in a unique position to touch the lives of every Canadian and to give meaning to the service principle that is so important to our new government.

Over the coming months, I look forward to working with you to strengthen and expand our service to Canadians. I know there are many exciting opportunities to do so, whether by increasing our outreach activities to support lower-income and fixed-income Canadians, by encouraging the use of an ever-expanding list of e-services as a faster, easier way for Canadians to manage their tax affairs and communicate with the Agency, or by simplifying our correspondence so that it is easier to understand. I am also committed to ensuring the Agency has the resources required to effectively pursue tax evaders and protect the integrity of Canada's tax system.

Throughout, our goal must always be respect for citizens by delivering the quality of service that they expect and deserve.

As Prime Minister Trudeau has said, each and every time a government employee comes to work, they do so in the service of Canada, with a shared mutual goal of improving the country and the lives of all Canadians. I value the professionalism, independence, commitment and expertise that you, as public servants, bring to your work. With your support, I look forward to all that we will accomplish together.

Minister of National Revenue

4d

Federal budget – A CRA perspective

Budget fédéral – Point de vue de l'ARC

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FEDERAL BUDGET - A CRA PERSPECTIVE

DISCUSSION
PURPOSE
THE
A-001450

Canada
Revenue
Agency
Briefings

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BUDGET PROPOSALS - KEY DRIVERS

- Minister of Finance is the Responsible Minister for the tax statutes.
- Shared responsibility for certain tax regulations.
- The CRA contributes to budget proposals through Department of Finance initiated consultations in advance of the budget cycle.
- Tax policy proposals are generated by the Department of Finance in consideration of Government priorities and commitments.
- CRA contributes analysis and advice in the development of these proposals, in anticipation of Budget 2016.
- CRA also delivers on key benefits on behalf of Employment and Social Development Canada (ESDC).

BUDGET PROPOSALS - KEY DRIVERS

- The CRA is developing specific proposals for consideration during the upcoming budget process:

69(1)(g) re (a)

- The Minister of Finance usually sends a call letter to his colleagues requesting their priority items for the budget.
- We will brief you on a potential package of CRA items for Budget 2016, as well as on the role you may wish to play in the Budget process.

CRA BUDGETARY CYCLE

- Budget post-mortem from a CRA perspective with Finance officials.
- Refresh list of policy and administrative issues in consultations across CRA program areas.
- Budget planning letter from the Minister of Finance received in early Fall further focuses list of priorities.
- Response to budget planning letter establishes CRA key priorities for upcoming budget.

CRA BUDGETARY CYCLE

- Continued interaction with Finance officials to support their internal briefings with Minister of Finance on proposals.
- Preparation of Budget briefing material for those measures that move forward.
- Preparation of public facing Qs&As for selected measures.
- The CRA enters implementation phase to implement and administer Budget proposals.
- Generally, the CRA administers new measures on the basis of proposed legislation pending Royal Assent; in the case of new or increased benefits, implementation is deferred until Royal Assent.

TOWARDS BUDGET 2016

- The CRA is collaborating with Finance officials in consideration of tax policy proposals.
- Assessing work required to implement government commitments, as well as timing and potential sequencing of various measures.

SECTION 5

Government Overview

Aperçu du gouvernement

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Role of central agencies

Rôle des organismes centraux

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To exercise their authority, the Prime Minister and the Cabinet are supported both by departments and by three central agencies: the Privy Council Office, the Treasury Board Secretariat, and the Department of Finance. Together, these central agencies contribute to the successful formulation and implementation of government policies and programs. They oversee interdepartmental information sharing, consultation and co-ordination. They also provide integrated advice and support to the Prime Minister and the Cabinet on government-wide issues and concerns.

Privy Council Office

The Privy Council Office (PCO) reports directly to the Prime Minister (PM) and is sometimes called the PM's department. Unlike the PM's Office, the PCO is staffed by public servants who offer non-partisan service and advice. The PCO is headed by the Clerk of the Privy Council, who is also Secretary to the Cabinet and head of the Public Service.

The PCO does not have formal authority over departments, but its role in assisting the PM and Cabinet give it substantial influence. Departments must consider the advice of the PCO very carefully because the advice generally reflects the wishes of the PM or Cabinet.

The PCO has three main roles:

1. Provide non-partisan advice to the PM

The PCO assists the PM in strategic policy planning, ensures coordination of the government's policy objectives, and manages major issues. For example, the PCO assists the PM in writing the Speech from the Throne and works closely with Finance when it prepares the budget. The PCO provides policy advice in specific areas, including foreign affairs, defence, national security, and intergovernmental affairs, and any other policy issues of particular concern to the PM. The PCO advises the PM on machinery-of-government issues, governor-in-council appointments and constitutional matters.

2. Support to Cabinet

The PCO acts as the secretariat for Cabinet as a whole and the committees of Cabinet (except Treasury Board, which is supported by the Treasury Board Secretariat). The PCO arranges meetings, proposes and circulates agendas, distributes documents, provides advice to committee chairpersons, records Cabinet minutes and decisions, and transmits subsequent Cabinet decisions to departments.

The PCO works with departments on their proposals to Cabinet, called Memorandums to Cabinet, or MCs, challenging departmental submissions to Cabinet to ensure that they meet the information needs of Cabinet and they are consistent with the government's overall policy direction. The PCO makes sure that departments coordinate their efforts with respect to policy proposals or issues that cut across departments, ensuring that all interested ministers and their officials are given an opportunity to express their views.

3. Link between the PM and the Public Service

As head of the public service, the Clerk of the Privy Council is responsible to the PM for the overall performance and effective management of the public service. The Clerk advances the government's public service management agenda, provides advice on the appointment of senior public service personnel, serves as the spokesperson for the public service, and prepares an annual report on the state of the public service.

Treasury Board Secretariat

The Treasury Board Secretariat (TBS) assists the Treasury Board, a Cabinet committee established by law, in fulfilling its responsibilities. The TBS is headed by the Secretary of the Treasury Board, who is a deputy minister. The TBS also includes the Office of the Comptroller General of Canada, which is responsible for providing government-wide direction and assistance on financial management and internal audit.

The Treasury Board is composed of ministers responsible for the management of government expenditure and human resources in the public service. It is comprised of the president of the Treasury Board and four other ministers appointed by the Prime Minister. It is the only permanent sub-committee of Cabinet. The Minister of National Revenue is often a member of the Treasury Board.

While the Department of Finance is responsible for establishing general policy on government revenues and expenditures, the Treasury Board oversees the management of the budget and credits. It also plays a co-ordinating role in the preparation of the expenditure budget.

According to the *Financial Administration Act*, the Treasury Board can deal with any questions concerning financial management, giving it authority over departmental budgets, expenditures, financial commitments, revenue, accounts, personnel management, and all the principles governing the administration of the public service. In sum, the Treasury Board is the employer, expenditure authority and general manager of most of the public service.

CRA's enabling legislation, the *Canada Revenue Agency Act*, provides that, except for any part of the regulation or requirement relating to financial management, the Agency is not subject to any regulation or requirement established by the Treasury Board under the *Financial Administration Act* that relates to certain matters. However, CRA policies are typically aligned with Treasury Board policies.

The Agency has authority over all matters relating to:

- o general administrative policy in the Agency;
- o the organization of the Agency;
- o Agency real property and Agency immovables;

- o human resources management, including the determination of the terms and conditions of employment of persons employed by the Agency; and
- o internal audit in the Agency.

The CRA has a separate employer status that gives it its own appointment authority. Persons employed in the CRA must be treated as if they were employees within the meaning of the *Public Service Employment Act* (PSEA). They are therefore eligible for internal appointment processes that are open to "employees of the public service".

Department of Finance

The Minister of Finance is responsible for the government's macroeconomic policy, including tax policy and tax expenditures. The Department of Finance (Finance) assists the Minister in developing the government's financial framework in which overall spending takes place. As the federal government's leading source of socio-economic analysis and advice, it advises the Minister on tax policy, financial sector policy, as well as international trade and finance, and federal-provincial fiscal arrangements. It also conducts studies in such areas as labour economics, industry-specific issues, monetary policy, financial institutions, income security, and productivity. Finance is provided authorities under numerous Acts, such as the *Income Tax Act*, and the *Excise Tax Act*.

Finance's most prominent role is assisting the Minister in developing the annual budget. The budget is a statement of the government's fiscal plan in light of its current and expected financial situation. It outlines the government's projected revenues, incorporating any changes in taxation and spending, and announcing new spending plans. Through the Budget exercise, the Minister of Finance establishes a fiscal framework within which the government's expenditure management system can operate effectively.

Finance is also active in a number of other areas. They assist the Minister of Finance in:

- Developing tax and tariff policy and legislation
- Managing federal borrowing on financial markets
- Administering major transfers of federal funds to the provinces and territories
- Developing regulatory policy for the country's financial sector
- Representing Canada within international financial institutions and groups, such as the International Monetary Fund, the World Bank, and the World Trade Organization.

Finance is a central actor in virtually all policy decisions, because the allocation of funds from the fiscal framework is almost always required to proceed with a policy initiative. Through close collaboration and consultation, Finance and TBS ensure the cohesion and effectiveness of the decision-making process. These two agencies, through the PCO, provide the PM and Cabinet committees with advice on policy, related funding issues and the economic impact of proposals before Cabinet.

SECTION 6

CRA Litigation Forecast

Prévision du contentieux de

l'ARC

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Pages 000191 to 000198 exempted from disclosure
pursuant to 23 of the ATIA

SECTION 7

Issues

Enjeux

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Supporting small and medium businesses
Soutenir les petites et moyennes
entreprises

000200

Issue

In Canada, 99% of businesses fall into the small and medium category¹.

Reducing compliance burden is a low-cost way of helping Canadian businesses to compete and improve productivity.

In advanced industrialized countries, making it easier for businesses to manage their tax affairs is essential to economic growth in the digital age. The Canada Revenue Agency (CRA) has been a key contributor in reducing compliance burden for Canadian small and medium businesses. The CRA has made huge strides in modernizing our services to suit the needs of small and medium businesses. The shift from paper-based to electronic services has provided more time, freedom, and cost savings for businesses.

The CRA has committed to consult every two years with small and medium businesses, their representatives, and stakeholders associations to gather their comments and suggestions on how the CRA can further reduce compliance burden.

The Board of Management (Board) has identified support for small and medium businesses as one of its priorities and regular updates of CRA's efforts to reduce compliance burden are provided.

Background

Since 2011, the CRA has consulted extensively with stakeholders, including business and industry representatives², bookkeepers and accountants, and individuals, on measures the CRA could take to reduce compliance burden. The most recent consultations took place in Fall 2014 with a total of over 450 participants.

In June 2015, the CRA released its 2014 consultations report – *We Heard You: Cut Red Tape for Small and Medium Businesses*. The report outlines CRA's burden reduction initiatives since 2012, summarizes what was heard in the 2014 consultations, and lays out an action plan for the 2015-2017 fiscal years.

A new Small Business Consultation Forum with the Canadian Federation of Independent Business (CFIB) was announced in 2015 to ensure the needs of small business are reflected in the development and enhancement of tax administration.

¹ Industry Canada, Key Small Business Statistics, December 2012
<<https://www.ic.gc.ca/eic/site/061.nsf/eng/02804.html>>

² For example, Canadian Chamber of Commerce, Chartered Professional Accountants of Canada, and Canadian Federation of Independent Business.

000201

Additionally, in the Spring of 2015, the Board developed the Small Business Advisory Committee that includes the CFIB, the Chartered Professional Accountants of Canada, the Community Financial Counseling Services and the EFILE Association of Canada to raise awareness of CRA's services that support the small and medium business community, including the ongoing expansion of its online services.

Current Status

The CRA has committed to delivering on 44 items in the 2015-2017 fiscal years under the following six themes:

- **Telephone service improvements:** businesses looking for better accessibility and clear, reliable information from the telephone service;
- **Accessible, clear, and understandable tax information:** businesses looking for simpler and clearer information in CRA correspondence and guides;
- **Filing requirements and frequency:** businesses looking for CRA to find ways to reduce existing filing requirements to minimize interactions;
- **Online service:** businesses have embraced CRA online services and they want continued improvements moving forward;
- **Sharing information within government:** businesses want governments and areas within departments and agencies to work together to find ways to share information in order to reduce demands on businesses; and
- **Audit experience:** businesses want audits to be carried out in a respectful and professional manner so they learn and comply going forward.

Next Steps

With your agreement and support, the CRA will continue to increase awareness of our compliance burden reduction efforts and identify new ideas on how we can further modernize services for small and medium businesses.

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Better service to Canadians

**Amélioration des services offerts aux
Canadiens**

000203

Issue

In a digital era, citizens expect greater responsiveness from the CRA in providing access to the services they need, when they need them.

Background

The CRA wants to provide a better client experience for Canadians when they interact with us, to both increase their satisfaction and to make it easier for them to comply with their obligations. The CRA is also looking to shift Canadians to lower cost electronic service channels for high volume, straightforward transactions. To meet these objectives, the CRA has three critical service related initiatives underway, 69(1)(g) re (a) and to overhaul correspondence.

69(1)(g) re (a)

Correspondence

The CRA is overhauling its digital and paper correspondence in response to unfavourable evaluations highlighting shortcomings in the structure and tone of CRA correspondence. This is significant as last year the CRA sent 130 million pieces of correspondence to Canadians. The CRA will issue correspondence that delivers key messages in an organized, simple, and concise manner, and in an appropriate tone. It will also give Canadians the option of receiving these electronically, significantly reducing printing and mailing costs for government.

Current Status

69(1)(g) re (a)

Correspondence

In phase 1 of our plan, starting in February 2016, the CRA will begin implementing improvements to the top volume letters and notices. This means that the Notice of Assessment and the Benefits Notice will have a new look and feel and will be available electronically. In phase 2, the CRA will improve the remaining lower volume correspondence.

7c

Estimating the magnitude of non-compliance (Tax gap)

Estimer l'ampleur de l'inobservation (Écart fiscal)

Issue

The Liberal Party election platform includes a commitment for the CRA to “immediately begin an analysis and stronger enforcement of tax evasion, or what the OECD calls the “tax gap.” In addition, a number of stakeholders have also pressed the Government of Canada to publish estimates of the tax gap, including parliamentarians and the Parliamentary Budget Officer.

Background

Broadly defined, the tax gap is the difference between the taxes that would be paid if all obligations were fully met in all instances, and those that are actually received and collected. As a concept, it may encompass revenues lost to tax evasion, taxpayer error, and unpaid liabilities, and includes both domestic and international dimensions. There is no internationally agreed-upon methodology, making comparisons between countries difficult.

The domestic tax gap has been measured by a number of countries, albeit with varying levels of precision. In contrast, estimating the international tax gap is complex and requires reliable and consistent data from other jurisdictions—this is a more difficult task, given the large number of countries and institutions/intermediaries involved, and as a result, only one country (Sweden) has ever published such an international estimate.

Canada

The CRA has taken strides to identify, combat, and correct non-compliance. In 2014-15, the Agency identified approximately \$21.9 billion related to non-compliance.

Non-compliance is multi-faceted and can include the Underground Economy, complex tax planning by international and large businesses, and the use of offshore tax havens. Many have tried to measure the magnitude of non-compliance and a number of estimates exist, including the following:

- Underground Economy: in April 2015, Statistics Canada estimated the size of the Underground Economy in Canada at \$42.4 billion in gross revenue in 2012.

- Complex Tax Planning by International and Large Businesses: while recognizing that the scale of base erosion and profit shifting (BEPS) proves challenging to measure, the Organisation for Economic Co-operation and Development estimates global tax revenue losses at about 4-10% of global corporate income tax revenues.
- Use of Offshore Tax Havens: offshore investments are not illegal, provided that they fall within the legislation. Estimates of the magnitude of non-compliance very widely; as one example, an October 2015 report issued by the Québec-based Institut de recherche en économie contemporaine states that the transfer of Canadian financial assets to seven countries known as offshore tax havens has resulted in lost tax revenue of somewhere between \$8 billion and \$15 billion dollars.

International Experience

While few countries overall attempt to estimate the tax gap, some of those that do are among Canada's closest partners in tax administration issues, as follows:

- U.S.: Uses a mix of methodologies, including administrative and third-party data and a substantial random audit program, to estimate the gap for personal and corporate income taxes.
- U.K.: Uses various methodologies to estimate the gap for personal and corporate income taxes, as well as its value-added tax (VAT) and excise taxes.
- Australia: Produces an estimate of its VAT gap and has announced that it will estimate the income tax gap in the future.
- Sweden: Uses various methodologies to estimate the gap for corporate and personal income taxes and VAT. Of the few countries that estimate the tax gap in respect of income taxes and who make the results public, only Sweden estimated the international component in 2007, and, in a report tabled in 2014, the country noted that data limitations prevented it from estimating the size of any specific tax gap at that time (domestic or international).

Assessment

18(d), 21(1)(a) and 21(1)(b)

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Tobacco compliance and contraband
Observation de la réglementation sur le
tabac et le tabac de contrebande

000210

Issue

- The CRA is responsible for administering the *Excise Act, 2001* (The Act) which establishes the framework for licensing tobacco manufacturers, regulating tobacco products in Canada, and applying excise duties to tobacco products manufactured in Canada or imported. Our focus is the legal tobacco market.
- The subject of legislative compliance and contraband tobacco products is far-reaching and complex, and usually involves the cooperation of several partner government organizations, each contributing unique expertise within their respective jurisdictions.
- To ensure that Canada's tobacco laws are effectively applied, the CRA works with the Canada Border Service Agency (CBSA) which is responsible for the collection of excise duty on imports and the detection and prevention of smuggling of products into Canada, and the Royal Canadian Mounted Police (RCMP), which is the primary enforcement authority for the Act.

Background

Contraband Tobacco

- The issue of contraband tobacco is high profile and politically sensitive from a health, revenue and international tobacco policy perspective.
- Cigarette smuggling, illegal manufacturing and counterfeiting are elements of the larger issue of contraband tobacco products.
- Contraband tobacco products are generally sold at a price lower than the sum of federal excise duty, provincial tobacco tax, GST/HST, and provincial sales tax.
- Until the federal budget 2014, federal excise duty rates had not increased since 2002. The 2014 rate increase represented inflation since 2002. However, during the period 2002-2014 provincial tobacco tax rates continued to increase, which may have contributed to the demand for contraband tobacco.

Tobacco Control in Canada

- The CRA has the legal right of access to all licensed manufacturer's premises including those on First Nations reserves. No license is granted unless the CRA has full access to all manufacturing premises, allowing officials to monitor tobacco production and distribution.
- The RCMP is responsible for the enforcement of the *Excise Act, 2001* that involves non-licensees or licensees where criminal processes and offences may apply.

- RCMP resources are focused on criminal organizations involved in the illicit manufacture and distribution of contraband tobacco products, including those operating on First Nations reserves.
- The CBSA is responsible for the collection of duty on imported tobacco products, the control of imports, and the prevention / detection of smuggling.
- Health Canada is responsible for health policy, smoking cessation and education.
- While CRA's primary responsibility is ensuring compliance within the legal tobacco market, we also support our enforcement partners through information sharing, involvement in court actions and technical assistance.
- The Provinces and Territories are responsible for provincial taxation, licensing and control within their respective jurisdictions.

Current Status

- The CRA is working diligently to promote tobacco compliance under the *Excise Act, 2001*, and to support partner initiatives and activities relating to tobacco control.
- 14, 21(1)(a) and 21(1)(b)
- 24(1)

7e

Underground economy

Économie clandestine

000213

Issue

The Underground Economy (UE) includes business activity that is not reported for tax purposes. It includes both unreported and under-reported sales and income.

Due to its nature, it is difficult to calculate the precise size of the underground economy; however, in 2012 total underground activity in Canada was estimated at \$42.4 billion, which is equivalent to 2.3% of the GDP¹. A survey of OECD countries conducted in 2011-2012 found that the underground economy as a percentage of GDP ranged from a low of 1.0% in Norway to a high of 15.9% in Mexico and 17.5% in Italy. Countries² with a rate similar to Canada included the Netherlands and the United Kingdom, both at 2.3%.

Statistics Canada research also shows that, while underground economy activity may be found in any industry, it is particularly prevalent in sectors where cash transactions are most common. Four sectors accounted for 66% of the total estimated underground economy in 2012: residential construction (28%); finance, insurance, real estate, rental, leasing, and holding companies (14%); retail trade (12%); and accommodation and food services (12%).

In some sectors, the UE is relatively visible to Canadians; for example, when they are offered to pay cash for goods and services in order to avoid paying taxes. Developing an action plan and achieving tangible results is particularly important for the overall integrity of the tax regime. This means that the Government is making efforts to ensure taxpayers pay the taxes they owe, and individuals and businesses meet their tax obligations.

Background

In order to reduce participation in the UE and improve the integrity of the tax system, the CRA developed a 2014-2015 to 2017-2018 UE strategy, "Reducing Participation in the Underground Economy". The strategy, released in November 2014, focuses on three broad objectives:

- to further refine the CRA's understanding of the UE;
- reduce the social acceptability of participation in the UE; and
- deploy a range of initiatives to encourage compliance and reduce participation in the UE.

The strategy includes an Underground Economy Advisory Committee which provides advice on current UE trends, risks, and the CRA's compliance tools. The Advisory Committee is chaired by the Minister and is designed to be consultative in nature. It is comprised of the groups and individuals best qualified to advise the CRA on current UE

¹Statistics Canada Study on the Underground Economy in Canada, 1992-2012, [Statistics Canada Study on the Underground Economy in Canada, 1992-2012](#)

² The United States was not included in this OECD survey.

trends, help the CRA identify emerging risks, deepen the CRA's understanding of taxpayer compliance behaviour, and contribute to the development of innovative compliance tools.

Other initiatives in the CRA's UE strategy include:

- Provincial-Territorial UE Roundtables to engage with provincial and territorial organizations and key industry associations.
- Partnering with the Canadian Home Builders' Association (CHBA) to implement the *Get it in Writing!* (GIIW) campaign which aims to make consumers aware of the personal risks of hiring a contractor engaged in UE activity and reduce its social acceptability.
- Underground Economy Specialist Teams (UEST); these teams take the lead in auditing high-risk UE sectors.
- A social marketing strategy that promotes the idea and better informs the public that participating in the UE is neither socially acceptable nor low risk.
- Leveraging behavioural analytics to better understand taxpayer behaviour.
- Using educational campaigns and "nudge" techniques to influence taxpayers at an early stage and prevent participation in the UE.

The 2015 federal budget provided support for the CRA's efforts to combat the UE, investing \$118.2 million over five years. This support has enabled the CRA to expand its Underground Economy Specialist Teams (UEST) in order to conduct more UE audits.

Current Status

Taxpayer attitudes, along with many other factors, contribute to compliance behaviour. While the CRA has started to devote attention to taxpayer attitudes and has engaged stakeholders, significant time and effort will be required to achieve results.

A more detailed underground economy 2015-2018 Tactical Plan is available, and provides specific information on how the UE Strategy is being implemented.

Given the visibility of the issue and potential impact of the strategy on taxpayer compliance, addressing the UE is of high interest to all governments in Canada.

21(1)(a)

21(1)(a)

7f

Foreign Account Tax Compliance Act
(FATCA)

Loi fiscale américaine sur les comptes
étrangers

000216

Issue

A fast-paced and multi-pronged international tax agenda is currently underway, largely aimed at improving international tax transparency and addressing aggressive international tax avoidance and evasion. One matter of particular strategic importance is the United States' *Foreign Account Tax Compliance Act (FATCA)* and its associated network of intergovernmental agreements, which includes Canada.

Background

The U.S. Foreign Account Tax Compliance Act (FATCA)

The U.S. taxes on the basis of citizenship and seeks to obtain foreign financial account information on U.S. citizens and other U.S. taxpayers no matter where in the world they reside. Under FATCA, financial institutions outside the U.S. are required to report directly to the U.S. the accounts they maintain for U.S. taxpayers or face severe penalties. To avoid potential violations of Canadian privacy laws and secure more favourable outcomes, Canada signed an agreement with the U.S. in 2014 which requires Canadian financial institutions to report certain accounts held by U.S. taxpayers to the CRA, which then shares the information with U.S. tax authorities. In return, the U.S. Internal Revenue Service then shares information with the CRA on certain accounts held by Canadian residents in the U.S. This two-way exchange of information is performed under the protections of the Canada-U.S. tax treaty.

Implementing the agreement required the addition of a new part of the *Income Tax Act*, Part XVIII. Under Part XVIII, most Canadian financial institutions are required to undertake certain due diligence procedures to determine whether pre-existing as well as new accounts may be reportable under the agreement. The procedures for account identification go beyond what has been traditionally required of Canadian financial institutions and may involve legal concepts which are unfamiliar to them. To assist Canadian financial institutions in complying with their reporting requirements, the CRA developed comprehensive guidance which is published on the CRA website. The guidance is an evergreen document and is updated from time to time based on feedback from financial institutions and their trade groups.

The first information exchange under the agreement took place on September 30, 2015. In total, approximately 155,000 information slips were provided to the IRS

13(1)(a) and 15(1) Intl

Canada is not alone in reaching an agreement with the U.S. in respect of FATCA. Over 100 countries have signed or reached an agreement in principle with the U.S. similar to that of Canada's, many of which have confirmed an exchange of information with the U.S. (including Australia, New Zealand, the Netherlands, Spain, and the United Kingdom).

15(1) Intl and 21(1)(a)

Currently, the agreement is under litigation in both Canada and the U.S. In September, the Canadian Federal Court ruled that the agreement did not fall afoul of section 241 of the *Income Tax Act* (which protects the confidentiality of taxpayer information) or the Canada-U.S. tax treaty. The plaintiffs are appealing this decision but were unsuccessful in obtaining an injunction against the Government.

21(1)(a)

The U.S. Government has

also successfully defended against an injunction in the U.S. Federal Court and has moved to have the U.S. lawsuit dismissed.

Conclusion

The CRA has been, and continues to be, actively engaged in work to foster tax compliance and uphold Canada's international commitments. Collaborating closely with Finance Canada, the Department of Justice, and third-party stakeholders, the CRA's work on FATCA related issues is a multi-branch exercise drawing on all the expertise of all levels of operation, from the working level to the most senior levels of management.

Current Status

No ministerial engagement is required at this time.

7g

International collaboration on tax
avoidance

Collaboration internationale sur l'évitement
fiscal

000219

Issue

A fast-paced international tax agenda is currently underway, largely aimed at preventing actions by multinational enterprises (MNEs) to artificially arrange their affairs to pay no, or virtually no, tax in the jurisdictions where they have significant activity. The G20 is advancing this international tax agenda through the efforts of a number of international and regional tax organizations, including the Organization for Economic Cooperation and Development (OECD).

In support of the G20/OECD priorities, the CRA has been active with the international tax community to deliver the Base Erosion and Profit Shifting (BEPS) agenda and continues to play a lead role in global efforts against international tax avoidance and evasion.

In November 2015, a number of recommendations to combat tax avoidance by MNEs will be presented to G20 leaders for support or endorsement.

Background

G20 BEPS Agenda – Addressing aggressive international tax avoidance by MNEs

The purpose of the OECD/G20 BEPS project is to update and develop new tax rules to prevent MNEs from reducing the taxes they pay, using aggressive tax avoidance schemes. The BEPS 15-point Action Plan outlines the work to be completed in this area, and will be presented to G20 leaders for endorsement at the November 15, 2015 summit in Antalya, Turkey.

In brief, the BEPS package recommends a set of common rules between countries, tighter international rules, more disclosure and improved dispute resolution. Outcomes range from changes to operational practices that took effect upon endorsement, to more substantive changes that will only come into force as governments amend legislation and tax treaties.

G20 endorsement will set in motion the work for countries to begin implementation. In large part, the impact on the CRA will depend on the Government of Canada decisions related to the implementation of BEPS recommendations. In addition to these tax policy decisions international collaboration has reached a point where tax administrations, including the CRA, must turn considerable attention to the practical implications of the BEPS outcomes.

One early and significant commitment that will be sought is centered on the adoption of recommendations for enhanced reporting by MNEs with annual revenue of 750 million euros and greater. These MNEs will be required to report details of business and tax activities for each country in which they operate. Reports will be filed with the tax administration of the country in which the parent company is located and would then be shared with other tax administrations that have an agreement in place to permit this type

of exchange of information.

15(1) Intl, 21(1)(a), 21(1)(b) and 21(1)(c)

To facilitate these exchanges, countries will be asked to sign a Multilateral Competent Authority Agreement (MCAA) on Country by Country (CbC) reporting. While the decision regarding Canada's implementation of CbC reporting rests with the Minister of Finance, the signature of the MCAA is the responsibility of the CRA. A signing ceremony is being planned by the OECD for late January 2016.

Conclusion

While Canada already benefits from a strong tax system, the endorsement of the BEPS recommendations is significant in that it will serve to ensure coherence and alignment at the international level and provide additional tools to tax administrations to tackle risks associated with aggressive tax avoidance by MNEs.

Collaborating closely with Finance Canada, the CRA's substantive contribution to work on these complex issues is drawn from multiple subject matter expertise areas across the Agency, with official representation extending to the most senior levels of management.

Looking ahead, and given the importance of global implementation, including implementation by emerging and developing countries, the CRA is well positioned to play an important leadership role at the international level to help shape efforts and deliver in this area.

Current Status

15(1) Intl, 21(1)(a), 21(1)(b) and 21(1)(c)



**Rules for charities related to political
activities**

**Règles applicables aux organismes de
bienfaisance liés à des activités politiques**

Issue

As tax-exempt entities, registered charities must devote their resources to charitable purposes and activities. The law, however, recognizes the valuable contribution charities make to public policy in Canada by allowing them to devote a limited amount of their resources to non-partisan political activities that support their charitable purposes.

Background

The CRA is responsible for protecting the integrity of the tax system and the charitable sector by ensuring that all of the approximately 86,000 registered charities in Canada follow the rules. The CRA fulfills this responsibility through a balanced program of education, client service, and responsible enforcement. The CRA takes an education-first approach to compliance, using a range of tools and sanctions, such as education letters, compliance agreements, monetary penalties, suspension of receiving privileges or revocation of charitable registration, when appropriate to the circumstances.

The vast majority of revocations that occur each year are voluntary (54%), or a result of a charity's failure to file the required annual information return (43%). Since the 2009-10 fiscal year, the CRA revoked on average 1,739 charities per year of which 1.74%, or about 30, were because an audit determined that the charity had ceased to comply with the requirements for registration.

To ensure that the CRA's education-first approach to compliance gives charities the information they need to meet their obligations under the law, the CRA reviews the audit process and analyses audit findings to identify lessons learned, emerging issues, and any gaps in the suite of educational products. Following a recent review of the CRA's compliance activities that relate to registered charities, the Auditor General concluded in a 2010 Fall Report that the CRA has processes designed to increase compliance with the *Income Tax Act* and that the CRA's communication processes for charities are well-designed.

In Budget 2012, the Government of Canada provided the CRA with \$13 million over 5 years¹ to help charities understand and respect the longstanding rules relating to political activities. Accordingly, the CRA has made significant investments in education and outreach for all charities to help them follow the rules on political activities, including information sheets, FAQs, and a self-assessment tool.

From 2012 to 2016, in addition to the other 3,600 charity audits undertaken by the CRA through its regular audit program, the CRA is conducting 60 charity audits focused on political activities. When conducting audits on political activities, the CRA determines whether a charity continues to respect the limits on political activities, and whether any of its activities are political activities or prohibited partisan activities. Such determinations

¹ Distribution per year: 2012-13 (\$4.1M); 2013-14 (\$2.5M); 2014-15 (\$2.6M); 2015-16 (\$2.1M); 2016-17 (\$1.7M)

have a solid legal basis, stemming from the requirements of the *Income Tax Act* and relevant common law principles.

The results of the 28 audits completed as of September 30, 2015 are as follows:

- Clean (no change): 1;
- Education letters: 7;
- Compliance agreements: 13;
- Notice of intention to revoke: 5 (all of which have filed objections);
- Voluntary revocation: 1; and
- Annulment: 1.

During all audits, the CRA is committed to serving charities with professionalism, courtesy, and fairness. In the course of an audit, the representative of a charity can discuss with the auditor any concerns that may arise. The charity has additional recourse options available if it believes that the CRA has not interpreted the facts or applied the law correctly, including filing an objection to the CRA's Appeals Branch or appealing to the Federal Court of Appeal or the Tax Court of Canada, depending on the type of appeal.

Although the CRA alone, based on a fair and transparent process, selects which charities are audited, there continues to be a certain public perception that this selection process is subject to political interference. In accordance with the confidentiality provisions of the *Income Tax Act*, the CRA cannot comment publicly on ongoing charity audits, as this is confidential taxpayer information.

Current Status

The Charities Directorate is currently conducting a review of the preliminary results of its compliance activities, with a view to identifying any gaps in our policy guidance and education products on political activities.

Next Steps

In light of the government's electoral commitments, we will schedule a briefing on the rules in regards to political activities, as well as the work conducted as a result of the Budget 2012 decision to provide the CRA with more resources to help charities understand and respect the longstanding rules relating to political activities.

21(1)(a) and 21(1)(b)

7i

Collective bargaining

Négociation collective

000225

Issue

The Canada Revenue Agency (CRA) is a separate employer. However, since December 2012, the Agency's collective bargaining mandate must be approved by the President of the Treasury Board. This ensures alignment with broad Government of Canada objectives for the public sector. The Agency remains responsible for negotiations with unionized employees and determining compensation levels for non-unionized employees within parameters approved by the Treasury Board. Once a tentative agreement is reached, the CRA is required to seek the endorsement of the Treasury Board.

The CRA negotiates with two bargaining agents: the Public Service Alliance of Canada, Union of Taxation Employees (PSAC-UTE) and the Professional Institute of the Public Service of Canada-Audit, Financial and Scientific (PIPSC-AFS) group.

Background

PSAC-UTE Negotiations

The PSAC-UTE Program Delivery and Administrative Services bargaining unit consists of approximately 31,700 members.

The CRA/PSAC-UTE collective agreement expired on October 31, 2012. The key element in this round of negotiations is to eliminate severance pay for voluntary departures. This feature has been eliminated for the core public administration in the 2012-2014 period. Both parties have been engaged in negotiations since September 2012. Given the absence of an agreement, they participated in mediation sessions in March and May 2015. During the last session, the Agency tabled its last offer, which was rejected by the union.

No future negotiation dates have been established.

21(1)(a)

PIPSC-AFS Negotiations

The PIPSC-AFS Audit, Financial and Scientific bargaining unit consists of approximately 12,000 members.

The CRA/PIPSC-AFS collective agreement expired on December 21, 2014. This round of negotiations is focused on sick leave and a short term disability plan. The parties exchanged proposals and began negotiations in January 2015 and to date have had five negotiation sessions. The CRA and the PIPSC-AFS have scheduled a negotiation session from December 8 to 10, 2015.

21(1)(a)

DISCLOSED
PURSUANT TO
THE ATIA
A-081455

Current Status

21(1)(a)

DISCLOSED
PURSUANT TO
THE ATIA
A-081455

7j

**Bill C-377– Requirements for labour
organizations**

**Projet de loi C-377– Exigences applicables
aux organisations ouvrières**

000229

Issue

Private Member's Bill C-377, An Act to amend the *Income Tax Act* (requirements for labour organizations), which received Royal Assent in June 2015, requires additional information to be submitted to the CRA for labour organizations and labour trusts.

Background

Affected population

- Approximately 770 labour organizations will be subject to this new legislation and have been identified according to information tracked by Employment and Social Development Canada under the Labour Program (based on 2013 report).
- 21(1)(a) and 21(1)(b)

Information requirements

- Under these new requirements, labour organizations and labour trusts will be required to submit a return containing financial statements, statements of transactions and disbursements, and statements showing labour relations and other types of expenditures. In certain cases, information concerning each transaction will be required.
- As well, the information return will include a statement with a reasonable estimate of the percentage of time dedicated to each of the political activities, lobbying activities and other non-labour relations activities.
- The information contained in these statements will be made publicly available on CRA's Web site.
- These requirements will apply to fiscal years that begin after December 31, 2015; the first information returns will be due by mid-2017.

Penalty application

- The Bill introduces a fine of \$1,000 per day up to \$25,000 that will be applicable on summary conviction in the case where a labour organization or a labour trust does not comply with the filing obligations. Fines are one of the tools that can be used by the CRA when dealing with organizations and trusts that fail to meet their obligations.

21(1)(a) and 21(1)(b)

Current Status

The CRA is preparing for the administration of these new provisions. We are examining options for receiving and posting electronically submitted information returns.

21(1)(a) and 21(1)(b)

The costs to implement this initiative are to be funded internally by the CRA. Previous costing information was shared with parliamentary committees and the Parliamentary Budget Officer in 2012 and 2013.

The following costs were developed and generated in January 2013:

Fiscal year	Year 1	Year 2	Year 3	Year 4	Ongoing
Incremental costs (\$)	614,273	1,960,612	1,914,865	1,531,927	1,464,227
FTEs (#)	5	22	22	17	16

Cost estimates accounting for sponsor amendments and a reporting population of 16,000 organizations (includes locals and labour trusts)

Next Steps

Court Challenge

The provisions of Bill C-377 are the subject of a court challenge related to Constitutional and Charter issues. In this respect, the Alberta Union of Provincial Employees has filed an application in the Court of Queen's Bench of Alberta (Edmonton). The Applicants argue that Bill C-377 exceeds the constitutional authority of the Government of Canada as it relates to labour and labour relations, an area of exclusive provincial jurisdiction. Also, the Applicants argue Bill C-377 violates the Charter in that it breaches freedom of expression (section 2b), freedom of association (section 2d), the right not to be deprived of security of the person except in accordance with the principles of justice (section 7) and the right to be free from unreasonable search and seizure (section 8). The hearing of this matter is scheduled for June 2016.

Clarifying Reporting Requirements

As labour organizations must begin detailed tracking of their activities starting in January of 2016, the CRA continues to receive enquiries associated with the new reporting requirements.

21(1)(a)

DISCLOSED
PURSUANT TO
THE ATIA
A-081455

7k

Disability Tax Credit promoters

Promoteurs du crédit d'impôt pour
personnes handicapées

000233

Issue

The *Disability Tax Credit Promoters Restrictions Act* (the Act) was enacted in 2014 to protect people with disabilities from being charged excessive fees by promoters for preparing a disability tax credit request. The CRA is currently working on developing the regulations that set the maximum fee and who should be exempt from the reporting requirements.

Background

The disability amount, also referred to as the disability tax credit or DTC, is a non-refundable tax credit under the *Income Tax Act* that provides tax relief to eligible individuals and, in certain cases, to supporting family members to help them cope with their needs and challenges. To apply for the disability amount, an individual or their representative fills out the *Disability Tax Credit Certificate* and gets a qualified practitioner to complete and certify the effects of the impairment.

While most people with disabilities are able to complete their eligibility application by themselves or with the help of a friend or a family member, some may seek the assistance of a third party representative (sometimes referred to as Promoters). The *Disability Tax Credit Promoters Restrictions Act* (the Act), which received Royal Assent on May 29, 2014, is intended to protect people with disabilities from being charged excessive fees that Promoters, including qualified practitioners, might charge for their services. The Act sets out the legislative framework to limit the fees charged by Promoters.

Although the Act sets out the overall framework, it does not 1) prescribe a maximum fee that a promoter can charge, and 2) identify the type of promoter, if any, who is exempt from the reporting requirements. Under the Act, these elements will be set out in the regulations.

Current Status

CRA-led consultations were conducted in late 2014 and included Canadians with disabilities, caregivers, promoters, tax professionals, medical practitioners, and members from the general public.

69(1)(g) re (e)

During these consultations, concern was expressed by many that a small group of promoters are charging excessive fees to support the DTC application process.

69(1)(g) re (e)

69(1)(g) re (e)

Improvements to Forms and Communication

Following the extensive 2014 consultations led by the CRA, the Government of Canada is now simplifying and clarifying the DTC application process by implementing new measures. Through an online survey and other measures, the CRA will continue the dialogue with the disability community to further simplify the DTC application process and improve communications to better meet the needs of the target audience. Current improvements available by the end of October include:

- A simplified DTC application form: the paper form will be shortened, and a tailored, fillable electronic form will be available online.
- A simplified process for requesting a tax adjustment for prior years: DTC recipients will now be able to request an automatic reassessment and adjustment of income tax and benefit returns for prior years for their own disability claim on the DTC Certificate, and for dependants who are under the age of 18.
- A promotional e-kit (promo-box, web content, images, application check list, etc.) for stakeholders in the disability community, including medical practitioners, associations, and tax preparers.
- An e-kit to Members of Parliament.

We will also introduce improved access to program information. Comprehensive and clearer information about the DTC and how to apply will be available on the CRA website and through partners such as Employment and Social Development Canada (ESDC), Office of Disability Issues (ODI), Veterans Affairs Canada (VAC), the College of Physicians and Surgeons of British Columbia, and the Canadian Association of Optometrists. This initiative will be ongoing.

71

Ontario Retirement Pension Plan
Régime de retraite de la province de
l'Ontario

000236

Issue

The Ontario government has committed to the Ontario Retirement Pension Plan (ORPP) as a new type of retirement savings plan for its residents. The ORPP would 14, 21(1)(a) and 21(1)(b) and collect over \$3.5 billion in plan contributions annually.

The Ontario government has approached the Federal government for assistance in setting up and operating the plan. For the CRA, the key issues arising from this request are the registration of the ORPP as a registered pension plan (RPP) and the administration of the plan, which could include collection of plan contributions and ensuring compliance on the part of employers.

Background

In the 2014 Ontario budget, the government announced its intention to create the ORPP as a supplement to existing public and private retirement schemes. Since that announcement, the government introduced the *Ontario Retirement Pension Plan Act (2015)*, setting out the creation of the ORPP by January 1, 2017.

The ORPP was initially proposed as a government-sponsored benefit similar and supplemental to the CPP. As part of this proposal, the Ontario government suggested that the CRA could administer the plan in a manner similar to the CPP (i.e. ensure contributions are collected, remitted, and reported as required under CPP legislation).

Administration of the ORPP (CPP model)

The CRA currently administers the CPP jointly with Employment and Social Development Canada. The CRA is responsible for the collection of plan contributions as part of payroll withholdings and for undertaking compliance work to ensure that employers respect their withholding and remitting obligations.

14, 21(1)(a) and 21(1)(b)

Ontario Retirement Pension Plan

SECRET
Advice to the
Minister

14, 21(1)(a) and 21(1)(b)

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A-081455

14, 21(1)(a) and 21(1)(b)

Federal-Provincial Communications

In July 2015, the federal Minister of Finance informed his Ontario counterpart that the federal government will not assist in the administration of the ORPP, and that the plan would have to meet the existing rules for registration applicable to all employer-sponsored pension plans (that is, the federal government will not amend the Act to accommodate the ORPP if it cannot qualify as an RPP).

14, 21(1)(a) and 21(1)(b)

14, 21(1)(a) and 21(1)(b)

7m

Robillard Commission Report

Rapport de la Commission Robillard

000240

Issues

14, 21(1)(a) and 21(1)(b)

Background

On August 31, 2015, Quebec's Program Review Committee, chaired by former cabinet minister Lucienne Robillard, recommended transferring the administration of tax programs to the federal government.

Quebec administers its own income taxes for individuals and corporations in the province. All other provinces have conferred the administration of their individual and corporate income taxes to the federal government, except Alberta, which administers its own corporate income taxes. Several provinces have adopted the harmonized sales tax and have conferred its administration to the Canada Revenue Agency (CRA). Quebec collects its own sales tax, as well as the goods and services tax (GST) on behalf of the CRA in Quebec. The federal government pays 143 million dollars per year to Quebec as compensation for that activity.

The provinces and territories assume no administrative costs for the management of tax programs when they are the same as those of the federal government. Costs are provided for the administration of programs for which the criteria differ from those at the federal level, or for those with no federal equivalent.

According to the Commission, the transfer of Revenu Québec activities to the CRA would result in an estimated 392 million dollars in direct savings for Quebec (161 million dollars for corporate taxes, 69 million dollars for individual taxes, 26 million dollars for source deductions, and 135 million dollars for other taxes).

14, 21(1)(a) and 21(1)(b)

The Prime Minister of Quebec, Philippe Couillard, stated that he would take the Commission's recommendations into consideration. He also committed to considering the possibility of having a single income tax return by the end of his mandate, without indicating, however, whether its administration would be conferred on Revenu Québec or the CRA.

The main opposition parties in Quebec do not support such a transfer. They instead recommend that Revenu Québec repatriate all tax activities from the CRA to Quebec.

Current situation

14, 21(1)(a) and 21(1)(b)

7n

23

000243

Pages 000244 to 000245 exempted from disclosure pursuant to 23 of the ATIA

70

Overview of recent reduction exercises and
major long-term funding pressures

Aperçu des exercices récents de réduction
des dépenses et des contraintes liées au
financement à long terme

Overview of Recent Reduction Exercises and Major Long-Term Funding Pressures

Protected B
Advice to the
Minister

Issue

Recent reduction exercises

The Canada Revenue Agency (CRA) implemented an ambitious transformation agenda as a means to contribute towards centrally-driven expenditure reduction exercises. As part of its strategic approach to managing resources, the Agency also regularly conducts internal reviews for the purpose of identifying savings opportunities to address emerging priorities and pressures. While the vast majority of measures have been successful, some implementation issues remain.

Long-term funding pressures

In addition to the compounding effect of the reduction exercises, the Agency is faced with long-term financial pressures driven by different factors outside of its control, some of which could have an impact on the Agency's ability to successfully fulfill its mandate.

Background

Recent reduction exercises

Overview of recent budget reduction and reallocation exercises

Exercise/Initiative	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	2017-2018 & ongoing
18(d)						
Budget 2012 – Deficit Reduction Action Plan (DRAP)	\$27.9M	\$58.9M	\$182.4M	\$208.1M	\$240.6M	\$253.1M
Budget 2013 – Targeted Review (TR)	-	\$19.2M	\$57.6M	\$60.6M	\$60.6M	\$60.6M

18(d)

Note: (1) Includes Employee Benefit Plan

(2) Net of operations and maintenance (O&M) conversion and Canada Pension Plan/Employment Insurance Revenues Credited to the Vote (RCV)

Savings were achieved through large scale transformational initiatives such as an accelerated drive towards electronic services and a number of measures to streamline back office operations.

Overview of Recent Reduction Exercises and Major Long-Term Funding Pressures

Protected B

Advice to the
Minister

Long-term funding pressures

69(1)(g) re (e)

A number of programs are experiencing financial challenges as a result of higher than expected costs, complexity of work, or level of usage. 69(1)(g) re (a)

69(1)(g) re (a)

Current Status

Recent reduction exercises

All measures related to the ***Cost Containment Plan (CCP) and Targeted Review (TR)*** exercises have been fully implemented with no outstanding issues.

69(1)(g) re (c)

Overview of Recent Reduction Exercises and Major Long-Term Funding Pressures

Protected B

Advice to the
Minister

69(1)(g) re (c)

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7p

Quebec: GST compensation

Québec: Compensation de la TPS

000250

Issue

Quebec administers both its own individual and corporate income taxes, and it is the only province that administers the Goods and Services Tax (GST) within its jurisdiction on behalf of the federal government

14, 21(1)(a) and 21(1)(b)

14, 21(1)(a) and 21(1)(b)

Background

Since 1992, Quebec has been administering the GST in Quebec on behalf of the CRA. The Agency currently compensates Quebec for this administration to a maximum of \$140.7M per year.

In 2012, Quebec entered into a Comprehensive Integrated Tax Coordination Agreement (CITCA) that provided for some further harmonization of the provincial sales tax with the GST and \$2.2B in federal transition assistance. Revenu Québec retained responsibility for GST administration in the province, though a new costing approach significantly reduced Quebec's ongoing compensation for its administration.

14, 21(1)(a) and 21(1)(b)

69(1)(g) re (d)

Current Status

14, 21(1)(a) and 21(1)(b)

69(1)(g) re (d)

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A-081455

Pages 000253 to 000255 excluded from
disclosure pursuant to 69(1)(g) re (a) of
the ATIA

7r

**British Columbia and Ontario housing
market**

**Marché de l'habitation de la Colombie-
Britannique et de l'Ontario**

000256

Issue

There are multiple compliance risks related to the real estate market and real property ownership. While some investments have fared poorly recently (with lower and volatile returns) Canadian real estate values have risen steadily over the last several years and have drawn considerable attention as an alternative investment. Canada's current housing boom has defied predictions of a slowdown for years, buoyed by historically low borrowing costs that have offset the impact of slowing economic growth and a technical recession in the first half of 2015.

A recent report in the *Globe and Mail* (October 8th) noted that new home prices rose by 0.3 per cent in August from July on continued strength in the Ontario and B.C. housing markets. Compared with a year earlier, prices were up by 1.3 per cent. The Toronto and Oshawa region, which accounts for 28.8 per cent of the entire Canadian market, posted a 0.6 per cent gain while prices in Vancouver edged up by 0.1 per cent.

The primary issue from an income tax perspective is the concern that individuals may not be reporting their capital gains from real estate or property dispositions, as required under the *Income Tax Act*. A second concern is that individuals with foreign ties who are participating in these transactions may be deemed to be residents of Canada for tax purposes and would be obligated to report world-wide income.

16(1)(c), 21(1)(a) and 21(1)(b)

Background

Material risks of income tax and/or GST/HST non-compliance often exist with respect to the purchase and/or resale of high-end real estate, condominiums, and interests in condominium transactions. From a GST/HST perspective these transactions may not be properly reported for purposes of the *Excise Tax Act* (ETA), resulting in the non-reporting or underreporting of GST/HST, and/or rebates claimed by persons who are not entitled to them. Both non-residents and Canadian residents can become involved in these types of transactions.

16(1)(c), 21(1)(a) and 21(1)(b)

16(1)(c), 21(1)(a) and 21(1)(b)

Current Status

In the Pacific Region, audit projects are being conducted that focus on real property transactions in the Lower Mainland area of BC.^{16(1)(c), 21(1)(a) and 21(1)(b)}

16(1)(c), 21(1)(a) and 21(1)(b)

In the Ontario Region, the focus is on the ^{16(1)(c), 21(1)(a) and 21(1)(b)}
^{16(1)(c), 21(1)(a) and 21(1)(b)} in the Greater Toronto Area.^{16(1)(c), 21(1)(a) and 21(1)(b)}

16(1)(c), 21(1)(a) and 21(1)(b)

The CRA will continue to conduct audits related to real estate transactions in order to detect and deter non-compliance with the *Income Tax Act* and *Excise Tax Act*.

16(1)(c), 21(1)(a) and 21(1)(b)