

I wish to suggest a change in the manner that the Canada Revenue Agency collects source deductions from employers. This change would improve the cash flow to the government by some billions of dollars in the first year of implementation. As it happens it will have little impact on the cash flow of most of the employers who are responsible for remitting these deductions to CRA.

Over the past thirty or forty years many businesses have contracted outside payroll services to process their payrolls. A very common practice with these payroll service companies is to require their customers to send them their payroll funds, including the source deductions, prior to the payroll date. They then pay the employees on pay day, usually by direct deposit, but remit the source deductions some weeks later as the current rules require.

**My proposal is that all payroll deductions of income tax and CPP be remitted to Canada Revenue Agency on the payroll date.**

Such a change would have no impact on the employers who are already sending those funds to the service provider prior to the payroll date. There would be an increase in the number of remittances CRA would have to process but these are made electronically so the added work should be minimal.

A benefit to CRA could be that prompt remittance would be easier to monitor and the possibility of losses due to failure to remit might be reduced.

A low risk but still significant in terms of amount is the possibility that the payroll service company holding the funds may not fulfill it's obligations. The funds are held in trust until paid but it has happened that these funds have not been properly handled. Though there have been some minor incidents in Canada of this nature, there has been at least one substantial incident in the US. The risk would be greatly reduced if this proposal were implemented. There is currently no regulation of the parties holding these funds. In two cases the funds can exceed a billion dollars.

Some may be concerned about the fact that employers have used these funds to help finance their businesses. That is obviously not the case where the employer uses a payroll service. For those who do not use such a service it may be less of a burden than may seem at first glance. Those employers have to remember to make their remittances some weeks after payday. If they forget they can be subject to significant penalties. It is my opinion, supported by observations, that many employers would be quite happy to pay the entire payroll on payday.

As the founder and chief shareholder of Comcheq Services Limited, a payroll service provider until sold to CIBC in 1993, I have direct knowledge of the operations of payroll service companies. By 1998 the five Candian banks had sold their payroll operations to ADP and Ceridian. Those companies hold the bulk of the trust funds mentioned above.

Respectfully submitted,  
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A source of added revenue could be to deduct income tax at source from dividend payments just as such deductions are made from wages paid to individuals. Deductions from dividends paid to foreigners could limit a tax leak that may be significant. Similar deductions could apply to royalties, management fees and other such payments.

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