

Minister  
of National Revenue



Ministre  
du Revenu national

Ottawa, Canada K1A 0A6

Mr. Dean Allison, M.P.  
Chair  
Standing Committee on Public Accounts  
House of Commons  
Ottawa ON K1A 0A6

Dear Mr. Allison:

This letter is further to previous correspondence provided to the Committee's attention, namely the Government of Canada's response to the Committee's 59th report entitled Report 7, Compliance Activities – Canada Revenue Agency, of the Fall 2018 Reports of the Auditor General of Canada, which was tabled in the House of Commons on May 29, 2019, pursuant to Standing Order 109; and the Government's report on progress in response to Recommendations 3, 4, 5, and 8 of the 59th report, dated March 16, 2020.

I am pleased to provide an additional progress report on Recommendations 1 through 7, 9, and 10.

The Government and the Canada Revenue Agency extend their thanks to the members of the Committee for their continued interest and support to resolve the points raised by the Office of the Auditor General.

Sincerely,

A handwritten signature in black ink, appearing to read 'Diane LeBouthillier'.

The Honourable Diane LeBouthillier

Enclosure

Canada

**REPORT ON PROGRESS: COMMITMENTS MADE IN THE GOVERNMENT'S RESPONSE  
59th REPORT OF THE STANDING COMMITTEE ON  
PUBLIC ACCOUNTS (RECOMMENDATIONS 1, 2, 3, 4, 5, 6, 7, 9 AND 10)**

**INTRODUCTION**

On behalf of the Government of Canada, on May 29, 2019, the Minister of National Revenue tabled the Government's Response to all ten recommendations contained in the Fifty-Ninth Report of the Standing Committee on Public Accounts entitled: *Report 7, Compliance Activities – Canada Revenue Agency, Of The Fall 2018 Reports Of The Auditor General Of Canada*.

As requested, the CRA is pleased to provide a report on progress related to Recommendations 1, 2, 3, 4, 5, 6, 7, 9 and 10.

**Recommendation 1:** *“That the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with: (1) a status report on the revisions undertaken on time limits for taxpayers, by 30 May 2019; and (2) a final report outlining its revised policy with a set timeline for all taxpayers to provide information to the Agency in response to compliance activities, by 31 March 2020.”*

**Gouvernement Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. The Government agrees that it is necessary to establish clear guidelines on timelines of when the CRA is expecting taxpayers undergoing audits or reviews to provide requested information to the CRA. These timelines should nonetheless should take into consideration the level of complexity of, as well as the specifics of taxpayer’s situation. The CRA should ensure that the guidelines are well understood by the taxpayers and the consequences when there is failure to provide the information. These guidelines will still provide CRA auditors with some discretion to take into account the specific circumstances of taxpayers. Timelines given to taxpayers to comply with information requests from the CRA depend on the taxpayer’s type of business activity and the type of audit conducted by the CRA, so there can be significant variations in the amount and complexity of information requested and the effort required by taxpayers to comply with the requests. For example, providing a receipt to substantiate a single expense on a personal income tax return requires much less time than providing the full records from the full revenue stream of a taxpayer’s foreign affiliate. The CRA will ensure to provide timelines that take that reality into consideration. If a taxpayer requires more time to comply with a request to provide information, they can contact the CRA and explain their circumstances. The Taxpayer Bill of Rights requires that the CRA take individual circumstances into account when granting extensions to taxpayers to respond. In complex cases, when taxpayers do not willingly comply with those requests, the CRA may resort to obtaining information from third parties, through judicial processes, or from foreign tax administrations; all of which contribute to substantial delays and also may be dependent on the availability of Department of Justice resources to initiate the judicial process. The Agency will clearly outline the parameters of addressing cases in which the time limits are not respected, and ensure that it communicates these expectations clearly with affected taxpayers. Because auditors need to use judgement to determine the best strategy for obtaining the necessary information from taxpayers, the Agency is reviewing internal procedures describing the circumstances and criteria for granting extensions to taxpayers that take into consideration the complexity of the information request and the impact on the taxpayer. The CRA is also considering more formal internal deadlines after which it would move to the courts to compel the required information. With respect to the report requested by the Committee by May 30, 2019, the CRA would like to report that it has established an internal working group, and has started consultations with key stakeholders, including developing an Agency-wide questionnaire to collect information on the current practices for handling information requests that will inform its analysis and recommendations. With respect to the second part of the recommendation, the Agency will provide the Committee with a final report on its efforts to improve the consistency of enforcing timelines on audit information requests by June 30, 2020. This will allow the Agency to gain a better understanding of the impact that these changes have made, and to conduct a more thorough environmental assessment to report on.”*

**Final Report:** The CRA has implemented five measures to enhance timeliness and coherence of audit information requests:

- The CRA has established standardized timelines for taxpayers to respond to audit information requests. These timelines include criteria for granting extensions and for when to make use of legislative provisions to compel the taxpayer to provide information.
- The CRA has established a protocol to communicate with taxpayers within 30 days of receiving requested information, and to inform the taxpayer on the next steps of the audit.
- The CRA has reviewed and updated its audit manuals and other guidance to auditors as it relates to timelines/time limits to complete compliance activities.
- The CRA has implemented supplementary monitoring of information requests to taxpayers and time to complete audits, to ensure that standard timelines are being met across all programs and regions.
- The CRA developed a communiqué for auditors to highlight and summarise these changes.

**Recommendation 2:** *“That the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with: (1) a report on the review of the proactive relief criteria and procedures, by 30 May 2019; and (2) a report on the new guidelines regarding the definition of undue delay, by 30 June 2020.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. With respect to the report requested by the Committee by May 30, 2019, the CRA would like to report that it has the CRA has drafted a new governance agreement and memoranda of understanding related to the administration of the taxpayer relief provisions. The agreement identifies responsibility for the administration of the various provisions. During this process the CRA has committed to review the current policy and procedures for the consideration of proactive relief, including the feasibility of the application of proactive relief in the conduct of various compliance activities. The CRA will also conduct a review and analysis of the various compliance activities by the end of March 2020 and, where reasonable, define the appropriate criteria to determine what it considers to be an “undue delay.” The development of any guidance will also ensure that all relevant factors continue to be considered in accordance with the legislation. With respect to the second part of the recommendation, the Agency agrees to provide the Committee with a report on the new guidelines by June 30, 2020.”*

**Final Report:** The CRA has completed its consultations, review and analysis of the various compliance activities and has developed the *Proactive relief and undue CRA delays* policy which aims to improve consistency in the application of proactive relief by clarifying when the CRA will grant proactive relief and defining what the CRA considers to be an “undue delay.”

The policy clarifies that the CRA can proactively waive or cancel penalties or interest in the absence of a taxpayer-initiated request when it is clear and obvious that the taxpayer’s situation warrants the relief. “Clear and obvious” means not having to dig or probe further to determine that relief is appropriate. In other words, “clear and obvious” can be described as a situation where the circumstances that prevented or delayed compliance were so clearly beyond the taxpayer’s control, that it would be unreasonable to charge them the resulting penalty or interest.

The policy defines an undue CRA delay as a delay that is unwarranted, inappropriate, or unjustified in the circumstances, and in contrast to a reasonable processing time, involves a situation where there has been an obvious lack of diligent actions by the CRA to process a taxpayer's file in a timely manner.

The *Proactive relief and undue CRA delays* policy was approved on June 23, 2020 by the Taxpayer Relief Provisions Governance Oversight Committee, and communicated widely across the CRA on July 10, 2020. It will also be included in a taxpayer relief central repository.

**Recommendation 3:** *“That the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with: (1) a status report on the consultations with the Agency’s stakeholder regarding (a) harmonization of the application and administration of the taxpayer relief provisions; and (b) determination of responsibility for delays (falling to either the Agency or the taxpayer), by 31 October 2019; and (2) a final report on these two matters, by 30 May 2020.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. With respect to the first part of the recommendation, the CRA is committed to providing fair relief and to not rewarding non compliance. In order to mitigate any inconsistent application or administration of the taxpayer relief provisions, the Agency will ensure to harmonize policies, procedures, guidelines, and training materials as committed in the publicly available internal audit report entitled Internal Audit – Application of the Taxpayer Relief Provisions. The CRA will clarify what is considered to be delays attributed to the Agency (within the Agency’s control) and delays attributed to the taxpayer (within the taxpayer’s control) in the conduct of the various compliance activities by the end of March 2020, considering the discretionary nature of the provision. The Agency will provide the Committee with a status report on its consultations with the Agency’s stakeholder branches by December 31, 2019. The additional time will allow the Agency to complete the necessary consultations, allowing for a more robust analysis of this issue. With respect to the second part of the recommendation, the CRA will provide the Committee with a final report on these two matters by June 30, 2020. As the Agency will be reporting on other matters on this date, it will provide the Committee with a more complete picture of where the Agency stands regarding its analysis and implementation of recommendations.*

**Final Report:** The CRA has completed the harmonization of policies, procedures, guidelines, and training materials which will ensure a consistent application and administration of the taxpayer relief provisions across the CRA.

The CRA has completed its consultations, review and analysis of the various compliance activities and developed the *Proactive relief and undue CRA delays* policy which aims to improve consistency in the application of proactive relief by clarifying when the CRA will grant proactive relief, defining what the CRA considers to be an “undue delay”, and explaining how to establish responsibility for delays.

The policy defines an undue CRA delay as a delay that is unwarranted, inappropriate, or unjustified in the circumstances, and in contrast to a reasonable processing time, it involves a situation where there has been an obvious lack of diligent actions by the CRA to process a taxpayer's file in a timely manner.

The policy clarifies that taxpayer delays are delays caused by the taxpayer themselves and delays caused by a representative of the taxpayer (such as an accountant or a lawyer) and other delays, such as bank delays, that result when the taxpayer does not have records they were required to retain. When the taxpayer is responsible for a delay, relief is generally not warranted.

The policy was approved on June 23, 2020 by the Taxpayer Relief Provisions Governance Oversight Committee. On July 10, 2020, it was communicated widely across the CRA to ensure these guidelines are followed by all programs who apply and administer taxpayer relief provisions.

**Recommendation 4:** *“That the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with: (1) a report describing the reasons for regional variations in the time required to complete its compliance activities, by 30 September 2019; and (2) a report outlining the measures in place to reduce or eliminate these variations, including a reallocation of resources, so that two taxpayers with a similar profile and files of similar complexity are dealt with in the same manner by the Canada Revenue Agency, no matter where their files are processed, by 30 April 2020.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. With respect to the first part of the recommendation, the CRA is committed to treating taxpayers fairly and in adherence to the Taxpayer Bill of Rights and completing audits within the legislated timelines. The sectors of activity and structure of the business communities vary across the country and CRA’s tax service offices are modeled according to the differences in industries found in different regions. There may be a perceived regional difference in the audit completion. However, these differences can often be found because different tax centres in different regions have different expertise and process files of specific sectors of the economy. The extent and nature of non-compliance can vary considerably due to variations in schemes used by taxpayers to pay less or no taxes. Nonetheless, the CRA recognizes that there may be factors within its control to fix, so it is conducting a review to identify the main reasons for regional variations and will create a plan to address any problematic issues identified by the review. The Agency will provide the Committee a status report with the reasons for regional variations by December 31, 2019. With respect to the second part of the recommendation, the Agency will provide the Committee a final report on the measures in place to reduce variations by June 30, 2020. As the Agency will be reporting on other matters on this date, it will provide the Committee with a more complete picture of where the Agency stands regarding its analysis and implementation of its plan.”*

**Final Report:** The CRA has taken two steps to address the timeliness of audits and manage regional variations.

- The CRA has documented a review and analysis of regional variances, and detailed action plans to address those that were not appropriate or necessary. These plans were tailored to each audit workload, as varying levels of file complexity impact typical workload timelines.
- The CRA has implemented additional monitoring coverage and approvals for audits to manage timeliness and adherence to protocols.

**Recommendation 5:** *“That the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with: (1) a report establishing targets for average and maximum processing times for assessments resulting from compliance actions, by 31 December 2019; and (2) a first monthly follow-up report on processing times for assessments resulting from compliance actions, by 31 March 2020.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. With respect to this recommendation, the CRA is developing service level agreements to establish and track the time it takes to process assessments resulting from audit programs which will enable the CRA to improve the timeliness of the reassessment processes. The Agency will provide the Committee with a status report by December 31, 2019 and a final report on its efforts to establish and track service levels for (re) assessments arising from its audit programs by June 30, 2020.*

*This additional time will allow the CRA to conduct its ongoing internal quality assurance activities on the data that will go into the report following the end of the fiscal year.”*

**Final Report:** The CRA has taken two steps to address the timeliness of processing audit reassessments.

- The CRA established a service standard for audit-generated T1 Individual reassessments, consistent with the published service standard for paper reassessment requests.
- A monthly tracking report has been established to monitor performance against the service standard for the timely processing of audit-generated T1 assessments.

**Recommendation 6:** *“That, by 30 April 2020, the Canada Revenue Agency, after determining the impact of past disclosures made under the Voluntary Disclosures Program, provide the House of Commons Standing Committee on Public Accounts with a report detailing the results and recommendations to enhance its risk assessment processes.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. With respect to this recommendation, the CRA is conducting a review of past voluntary disclosures to determine if taxpayers have remained compliant in the tax areas where they provided corrected or more complete filings. The aggregated results of this review will be used to enhance the risk assessment methodologies over time. Importantly, following a recommendation made by the Offshore Compliance Advisory Committee, the CRA reviewed and limited the Voluntary Disclosures Program. Since March 1, 2018, taxpayers who intentionally avoided their tax obligations are no longer able to benefit from the same level of relief as taxpayers who apply for relief to correct an unintentional error. In addition, the CRA has created the Offshore Voluntary Disclosures Program Section to provide an in-depth review of high risk disclosures involving offshore issues. The Agency will provide the Committee a report with how it plans to follow up on taxpayers who have used the Voluntary Disclosures program to verify future compliance by June 30, 2020. As the Agency will be reporting on other matters on this date, it will provide a more complete picture of where the Agency stands regarding its analysis and recommendations to enhance its risk assessment processes.”*

**Final Report:** The CRA has implemented three measures to address the commitment.

- The CRA produced a report based on a random sample of VDP participant taxpayers from different CRA compliance segments to analyse taxpayer compliance behavior subsequent to making a voluntary disclosure.
- The CRA conducted a second analysis of VDP participants based on internal risk scores. Both of these reports were shared with compliance areas across the CRA for incorporating into their planning and procedures.
- The CRA also initiated system changes to automatically integrate VDP to the CRA risk assessment tools and data systems. Integrating VDP on to these two compliance platforms will further assist the Agency in being able to conduct account-level, long-term follow-up and risk assessment of taxpayers who have made disclosures under the VDP.

**Recommendation 7:** *“That, by 31 December 2019, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report that reviews and clearly documents its methodology to set targets for tax earned by audit.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. The Agency does agree that documentation can always be improved, so it is reviewing, and will more clearly document, the process used to establish revenue projections. This analysis will be completed by March 2020. Because our new performance measurement framework will impact how the Agency sets targets for additional revenues, the CRA will address this issue in its final report for Recommendation 10, by June 30, 2020. The CRA puts considerable care into setting the projections for tax earned by audit (TEBA) each year. TEBA projections factor in past results, the type and location of compliance risks, the experience level of auditors and budget for available resources, and key priorities such as commitments for Budget priorities. Establishing projections requires in-depth program expertise and experience to be able to evaluate previous results, trends and factors that go into setting projections. Program and administrative changes need to be known and understood in order to predict their impact on future projections. Determining an annual target is more than a simple quantitative exercise; it is also a qualitative process that requires informed judgement and validation with regional stakeholders.”*

**Final Report:** The CRA has completed three initiatives with respect to its TEBA methodology.

- The CRA has enhanced the documentation of the methodology and process for setting TEBA expectations. The refined methodologies have now been incorporated under a common framework that more clearly delineates the quantitative and qualitative factors used to calculate TEBA targets.
- Through this process, the CRA also further refined its TEBA expectation-setting methodologies.
- The CRA also completed a trend analysis of historical TEBA targets, results, and budgeted salaries.



**Recommendation 9:** *“That, by 30 April 2020, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report on the results of its research and evaluation of measures to track additional tax revenue generated from increased budgetary funding; and a final report by 31 October 2022.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. The Agency does track the results of incremental budgetary funding. The concern raised by the AG was over the methodology for attributing the incremental impact from the increased resources. The Auditor General’s concern relates to how the Agency attributes its results to the source of funding of the activity type (core budget versus new funding from Federal Budget initiatives) rather than the soundness of the data. While the CRA’s current reporting methodology for tracking additional revenue generated from Federal Budget funding satisfies the requirements of the Treasury Board Secretariat and the Department of Finance, the CRA accepts this recommendation. The CRA is analyzing the accuracy of its performance measures for return on investment of budget investments and will include any proposed new measures in the performance measurement framework to be developed by March 2020. The CRA will provide the Committee with a report on the results of its research and evaluation of measures to track additional revenue from Budget investments by June 30, 2020. The additional time will permit it to be integrated with its other work on performance reporting. The Agency also will provide the Committee a final report on this issue by October 31, 2022.*

**Report on Progress:** The CRA has taken two key steps in relation to tracking revenue from incremental Budget investments.

- The CRA has analyzed its existing performance measures for return on investment from Budget investments, including consultation and input from central agencies and several foreign tax jurisdictions.
- The CRA made refinements to its performance measurement framework effective March 2020.
- With respect to the second part of the recommendation, the CRA will provide the Committee with a final report on this matter by October 31, 2022.

**Recommendation 10:** *“That, by 30 April 2020, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report on its new performance measurement framework for compliance activities and the actual collected tax revenues.”*

**Government Response (as tabled on May 29<sup>th</sup> 2019):** *“The Government of Canada agrees with this recommendation. The CRA has already started working on new horizontal performance measures to provide a more comprehensive overview of program outcomes, following recommendations from a recent internal evaluation. One measure, the actual dollar amount collected from audit assessments, is not possible to calculate precisely due to complexity and system limitations. The actual amount collected from an audit assessment is impacted by partial payments made over many years, and in some cases decades, offsets from other related tax accounts, daily compounding interest that increases the debt, and the application of non-cash credits/debits, such as loss carry forwards, changes to depreciation allowances or capital dividend accounts. This level of complexity and limitations of the CRA’s current accounting systems prevent the Agency from providing the Committee with the requested information. The CRA had performed preliminary analysis of the cost of a new system to track the amounts collected on audits, and this proved cost-prohibitive.*

*The CRA proposes to respond to this recommendation to the extent feasible, using manual estimates. The CRA will be developing additional strategic measures that will estimate the impact of litigation, collections and deterrence using estimates or ratios to fill in any areas that defy an exact count. The CRA is developing a performance management framework and implementation plan for its compliance programs, including measures that factor litigation and collections, by March 2020. The Agency will provide the Committee with a final report on the new performance measurement framework for compliance activities by June 30, 2020. This alternate date will allow for the integration of impacts of the new performance measurement framework on how the Agency sets its TEBA targets, as well as any new measures to track additional revenue from Budget initiatives.”*

**Final Report:** There were two key deliverables in relation to performance measurement framework.

- The CRA has established a Performance Measurement Framework for Compliance Programs. It is based on input from throughout the Agency and research on related methods in other leading tax administrations in other jurisdictions.
- The CRA has developed new methodologies that indicate how much tax from audit debit reassessments is actually collected after objections, appeals, and collections processes. This has been completed for the GST/HST, T1 individual, and T2 corporation tax lines.