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Chair

Mr. James Rajotte

Standing Committee on Finance

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• (1630)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order.

This is meeting 38 of the Standing Committee on Finance. Our orders of the day, pursuant to Standing Order 81(4), are to study the main estimates for 2014-15, specifically votes 1 and 5 under Canada Revenue Agency, referred to the committee on Thursday, February 27, 2014.

I want to welcome our three officials from the Canada Revenue Agency this afternoon.

First of all, we have Monsieur Roch Huppé.

[Translation]

Welcome.

[English]

We have Mr. Brian McCauley, the assistant commissioner. Welcome back. We also welcome Mr. Richard Montroy to the committee.

I believe you have an opening statement to present, and then we'll hear questions from members.

[Translation]

Mr. Huppé, the floor is yours.

Mr. Roch Huppé (Chief Financial Officer and Assistant Commissioner, Finance and Administration Branch, Canada Revenue Agency): Thank you, Mr. Chair.

[English]

Good afternoon. Thank you for the opportunity to appear before the committee to present the following and to answer any questions you may have on the Canada Revenue Agency's 2014-15 main estimates.

Mr. Chair, as you are aware, the CRA is responsible for the administration of federal and certain provincial and territorial tax programs, as well as the delivery of a number of benefit payment programs.

[Translation]

Each year, the CRA collects hundreds of billions of dollars of tax revenue for the Government of Canada, and distributes timely and accurate benefit payments to millions of Canadians.

[English]

In order to fulfill its mandate, the CRA is seeking the approval of just under \$3.9 billion through these 2014-15 main estimates. Of this amount, close to \$3 billion requires approval from Parliament, whereas the remaining \$900 million represents statutory forecasts that are already approved under separate legislation.

The statutory items include the softwood lumber disbursements to the provinces, children's special allowance payments, employee benefit plan costs, and the spending of revenues received through the conduct of CRA operations pursuant to section 60 of the CRA Act for administered activities on behalf of the provinces and other government departments.

[Translation]

These 2014-15 main estimates represent a net decrease of \$415.6 million, or 9.7%, when compared with the 2013-14 main estimates authorities.

[English]

The largest component of this decrease is a \$203-million reduction in the projected statutory disbursements to the provinces under the Softwood Lumber Products Export Charge Act. This decrease is to reflect a revised forecast provided by the Department of Finance, which is based on changing prices and volumes in the Canada-United States lumber market.

Other decreases to the agency's budget include savings of \$119 million as a result of the budget 2012 spending review. Most of these savings can be categorized under two broad categories, namely, making it easier for Canadians and businesses to deal with their government, particularly through the provision of faster, more efficient online services, and modernizing and reducing the agency's back office.

There's a reduction of \$57.6 million as a result of savings identified as part of the budget 2013 targeted review of CRA's headquarters operations. These savings do not affect services to Canadians and will be achieved by streamlining our internal services, optimizing our IT resources, and improving our organizational alignment.

[Translation]

A \$19.7-million adjustment in the transfer from Public Works and Government Services Canada to the CRA, reflecting a decrease in accommodation and real property services.

[English]

There's a transfer of \$18.7 million to Shared Services Canada, representing the transfer of responsibility for the procurement of end-user software as well as an adjustment to the base funding previously transferred to Shared Services Canada when it was first created.

These decreases are partially offset by new funding approved in a number of areas. This includes \$22.3 million to fund salary increases attributable to collective agreements that came into effect in 2011 prior to the recently announced operating budget freeze for 2014-15 and 2015-16.

[Translation]

An additional \$17 million in 2014-15 as part of the multi-year upgrade of CRA's personal income tax processing system. These upgrades will leave the CRA in a better position to address increased numbers of tax filers, respond to new tax policy measures, and implement new partnership agreements with provinces, territories and other government departments and agencies.

• (1635)

[English]

Finally, there's an increase of \$5.4 million for the implementation and administration of various measures affecting individuals, businesses, and charities, announced as part of budget 2012, including the one-year extension of the hiring credit for small businesses, enhancing transparency and accountability for charities, and the introduction of pooled registered pension plans.

In closing, Mr. Chair, the resources sought through these estimates will allow the agency to continue to provide quality services to Canadians by ensuring that taxpayers meet their obligations, Canada's revenue base is protected, and eligible families and individuals receive timely and correct benefit payments.

[Translation]

Thank you, Mr. Chair.

At this time, my colleagues and I will be pleased to respond to any questions you or the committee members may have on the CRA's 2014-15 main estimates.

The Chair: Thank you kindly for your presentation.

[English]

We'll begin with members' questions for seven minutes with Mr. Rankin, please.

Mr. Murray Rankin (Victoria, NDP): Thank you, Mr. Chair, and thank you to all the witnesses for appearing before the committee today.

I want to first ask questions about the main estimates cuts. Apparently there was \$119 million identified in savings as part of the spending review for budget 2012, and then there was \$57.6 million in savings identified as part of the 2013 targeted review of the budget. Could you specify for the committee where those cuts were actually made?

Mr. Roch Huppé: First of all, I'd like to make the point that the \$119 million is really the variance between the main estimates and

the main estimates. Last year, for example, in our main estimates as relating to budget 2012 we had a reduction of \$56 million. Therefore, we have a reduction now in our budget of \$175 million; therefore, the variance is \$119 million. It's the same thing for the targeted review. Last year, 2013-14, was the first year. As it was announced in budget 2013, the actual reduction from a timing perspective did not appear in the main estimates last year, but we had a reduction last year of \$19 million. The main estimates showed zero. It was reduced through the supplementary estimates; therefore, you see the \$56 million this year.

Mr. Murray Rankin: Thank you.

Were there any staff positions cut as a consequence, any auditors for example that were no longer hired?

Mr. Roch Huppé: No auditors. There were obviously reductions in FTEs during these. The main savings were generated through increasing our services in an electronic fashion, so adjusting to what Canadians want. A lot of the reductions obviously have to do with just doing things better, especially from a back office perspective, so consolidation of a certain group, better real property footprint.

Mr. Murray Rankin: Understood.

The main estimates show a major cut to something called taxpayer and business assistance, apparently from \$538 million last year to \$350 million this year. What taxpayer assistance activities have been eliminated to cover this reduction in funding?

Mr. Roch Huppé: Actually, the reduction I referred to in my opening remarks, the reduction of \$203 million, makes up the vast majority of that reduction. That's a reduction in the softwood lumber disbursements, so it doesn't really affect our program. It's just a revision by the Department of Finance as to what we pay out to the provinces.

• (1640)

Mr. Murray Rankin: Thanks.

At this committee, Department of Finance officials testified about the estimated costs to the CRA associated with carrying out the implementation of the intergovernmental agreement on FATCA. They said, I think, that the cost would be \$5.7 million "not including technical costs". Is that figure correct, and can you tell us what "technical costs" might be referring to?

Mr. Roch Huppé: I'll open by saying the \$5.7 million is actually the amount that was tagged through the budget and was given to CRA for the implementation of that.

Mr. Brian McCauley (Assistant Commissioner, Canada Revenue Agency): Yes, that's the number we were hoping to get through Treasury Board.

I'm not quite sure what the technical costs would be that Finance would have been referring to. Assuming that the implementation of the measure is actually passed, which is yet to happen, if that happens then there's always a hard scrub of the numbers. They may have been making some provision that there might be some minor adjustments, but that number is certainly the ballpark number we're using.

Mr. Murray Rankin: That's the ballpark number you're running with, \$5.7 million, and technical costs aren't some kind of vague add-on that could be millions in infrastructure costs, computer retooling—

Mr. Brian McCauley: No, for sure.

Mr. Murray Rankin: That's good.

How many Canadians are you reckoning will be affected by FATCA? I think we had some discussion before about a figure of a million people being affected by its implementation. Has the CRA done its own estimate of how many Canadians are expected to be affected by this?

Mr. Brian McCauley: We haven't done any estimates that are different from what Finance would have done. The way we've designed the system, basically, is that at the end of the day, whether it's 5,000, or 55,000, or 555,000, the system we've built can handle that flow. We're sort of agnostic when it comes to the actual number.

Mr. Murray Rankin: I'd like to turn to another topic—you can appreciate that I only have a few minutes, so thank you—on CRA corruption.

There were revelations of a cheque, as you know, for nearly \$400,000, delivered to a notorious Mafia leader, who at the time owed \$1.5 million to the CRA. Obviously, there are great concerns about corruption. The RCMP recently laid criminal charges in that particular matter, but the minister also said there would be an internal investigation. I wonder if you could give the committee an update on the status of that investigation.

Mr. Roch Huppé: That's in relation to that cheque, right? The \$300,000 cheque you're referring—

Mr. Murray Rankin: I believe it was in relation to a number of issues in the Montreal office of the CRA, including but not limited to that.

Mr. Roch Huppé: There were no charges laid directly related to that particular cheque. The CRA did say that we were going to investigate the issuance of the cheque, which we did. We released the results of that review, which basically confirmed that in the particular case with that cheque, it was an unfortunate error in our processes. The cheque was never cashed, by the way.

[*Translation*]

It was recovered first.

[*English*]

Our review was validated by Ernst and Young, and that was also

Mr. Murray Rankin: So that was the investigation the minister referred to. It was just—

[*Translation*]

Mr. Roch Huppé: Absolutely.

[*English*]

Mr. Murray Rankin: In my part of the world, I've had a number of environmental organizations call to tell me how concerned they are about apparently aggressive auditing of their operations. This was after the \$8-million plan to audit charities in 2012, where the minister referred to cracking down on “environmental and other radical groups”. An example would be where someone was told there was a clean audit, happy news, only then to be told that things had changed and the A-team was coming down hard on these environmental organizations.

I presume there's an arm's-length arrangement between the CRA and the government for political interference purposes. Is there some kind of arm's-length arrangement, or can the government be involved in—

The Chair: A very brief response, please; we're bumping up against time

Mr. Murray Rankin: What specific arrangements are there to prevent any kind of political interference with audits?

Mr. Brian McCauley: Actually, that falls under my area of responsibility. We've given testimony on this several times at this committee and at Senate as well. We simply do not take, nor invite or provide any opportunity for any political direction, on any files in terms of the choice of an auditor or who we're auditing in the charity world. It's just not on.

The Chair: Thank you.

We'll go to Mr. Keddy, please, for seven minutes.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Welcome to our witnesses, and thank you for the answer to Mr. Rankin's last question. I think it's important that Canadians know, because they expect charitable dollars that are raised for charitable purposes to be spent on charitable purposes and not on something else. I don't think you can make any more out of it than that, quite frankly.

We didn't have a chance in your discussion to bring up the voluntary disclosures program, but I do have two questions on it. It's administered by CRA. It promotes compliance with Canada's tax laws, both domestically and internationally. For Canadians who have not been, let's say, entirely truthful in their tax returns, it gives them a chance to comply.

Can you expand on how the program works, and why it is obviously prudent for Canadians who may not have been entirely truthful on their tax returns to take advantage of it?

• (1645)

Mr. Richard Montroy (Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): Thank you for the question, Mr. Chair.

The voluntary disclosures program has existed for years within the agency. In a nutshell, it's a program that allows people who have not been fully compliant with their tax affairs to come forward, and as long as they pay the tax and the interest, they won't be subject to any penalties. There are various conditions, obviously, in the program; they have to come clean and give us all the information we need to assess their returns.

Over the last number of years, our numbers in VDP have been going up steadily. There are many reasons for this. I'd like to think.... One of the major reasons is that there are fewer and fewer places for people to hide their money. Canada has a number of information exchange agreements with various countries. Our tax treaties have been updated. In the last few years a number of measures have been brought in to help us on the offshore front. The CRA has invested heavily in the offshore area. Because of all these items, we're seeing that people are deciding it would be better for them to come in on VDP. A term we like to use is "come see us first before we come see you".

Some hon. members: Oh, oh!

Mr. Richard Montroy: These are probably the reasons the VDP has been successful.

Mr. Gerald Keddy: That's catchy—no pun intended.

Thank you for that.

I appreciate the fact that, because of the tax treaties we've signed around the world, there's been a spike on the international side. Do we have any real numbers on how much of a spike we've had? In terms of the growth from the program domestically, the number of disclosures from 2006 to today, is it significant?

Mr. Richard Montroy: Yes. I don't have them *à la portée de la main*, but I can certainly provide the committee with the numbers.

They have increased significantly in the last, I'll say, five years because of TIEAs, as I mentioned. It's only in the last five years or so that we've started negotiating and signing TIEAs with the so-called tax haven countries.

Article 26 of the OECD model treaty, which deals with exchange of information, has also been updated to provide banking information. This is another reason for the spike in VDP.

Mr. Gerald Keddy: In the tax information exchange agreements, which you just mentioned, and our tax treaties.... We have a hundred of them in place around the world. Obviously they have a dramatic effect in helping to prevent tax evasion, but do we have...? Again, I'm looking for some realistic numbers in terms of the individuals who have come forward because of these treaties versus before they were in place. You may not have this information at your fingertips, but maybe you could supply it for the committee at a later time.

Mr. Richard Montroy: Mr. Chair, we can certainly provide the numbers. We do have them. We keep track of them, obviously, on a yearly basis. We can provide the committee with both the number of people who have come forward and the dollars involved with the VDPs.

Mr. Gerald Keddy: Thank you.

Finally, I just want to revisit for a moment the cheque that was recalled. I think it needs to be stated clearly at committee that it was never cashed. It was an administrative error through automation. It was recovered, and a full investigation was begun.

Do you have anything to add to that, for clarity? In any huge organization, you have to be constantly vigilant, but the accusation that there's some type of rampant corruption is not fair to you and it's not fair to a group that's out there working on behalf of Canadians every day.

● (1650)

Mr. Roch Huppé: To re-emphasize, the investigation was conducted and clearly showed at the time it happened that system controls were not operating in the way they operate today, the best practices we have today to flag certain payments. I'm not going to go into details, obviously, on the taxpayer situation. It was not flagged.

Also, clearly, as we revealed in our investigation and as we published, there was a situation where.... There is a process flow, obviously, before a cheque is released from our system. There are different checks and balances as part of that, and there was, in the later portion of these checks, poor performance on the part of an employee. That employee has now retired, but clearly there was a performance issue around that employee and the process to release that particular payment.

As I said, there was no.... Through their lawyer, the family contacted the CRA to advise that they had received the cheque by mistake.

Mr. Gerald Keddy: Thank you.

The Chair: Thank you, Mr. Keddy.

We'll go to Mr. Brison please.

Hon. Scott Brison (Kings—Hants, Lib.): Thank you for joining us.

In early May 2013, I asked the PBO to prepare an analysis of the closing tax loopholes measures between 2010 and 2013. The PBO couldn't complete this task because CRA would not provide him with the necessary data. The PBO is actually entitled to that data under the Parliament of Canada Act. That act also includes a confidentiality clause, section 79.4, that prevents the PBO from disclosing any financial or economic data that he receives while performing his mandate.

Why then is CRA maintaining it must anonymize this data before providing it to the PBO when in fact the PBO under the Parliament of Canada Act is obligated to protect the confidentiality of that data?

Mr. Brian McCauley: I don't think any of us are experts, but I'll certainly try.

It's my understanding that that provision doesn't necessarily provide the security for protection of taxpayer information that's required under the Income Tax Act and that it is insufficient, but that's my understanding. I think what's probably better is to clarify that and get an answer back to the committee. I know the request came in and it was looked at very carefully, but I think, as members can appreciate, in regard to the confidentiality of personal information, we're very cautious about anything that could allow individuals or corporations to be identified. That's, as you referenced, the notion that it has to be made generic. We'll go back and confirm that for sure.

Hon. Scott Brison: Please do get back to me on that.

Does the CRA see value in estimating Canada's tax gap? Why aren't we following the lead of 14 other OECD countries, including the U.S. and the U.K., in publishing an estimate of Canada's tax gap?

Mr. Brian McCauley: To date, the general approach certainly of ourselves and Finance is that there hasn't been value in estimating the tax gap. We have looked very closely at what other countries are doing. "Tax gap" is thrown around a lot in terms of what it actually means and how it's used. We have been looking at what is happening in the U.K. and the U.S. and others and looking at whether or not....

We already do some of the things. For example, in Richard's area, they take a sector of the economy and they look at what the level of risk is and what is the value in terms of audit interventions. It's getting close to a version of some estimation of materiality. There's some work under way, but at this point in time certainly there's been nothing sufficient that would change our view that that's largely an academic exercise. We certainly at this point don't see a direct contribution between resources being used to do that versus actually carrying out audit work and other real activities.

That being said, we're always looking to see if there could be value in the future.

• (1655)

Hon. Scott Brison: It's hard to manage what you don't measure, and it's helpful to have good data when making public policy decisions.

A lot of Canadians, especially from Atlantic Canada, work in other regions or in different provinces sometimes for weeks on end, but keep their families and file taxes in their home province. I'd like to get a better understanding of how many Atlantic Canadians travel west to work but continue to pay taxes in Atlantic Canada. We've looked at Statistics Canada interprovincial workforce data. Their most recent data appears to be around 2009, but there's been a lot of development in, for instance, the resource sector since 2009.

Does the CRA track how many Canadians work in a different province from where they live and file their taxes?

Mr. Brian McCauley: I don't know that we track this. I do know that we have obviously the issue of residency and that has a difference, as you well know, in terms of the actual tax rate you're paying, and so on. I don't know the degree to which our stats shop, which shares a lot of information with Statistics Canada, would have anything beyond that, but that is something we can go back and confirm. I don't know that we necessarily keep track of, for example,

the number of T4s you might have that are from an employer in another province yet you're filing in a province that's different.

Hon. Scott Brison: It would be informative in terms of even labour market mobility and having a better understanding of the nature of work in Canada if we had that data.

Mr. Brian McCauley: We can go back, certainly, to see what information we may already share with ESDC and others, and come back with what it is that we do currently share.

Hon. Scott Brison: We'd be interested in aggregate level data on how much these workers pay in provincial taxes in each province. It would be helpful for us to know what percentage of an economy in a place like Nova Scotia may be derived from income earned in other provinces. I think that would be helpful to us.

Hon. Scott Brison: Keeping personal tax information confidential is a principle of the tax system. That's the reason so many Canadians are reluctant to share their personal tax information. Bill C-31 will allow CRA to use its own discretion to give confidential tax information to police.

Who at CRA will make the final determination in each case on whether information should be shared under this provision?

Mr. Richard Montroy: That would be my branch, the compliance programs branch, because we also have the criminal investigations people who work there. We would make sure that in cases where we stumble across information that we would be sharing with the RCMP, it would be vetted through head office. We're talking about cases of child pornography and the like.

Hon. Scott Brison: What standards are in place to ensure these officials are qualified to make decisions on whether confidential information should be shared? Will the CRA require that these officials have a legal background?

The Chair: Make it a very brief response, please.

Mr. Richard Montroy: We have a memorandum of understanding with the RCMP currently in place, and we're in the process of amending it. It deals with training, and who does what and how they can do it.

The Chair: Thank you.

Thank you very much, Mr. Brison.

We'll go to Mr. Allen, please.

Mr. Mike Allen (Tobique—Mactaquac, CPC): Thank you to our witnesses for being here.

I have a few questions. I'd like to talk to you about red tape and service provision, and some of the dollars that are being used on technology.

But I have one follow-up question for Mr. McCauley with respect to the tax gap that Mr. Brison brought up. I think it was not too long ago that the OECD was at the committee and said that this was virtually impossible to calculate. To your knowledge, have those yardsticks moved any further in the last year or so since that comment was made?

Mr. Brian McCauley: No, in the sense that I think what the OECD and others have said is to calculate with a level of assurance that then could be used in terms of the practical administration of income tax and other taxes. There's a whole academic exercise that academic communities could carry on, and maybe for some purposes it has value, but I don't think that has shifted significantly from the OECD's perspective a year later.

• (1700)

Mr. Mike Allen: Okay, thank you very much.

In the opening remarks, Mr. Huppé, you talked a bit about the \$17 million as part of the multi-year project for the personal income tax processing system. I'd like to understand where you stand with respect to the business income tax processing system.

I have a couple of questions. Obviously, growth in online filing has increased significantly over the past couple of years. How do you see that trend in terms of percentage of returns that are being filed? Do you expect to see that trend continue as quickly as you have seen it in the past?

Mr. Roch Huppé: With the trend, we've seen a considerable increase since 2010, when we were at about 60% of returns being sent electronically. With the filing season that we just terminated, we're up near 81%. There's a drastic increase from that perspective. Last year we were around 77%. It's still a considerable increase even from last year.

I would say that yes, we're still anticipating an increase to that nearly 81%. Obviously, there's still room for growth there.

On the first part of the question, around the \$17 million that I referred to for the redesign of the T1 system, the system for individuals, the agency actually received \$251 million over a period of nine years to complete the redesign, and that's basically to ensure sustainability of that system. Obviously, it's a very important system. It was also pointed out in a previous OAG audit on large systems that the system would need to be looked at, so we received the funding for it.

The \$17 million you're actually seeing is a cashflow variance from last year. Last year in the main estimates there was \$23 million earmarked to be spent in 2013-14 in relation to that system. We have \$40 million earmarked this year to be spent on the upgrade of that system. We still have a way to go, but we're in the initial stage of that redesign.

Mr. Mike Allen: The amount you're requesting for internal services is, I guess, around \$832 million, which includes services like human resources, information technology, communications, and all that business. Are the investments that you need on an annual basis to keep your technology up to date included in there, or do you ask for special funds for those types of things?

There's a second part to that question. How has that transaction processing that you're doing now, with electronic filing, allowed you to refocus your resources on more value-added work, like the key audits, the offshore tax, and those types of things, as opposed to just transaction processing?

Mr. Roch Huppé: I'll answer the first part of the question and then ask my colleague to answer the latter portion of it.

The spend on the internal services is \$831 million, and \$353 million of that is in relation to our IT function. That said, the IT spend is not obviously all in relation to these investments. Some of the funding in relation to these investments is part of that \$353 million. Other funding you would see in what we call the vote 5 or capital vote, obviously in our capital expenditures. You will see a lot of that investment made in our systems appearing there.

We've been spending approximately \$100 million a year in the last few years on our investments in relation to the upgrades to these systems.

Mr. Mike Allen: On the impact on the value-add to the employees in terms of better value-added services, how have you seen that change?

Mr. Richard Montroy: As my colleague pointed out, we change our systems obviously to try to do our work in a quicker, more efficient manner. One of our systems, a compliance system redesign, was and is the system our auditors use to get the information they need. Some of the changes that have been made to that system in the last few years are to ensure that our auditors have one picture of the taxpayer, as opposed to going to many different systems.

This facilitates the way our auditors can do their work. They can get into the file faster, and it enables them to do more files.

The Chair: I apologize, colleagues. I apologize, Mr. Allen.

We do have a vote in 30 minutes. I know that we've moved this meeting around probably four times, and I appreciate that, colleagues and officials, but I'd like some guidance from you in terms of what you would like to do at this point.

Mr. Allen has one minute left. We do have other members on the list.

• (1705)

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Do another couple.

Mr. Gerald Keddy: Rescheduling would be difficult.

The Chair: So, Mr. Allen and then two more rounds after that; Mr. Allen, and then two five-minute rounds.

Mr. Allen, you have one minute left.

Mr. Mike Allen: Thank you, Mr. Chair.

I'll conclude with one last question. Obviously IT lets you do these tolerances. I get a lot of discussion from small businesses that call me with respect to how they get kicked out for special processing for HST and things of that nature. I understand that IT does some of that, but you've significantly reduced red tape, small business filings, and all those things over the last few years. Are you looking at the types of processing you do each month in these kick-outs to make sure you're not unfairly penalizing small businesses by holding up their returns?

Mr. Brian McCauley: Yes, in the sense that we always look at the tolerances and thresholds. In fact, in budget 2014, there's a provision that's focused on small business and others to adjust the thresholds in terms of payment frequencies. We're always looking to adjust the system to fine-tune it, and part of that is listening closely to small businesses, to areas where maybe we can get it better. It's a never-ending effort.

Mr. Mike Allen: Thank you.

The Chair: Thank you, Mr. Allen.

I've had a request for two seven-minute rounds. Do I have consent for two seven-minute rounds?

Mr. Nathan Cullen: Yes, it gives us two minutes to get back.

The Chair: Is that okay? I do need unanimous consent.

Some hon. members: Agreed.

The Chair: Okay. I will go to Monsieur Caron.

Mr. Andrew Saxton (North Vancouver, CPC): Starting when, Chair?

The Chair: Right now.

Mr. Andrew Saxton: What time do you have, Chair?

The Chair: I have 27:56 left for the vote. Fourteen minutes....

Mr. Andrew Saxton: So we're talking about 14 minutes—

An hon. member: That gives us 12 minutes to get back.

Mr. Andrew Saxton: Okay.

[*Translation*]

The Chair: Mr. Caron, go ahead.

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you, Mr. Chair. I am going to split my time with Mr. Cullen.

I'd like to discuss an article that came out yesterday in *La Presse* about the tax debt, in other words, unpaid taxes. You probably read it.

Last year, the tax debt was \$31 billion, and \$29 billion the year before. That represents a \$2-billion increase. A CRA spokesperson attributed the increase to the harmonization of the GST and population growth. But the amount owing in 2005-06 was \$18.5 billion, which means the tax debt has gone up nearly 80% over 8 or 9 years.

Are the harmonization of the GST and population growth really the only reasons for the increase? Hasn't a staffing shortage made it difficult to stay on top of recovering unpaid taxes before the 10-year limit expires, after which point the money can no longer be collected?

Mr. Roch Huppé: Thank you for the question.

I don't know all the details or the reasons. But what I can say is that the overall increase in income is obviously one of those reasons, and the tax debt has gone up as a result.

I can assure you that, every year for the past few years, the CRA has been reallocating funding to strengthen its recovery capacity.

I'd also like to point out that, according to an international study of 10 major countries conducted by Capgemini, the Canada Revenue Agency is among the top two organizations in terms of its ability to recover tax debt as a percentage of income and the cost of collecting every unpaid dollar. The CRA's recovery costs are among the lowest.

We also responded to a debt recovery audit by the Auditor General by changing certain procedures to ensure the portfolio remains at acceptable levels.

Mr. Guy Caron: Thank you, Mr. Huppé.

I'm not questioning the CRA's productivity. I know its productivity numbers are quite good. But the fact remains that we're talking about a rather dramatic increase. Income has indeed gone up since 2005-06, but not as much as unpaid taxes have. Surely, there's a problem somewhere.

Perhaps the CRA's great productivity—and I do think it is good—is due to a lack of staff. If the agency had more staff, it could be more effective, recovering tax debt and ensuring that all Canadians pay their fair share.

Mr. Roch Huppé: Forgive me, but I don't have all the information as to the reasons. But I can tell you that income has increased significantly.

We strive to be as effective and efficient as possible with the staff we currently have. As I said earlier, every year for a number of years, we have been reallocating a considerable amount of money to the group in charge of recovery.

• (1710)

Mr. Guy Caron: Thank you very much.

Since we have a limited amount of time, I am going to hand the floor over to Mr. Cullen.

Mr. Nathan Cullen: Thank you kindly.

[*English*]

In 2013, CRA had 3,000 data breaches. A little less than 1% of those were reported to the Office of the Privacy Commissioner. Why was that number so low?

Mr. Roch Huppé: There are different types of data breaches. Obviously not all data breaches are actually privacy breaches. The number you're referring to—around 3,000—is probably 2,983. That came out in a question. Forty-six per cent of those were actually privacy breaches. That's the first part.

The second part is that we have a rigorous process in place whereby we analyze each one of the cases. Depending on the case and the risk it brings to the taxpayer, a decision is made as to whether the taxpayer gets advised and it gets reported.

I don't want to get into details, but there are obvious cases in which there is absolutely no risk.

Mr. Nathan Cullen: The Auditor General talked about undisputed and unpaid taxes in Canada last year totalling \$29 billion. Revenue Canada committed to a national strategy some years ago. Can you give us an update on that? Has that strategy been made public yet?

Mr. Roch Huppé: I'm not sure. What I could tell you regarding a national strategy is that it has been put in place. We attack it from what we call a national inventory which is in place. Regardless of where the collection officer, for example, resides, when he starts to work on a new case, he'll get the next best case in terms of the biggest bang for the dollar on a national basis.

Mr. Nathan Cullen: Sure.

Because our time has been limited here, is it okay if committee members who have further questions submit written ones through you?

Mr. Roch Huppé: Absolutely.

Mr. Nathan Cullen: Thank you.

What is the current status of the special enforcement program that was set up to directly go after organized crime? Does it still exist?

Mr. Richard Montroy: Thank you, Mr. Chair, for the question.

The special enforcement program was an area that dealt with assessments coming out of illegal activities. The best example would be grow ops. It doesn't deal with organized crime. Organized crime and actions that come out of that are under our criminal investigations directorate, which still exists and which is in our branch.

We have taken the old special enforcement program and merged that with our other two directorates, for either income tax or GST. The files are still worked on but just by different people.

Mr. Nathan Cullen: Okay.

I have a question about the complaints process that goes on when someone wishes to register a complaint against a charity. Is that a public process? Do we know how the system works? I assume it's from outside groups, or is it an internal Revenue Canada decision to investigate a charity?

Mr. Brian McCauley: It's an internal decision based on a variety of information sources—letters from MPs, letters from individuals, and other charities.

Mr. Nathan Cullen: Is that process made public in terms of the complaints that come in to the CRA?

Mr. Brian McCauley: No.

Mr. Nathan Cullen: Why not?

Mr. Brian McCauley: Because they're confidential. It would be like you writing a letter to the CRA. We don't make that public. If you choose to make it public, that's fine.

Mr. Nathan Cullen: I see.

This is my last question. It's a bit concerning in terms of the corruption allegations that seem to be washed over a little bit by the government. Is it not true that seven people within the CRA were arrested for charges ranging from bribery to conspiracy, fraud, and breach of trust?

The Chair: Make a brief response, please.

Mr. Roch Huppé: In relation to the Montreal case, there were actually eight people arrested relating to that.

Mr. Nathan Cullen: Eight CRA officials?

Mr. Roch Huppé: Yes. The court process is ongoing right now.

Mr. Nathan Cullen: Thank you.

The Chair: Thank you, Mr. Cullen.

We'll go to Mr. Adler, please.

Mr. Mark Adler (York Centre, CPC): Thank you, witnesses, for being here today.

I want to correct the record on something that was said earlier in terms of the floating tax debt. The number of \$29 billion was referred to. It's important to note, however, that, as you know, \$40 billion in tax debt was resolved and brought in. It's important to make that distinction. It's not as negative as it appears; in fact, it is quite positive.

Canada certainly has one of the highest tax compliance records in the world. Is that not the case? Yes.

Our government has certainly been at the forefront of promoting the fact that everyone has to pay their fair share of taxes. Since 2006 we've passed more than 85 measures to improve the integrity of our tax system, 85 measures which, I should add, were each singularly voted against by both the Liberals and the NDP.

I would also like to say that in terms of tax collection improvements, the amount of taxes recovered has grown between 2006 and 2013 by 75%. That's correct, right? Roughly?

• (1715)

Mr. Roch Huppé: To my knowledge, yes.

Mr. Mark Adler: Okay. Thank you very much.

I want to talk a bit about the underground economy. The underground economy refers, of course, to business activity that is unreported or under-reported. In economic action plan 2013, our government included some measures that addressed the underground economy, such as substantial fines for businesses caught using electronic suppression of sales, or zapper software.

Can you expand on some of the penalties associated with being caught using this zapper software and how they will ensure a level playing field for honest businesses?

Mr. Richard Montroy: Thank you, Mr. Chair, for the question.

Indeed, in budget 2013 there were measures brought in to make it illegal to have zapper software. The agency has started a publicity campaign to advise people that there are substantial penalties. Unfortunately, I don't know the penalties offhand—the Income Tax Act is pretty big—but I can get that for the committee. Substantial penalties were brought in to make sure we deal with the people who provide the software.

Mr. Brian McCauley: To supplement what Richard said, it's actually a two-tiered penalty system. There's one if you're actually the business using it. That's a significant monetary penalty. There's also a very significant penalty if you're actually a producer, promoter, and purveyor of these instruments.

The intent of the legislation is to get it out of the system, not to catch people with it. That's why I think the two-tiered approach works well. If you're providing it, there's a much harsher penalty than if you're a business caught with it.

Mr. Mark Adler: Thank you.

Could you comment on some of the measures that CRA is undertaking now to combat the underground economy?

Mr. Richard Montroy: There are a number of measures that we take. We have various projects under way across the country. We risk assess the various areas of the economy that we would look at. We use information such as the Stats Canada report that talks about the growth of the underground economy and the areas of the economy that are more apt to get involved in underground economies, normally restaurants, construction, etc.

We tailor our compliance activities based on the sectors of the economy, and regional sectors of the economy, that need a better look.

Mr. Mark Adler: Okay. Thank you.

Could you comment on the level of professionalism of CRA workers? We've heard some comments from the other side about corruption within CRA. Of course, in any large organization there will always be some bad apples. Could you comment on the general level of professionalism and the commitment to public service of CRA workers?

Mr. Brian McCauley: I'll just make one observation after some 30 years in all of this, which is that probably no one's more offended when things like that happen to an organization than the people in the organization. There's probably nobody more dedicated to rooting it out and making sure it doesn't reoccur than the 40,000 people who work ceaselessly. I think the organization is not only proud of the tax system but proud of what we do in terms of public service, and we are deeply offended as well.

The Chair: You have two minutes.

Mr. Mark Adler: Thank you.

I just want to make this quite clear. At no time does CRA act under any kind of political direction whatsoever. Is that correct?

Mr. Brian McCauley: Well....

Voices: Oh, oh!

The Chair: Order, please.

Mr. Brian McCauley: The charity issue came up, and I spoke to the charity issue. I don't have knowledge as to whether it's that broad a statement. I can speak only to my own areas in terms of the charities.

With regard to the issue of directing what I will call activities related to audit activities and transactional events—which are the things that Richard and I do, and we can certainly speak to those—

which are the ones that would be the most sensitive in a tax system, the answer is no.

Mr. Mark Adler: Okay. Thank you very much.

I'd like to share the rest of my time with Mr. Van Kesteren.

The Chair: You guys have one minute.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): I don't think I'm going to get a round, so I wanted to ask this question.

One of the things I think every member's office gets is complaints about the CRA by people who are having problems with taxes and who feel they are being treated unfairly. What kind of training do you participate in to make sure that you are there as a service industry? You're in kind of a unique position. On the one hand, you're a tax collector, but at the same time, though, we are working for the Canadian public. What kind of training do you put in place and what kind of safeguards do you have regarding that sort of thing?

• (1720)

The Chair: You could give just a brief response now, but please feel free to follow up that question with further information.

Mr. Richard Montroy: Thank you, Mr. Chair.

We have a number of different kinds of training, some on the technical side to ensure our auditors are up to speed on the latest developments in the tax world, but also some soft-skills training on dealing with taxpayers, conflict resolution, and that type of thing. We have a number of training programs in place. We can certainly provide the committee with a full list of all the various training we have for our people.

The Chair: We'd appreciate that very much.

Thank you, Mr. Adler and Mr. Van Kesteren.

I want to thank our three officials for being with us and for responding to our questions. It was a very informative session.

Colleagues, I'd like to quickly do the votes.

CANADA REVENUE AGENCY

Vote 1—Operating expenditures.....\$2,877,504,675

Vote 5—Capital expenditures.....\$72,447,985

(Votes 1 and 5 agreed to on division)

The Chair: Shall I report the votes under Canada Revenue Agency to the House?

Some hon. members: Agreed.

An hon. member: On division.

The Chair: I'll do that on Friday.

Thank you so much, colleagues.

The meeting is adjourned.

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