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Chair

Mr. James Rajotte

Standing Committee on Finance

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• (0915)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call this meeting to order. This is meeting number 81 of the Standing Committee on Finance. Orders of the day are, pursuant to Standing Order 81(4), the study of the main estimates for 2015-16, votes 1 and 5 under the Canada Revenue Agency, referred to this committee on Tuesday, February 24, 2015.

We've very pleased to have with us this morning three officials from the Canada Revenue Agency.

[Translation]

We have Roch Huppé. Did I pronounce your name correctly?

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

[English]

The Chair: Monsieur Huppé is chief financial officer and assistant commissioner.

We also have Mr. Rick Stewart, who is assistant commissioner as well. Welcome back.

Finally, we have Mr. Ted Gallivan, deputy assistant commissioner. Welcome to the committee as well.

[Translation]

Mr. Huppé, I believe you have a presentation for the committee.

[English]

You can begin at any time please.

Mr. Roch Huppé: Thank you, Mr. Chair.

Good morning, and thank you for the opportunity to appear before the committee to present and to answer any questions that you may have on the Canada Revenue Agency's 2015-16 main estimates.

[Translation]

Mr. Chair, The Canada Revenue Agency 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. Each year, the CRA collects hundreds of billions of dollars of tax revenue for the governments of Canada, and distributes millions of benefit payments to Canadians.

In order to fulfill its mandate, the agency is seeking a total of \$3.8 billion through these 2015-16 Main Estimates. Of this amount,

\$3 billion requires approval by Parliament, whereas the remaining \$800 million represents statutory forecasts that are already approved under separate legislation.

The statutory items include 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 Canada Revenue Agency Act for administered activities on behalf of the provinces and other government departments. Disbursements to the provinces under the softwood lumber agreement are also statutory, although the amount has fallen to \$0 for 2015-2016 as I will explain next.

[English]

These main estimates represent a 1.5% net decrease of \$56.4 million when compared with the 2014-15 main estimates authorities. The largest component is an \$80 million reduction in the projected statutory disbursements to the provinces under the Softwood Lumber Products Export Charge Act, 2006. The CRA's 2014-15 main estimates included an amount of \$80 million as the forecast disbursements to the provinces. The Department of Finance revised the forecast to zero for 2015-16 based on changing prices and volumes in the Canada/United States lumber market.

Other changes to the agency budget include a \$14 million adjustment associated with the implementation of efficiency measures in CRA operations introduced as part of the 2012 economic action plan. This amount represents the incremental change between the 2014-15 and 2015-16 fiscal years. Most of these measures can be categorized under two broad themes, 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 streamlining the CRA's back office. Forecasted payments under the Children's Special Allowances Act have also fallen by \$9 million.

These measures are partially offset by new funding approved in a number of areas. First is \$29.3 million for enhancements to non-audit compliance programs which will be used to implement and administer measures aimed at improving the fairness and integrity of the tax system, as well as strengthening tax compliance. Second is \$14.1 million for the administration of tax measures affecting individuals and businesses as announced in the 2013 economic action plan, as well as the administration of the harmonized sales tax and harmonized sales tax credit in Prince Edward Island, that came into effect on April 1, 2013. Third is \$4.6 million for the administration of tax measures announced in the 2014 economic action plan, primarily to develop online registration systems for charities and to strengthen compliance with goods and services tax/harmonized sales tax registration.

The incremental funding for tax measures announced in both the 2013 economic action plan and 2014 economic action plan will be used to introduce information technology system modifications, develop and implement business processes, develop forms, and update publications and information products related to these measures. Please note that announcements made in last month's budget are not reflected in the main estimates.

• (0920)

In closing, the resources sought through these estimates will allow the agency to continue to deliver on its mandate 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]

Mr. Chair, at this time, my colleagues and I will be pleased to respond to any questions you may have.

The Chair: Thank you very much for the presentation.

We will start with Mr. Dionne Labelle, who has six minutes.

Mr. Pierre Dionne Labelle (Rivière-du-Nord, NDP): Thank you, Mr. Chair.

Good morning, gentlemen.

I see that there is a decrease of \$56.4 million in the budget. I am looking at your table and I see that the "returns compliance", according to last year's and this year's main estimates, has been reduced by \$9 million.

Can you justify that decrease?

Mr. Roch Huppé: That \$9-million decrease has to do with the Children's Special Allowances Act.

[English]

This is a legislated item. Each year we estimate how much of these benefit payments will have to go out. Basically, this is an adjustment to this benefit payment. Based on the number of children out there who are in the care of foster parents, we estimate the amount of benefits that will need to be paid out. As I said, this is legislative in nature.

[Translation]

Mr. Pierre Dionne Labelle: You mention an amount of \$29.3 million for non-audit compliance programs. What does that amount include?

[English]

Mr. Roch Huppé: This amount was given to us for different reasons. One was to do a little bit of what we already do, for example, to ensure that we tackle non-compliance, non-filers, and excessive contributions to RRSPs. Basically, we receive funding to do a little bit more of what we've done with regard to non-filer activities, to make sure we identify the folks who are not filing.

Ted, do you have anything to add on these programs?

Mr. Ted Gallivan (Deputy Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): It would be a matter of consistency, so we're looking at non-registrants, or people who are filing corporate income tax returns or personal income tax returns but not filing GST. They're filing a T2 and they're not filing a GST return. It's not an audit. It's basically looking at our programs to see if that individual or business is filing consistently across the programs, and if they're not, we contact them and obtain the information.

[Translation]

Mr. Pierre Dionne Labelle: Could you tell us how much those additional amounts could mean in income taxes? Have you estimated how much money that could bring in?

Mr. Roch Huppé: We have received funding for three years. The \$29-million amount is for 2015-2016. That money was allocated to the agency in 2014-2015. It was not included in the main estimates because it was announced in the budget and accepted through this year's supplementary estimates. That is why there is a difference between last year's amount and this year's amount. The agency has received about \$99 million over a three-year period to generate those funds. It's a matter of approximately \$600 million in additional revenue on the federal level.

Mr. Pierre Dionne Labelle: You are talking about \$29 million. That seems like a good investment to me.

Mr. Roch Huppé: With the \$100 million.

• (0925)

Mr. Pierre Dionne Labelle: With the \$100 million. Okay.

I would like to talk about the online informer program you have implemented. According to the latest information, there have been 1,700 disclosures, and 110 cases have been opened. To date, what has been the cost of that measure and how much money has it brought in? How much money did you collect thanks to the informer program?

Mr. Ted Gallivan: According to the updated figures, we have received nearly 2,000 calls, 522 of which are specific disclosures. Of those, 200 are in writing.

When we implemented this project, we said that payments would be made to whistleblowers only once the audit had been carried out. So far, we have about a dozen signed contracts with whistleblowers. We are getting started on the audits, and it may take several years before a fixed contribution is established. The audit process can take up to a year, especially in these circumstances.

Mr. Pierre Dionne Labelle: So you have a dozen open cases with whistleblowers who could help collect money from a dozen individuals who have evaded taxes?

The Chair: Mr. Dionne Labelle, you have one minute left.

Mr. Ted Gallivan: I deliberately said it was about 12 to protect—

Mr. Pierre Dionne Labelle: How much money are we talking about?

Mr. Ted Gallivan: To protect the confidentiality of whistleblowers, I deliberately used a vague number. The exact figure is around 12, but we cannot reveal it because those whistleblowers could be targeted.

Mr. Pierre Dionne Labelle: Okay, but how much money will you possibly recover from those 12, 13 or 15 individuals?

Mr. Ted Gallivan: Under the program, the minimum amount is \$100,000 in taxes.

Mr. Pierre Dionne Labelle: How much money could you possibly recover from those 12, 13 or 15 individuals?

Mr. Ted Gallivan: The amount would be about \$1 million. We cannot have a specific figure before the audit is completed. The 12-odd cases alone could help us recover several million dollars.

Mr. Pierre Dionne Labelle: I would have liked to discuss the HSBC case. There have been some disclosures in that regard.

The Chair: Sorry, but you will have to do that during another question period.

Mr. Pierre Dionne Labelle: Okay.

The Chair: Thank you, Mr. Dionne Labelle.

[English]

Mr. Keddy, go ahead, please.

Mr. Gerald Keddy (South Shore—St. Margaret's, CPC): Welcome to our officials here this morning.

I have a couple of questions.

The first thing that I want to drill down into a bit deeper would be the file on charities and how they are governed, both within the bureaucracy of CRA and by the minister.

We have somewhere in the neighbourhood of 86,000 charities in Canada and just a bit north of \$14 billion worth of charitable activity in the country. Recently, in a message to all CRA employees, the commissioner and deputy commissioner said:

To be clear, the process for identifying which charities will be audited for any reason is handled by the Charities Directorate alone and, like all our audit activities, is not subject to political direction.

It is one thing for the minister to say that in the House or for me to say it in the House, but I think it's another thing when we hear it from officials. I do believe that Canadians are concerned that this is an arm's-length process. It needs to be an arm's-length process. I

would like for you folks to describe how that process works within the department and the absolute lack of any political direction.

Mr. Rick Stewart (Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency): Thank you for the question.

As we have indicated in previous testimony, it is indeed the case that our charities registration and regulation are conducted solely by officials in the department, without direction from the minister or the minister's office.

Charities play an important role in society and as you mentioned, there is a significant volume of business that they do, and there are significant tax benefits that come that are provided in support of the charitable sector. With those advantages and benefits comes the responsibility to comply with charities rules, charities law. That is the role that we play in trying to do our best to do two things effectively.

First, we make sure that the sector can clearly understand what those rules are and why those rules are important. We work very comprehensively with the sector on an education-first approach to make sure that we are providing the kind of information that charitable organizations need to understand the law and to be able to comply with the law. We place a lot of effort on that, and we view that as being very important, because the best kind of compliance is voluntary compliance. We also have a responsibility, I think, to take action where we feel that perhaps not all of the rules are being fully followed. We monitor that sector on an ongoing basis. We assess organizations at the point where they seek registration to determine whether or not they are able to be registered as a registered charity.

Second, after registration, we have an annual monitoring process where we review the information returns that all charities have to provide on an annual basis. We use that to identify potential issues. We monitor media coverage. We act on referrals that come from within our own organization as we are doing regular tax administration, but also from external parties, if any of those come forward.

Our annual audit program is actually relatively small compared to the number of charities that are out there. In any given year we conduct audits only on roughly 1% of all charities, so that's 700, 800, or 900 per year. Of all those, only a very small number, 1% to 2% at the end of the day, do we actually have to impose some kind of sanction action on, or in the extreme, revocation.

● (0930)

Mr. Gerald Keddy: Thank you very much for that.

I want to talk about the growth in online filing—and a bit of it relates to Mr. Labelle's question on that whole non-audit compliance within CRA—and the ease, quite frankly, now for citizens and taxpayers out there to file online, immediately register for their return, and actually get that return quite often within days.

Do we have an estimate of the percentage of growth in online filing, and has that actually helped as part of the compliance? Have you seen a reduction?

Mr. Roch Huppé: Thank you for the question.

Yes, we've seen a constant growth over the last five to seven years of our tally within the online filing. If you go back around five to seven years, we would be around 55% to 60% of folks who would be filing electronically. Last year we finished the year with 80% of folks filing online. This year, the year that we're concluding, we should be approximately around the 82% mark. Obviously, it is providing better services to Canadians. You're absolutely right. When they file online, it allows us to process the returns quickly. Obviously, if there is any reimbursement, it is done in a more efficient manner than if filed on paper.

The Chair: Thank you, Mr. Keddy.

[*Translation*]

Mr. Dubourg, go ahead for six minutes.

Mr. Emmanuel Dubourg (Bourassa, Lib.): Thank you, Mr. Chair.

I want to say hello to the colleagues and witnesses here today. I have a number of very specific questions for the witnesses.

First of all, could you tell me what resources you can use to carry out your work in relation to international tax evasion?

Mr. Ted Gallivan: Thank you for the question.

We have more than 6,000 auditors. One unit is dedicated to the international tax non-compliance of large companies. Another unit focuses on individuals with funds abroad. In fact, 1,400 of our auditors are assigned to those tasks.

As mentioned in the budget, a \$58-million increase is intended for large companies and international companies, and \$25 million is set aside to target individuals with offshore funds. The investment level is also satisfied through our information and resources.

We talked about disclosure. We also have data from third parties. Since January 1, we have copies of all overseas transactions of over \$10,000. It is not just a matter of resources. We must also have the right information and apply risk management for proper targeting.

As you have seen in our annual reports, our revenues continue to increase. There are also reports from the Office of the Auditor General. Finally, we focused on aggressive tax planning. You will see that we have developed a solid management system.

• (0935)

Mr. Emmanuel Dubourg: Are you playing an important role in the OECD studies on BEPS?

Mr. Ted Gallivan: The Government of Canada, together with the Department of Finance, plays a leadership role in terms of politics. The agency itself oversees certain committees. We work closely with our partners through more than 100 international arrangements on data transfers. We are also working on the next generation of data transfers among jurisdictions—that is called the automatic exchange of information. We are putting things in place so that the transfer of data on taxpayers can be done almost instantly on a global scale.

Mr. Emmanuel Dubourg: We are talking about data sharing and, as you probably know, investigative journalists have found out that Canadians were investing money abroad or were not complying with the Income Tax Act. The agency has obtained a list of those Canadians. However, what I find the most surprising is that the

agency refused to consider those actions illegal. In fact, even though the disclosures were not voluntary, the agency considered them as such. As a result, people who committed income tax fraud were not penalized or prosecuted.

The disclosures were not voluntary. Those people did not go the agency to confess that they hid money outside the country and to clarify the situation. You had the information, but you decided not to impose any penalties.

Mr. Ted Gallivan: If I understand what you are saying, your question is about the way we have handled the the lists we received in 2010. I can tell you that we have aggressively pursued the individuals on those lists. More than 200 audits have been carried out, helping us recover \$21 million.

We also have a voluntary disclosure program for taxpayers. There are some rules when it comes to timing. We do not accept a voluntary disclosure if we have already begun an audit. I can confirm that, in the case of disclosures related to HSBC clients, they were accepted only if we had not begun an audit—

The Chair: You have one minute left.

Mr. Ted Gallivan: —when the disclosure was received. That is one of the applicable rules.

Mr. Emmanuel Dubourg: Mr. Gallivan, this was also in the media, and everyone knew about it. We know about the HSBC situation. We see how the institution is being pursued in Europe, and you did not impose any penalties on those taxpayers.

Mr. Ted Gallivan: I just confirmed that, in the 21 cases where an audit was carried out, the applicable penalties were certainly imposed. In the other voluntary disclosure cases, the due taxes and interests were paid. Only a penalty amount was not imposed, in compliance with the program rules and as provided for in the legislation.

Mr. Emmanuel Dubourg: Thank you.

The Chair: Thank you, Mr. Dubourg.

[*English*]

We'll go to Mr. Cannan, please, for six minutes.

Hon. Ron Cannan (Kelowna—Lake Country, CPC): Thanks to our witnesses.

Small business is the economic engine that drives the local economy in many of our ridings across Canada. As a former small business operator, I'm wondering, regarding regulations and the red tape reduction efforts, whether you could share a little bit about what the CRA has accomplished over the last few years since the red tape reduction panel was implemented.

• (0940)

Mr. Rick Stewart: Thank you for the question.

As I think the committee is aware, in the last few years, CRA has undertaken a significant number of initiatives aimed to reduce the burden of compliance for small businesses in the country. For example, we made a number of changes to the small business account to enable and facilitate online business-related correspondence to allow businesses to submit specific tax questions in writing online and to be able to receive in return an online response, a response they can kind of count on, as it were.

We've expanded the electronic filing services for businesses for filing their returns, electronic authorizations, and updated electronic banking flexibilities. We've put in place new web tools and expanded our online information. We've introduced an agent ID for all call centre agents for telephone service, I think to facilitate a little bit of improved accountability, as it were.

Importantly, we've done a couple of things in terms of remittances that ease the filing burden. We have reduced remittance thresholds which has resulted in a significant reduction in the number of remittance filings that small businesses needed to do, estimated to be somewhere between 800,000 down to about 500,000 remittances as a result of that change.

As you may have noticed in the most recent budget, we will be moving forward to implement a new quarterly remitters' initiative for new small businesses below a kind of small threshold of remittances. Normally, new businesses would need to remit on a monthly basis as a start-up, until they established a track record to enable them to move to quarterly filings. The budget announced we would be moving to allow those new businesses to elect to file on a quarterly basis, and we would obviously then monitor them to make sure they remained compliant. That's estimated by us to affect a population of around 80,000 new small business start-ups.

I think overall it's quite a large range of measures that hopefully have gone a long way to reducing some of the red tape burden for small businesses. Certainly in the consultations we did over the last number of months, over last fall, we received a lot of feedback about the progress that had been made, but equally importantly about the further progress we needed to make, the things we needed to continue to focus on, because we're not done by any stretch of the imagination.

There's a lot more that can be done to improve services and reduce the burden of compliance with the tax code, and our commitment is to seriously take that feedback on board and come forward in the coming months with a concrete action plan for the further things we'll be doing.

Hon. Ron Cannan: That's positive news, and I'm glad to hear there's more to be done. I know that the Canadian Federation of Independent Business awarded Minister Kerry-Lynne Findlay, our Minister of National Revenue, and your department the Golden Scissors Award in recognition of your initiatives to date. We continue to look forward to more productive reviews there.

Changing topics for a minute, I was completing my daughter's tax return. She's living in Taiwan and teaching English. She had to do the double taxation there. I just wanted to know about the tax treaties and tax information exchange agreements, how these tax treaties help prevent tax evasion and where we're going with regard to some of the positive initiatives of the TIEAs and the tax treaties.

Mr. Ted Gallivan: We're up to more than 100 agreements, tax exchange agreements and others. They kind of help us at two levels.

At the first level, among practitioners just the existence of the agreement has a deterrent effect. It would discourage those who want to hide money offshore, although obviously that's not the case with your daughter. It would discourage them from doing so.

At the second level, when we are engaged in audit work and have a suspicion that funds are offshore, those information exchange agreements provide us with the evidence required to support an audit assessment that will stand up in court and through the appeals process. They are invaluable.

In response to an earlier question, though, I mentioned that those are a kind of first-generation exchange of information. We are moving to something that's often called automatic exchange of information, something the G-20 and G-8 are pushing, which is more global. This is not on request but a proactive distribution of information, where we would have insight across jurisdictions in terms of people's tax affairs.

• (0945)

Hon. Ron Cannan: Changing gears for a quick second, I have a cousin who's interested in bitcoin. What's the situation in terms of CRA recognizing bitcoin in currency? How big a deal is it in Canada?

Mr. Rick Stewart: I think that's a bit of a difficult question to answer at this point in time, because wrapped up in that are policy issues that of course are the prerogative of the Department of Finance. At this point in time, the CRA or the government's position is that bitcoin does not meet the criteria, if you will, to be deemed to be an actual currency. Therefore, it is a commodity like any other commodity with the normal tax rules. The rules we apply to commodity transactions in tax administration are the same rules we apply to bitcoin transactions.

The Chair: Thank you, Mr. Cannan.

Mr. Cullen, please.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): To our witnesses, thanks for being here.

I have a letter from Karen Walter. She is posted overseas with her husband in NORAD in the United States. She received a letter from you folks at the CRA, a relatively aggressive one, telling her this:

[W]e have determined that you may have to pay a tax on the contributions you made [to your TFSA] while you were a non-resident of Canada in 2013. If this is the case, you should withdraw the contributions immediately to avoid any future tax.

Ms. Walter wasn't the only one. Her husband is posted at NORAD. We obviously have Canadian Forces posted all over the world. CRA policy states "if there is evidence that an individual's return to Canada was foreseen at the time of his or her departure, the CRA will attach more significance to the individual's remaining residential ties with Canada".

Do Canadian Forces and their families not qualify under international residency, paragraph 1.17? Why are Canadian Forces families getting these letters from the CRA telling them that their contributions are not compliant with Canadian tax policy?

Mr. Rick Stewart: Mr. Chair, I think you can appreciate that I'm not in a particularly good position to respond directly to the question.

Mr. Cullen, perhaps that could be forwarded back to us. We will take this back to the department, absolutely. If you could share the correspondence with us as well, just to help facilitate that, we'll look into it.

Mr. Nathan Cullen: I'd be more than happy to. You've had this since February 25 of this year.

The concern for many Canadian Forces families not only at this base but many bases is that families are getting these letters telling them that they're not in compliance with Canadian tax law and that they can't apply and receive the contributions through their TFSAs. I understand that CRA is a big organization and at times faceless, but you can understand the stress that's putting on families who in some cases are already stressed. We'll forward to you all of Ms. Walter's letters, which you already have.

I want to move to a point Mr. Cannan was making about the good work of the CFIB and the important work of small businesses in Canada. I thought he was going in a different direction, because your internal audit shows that one in four questions to your small business department were being answered incorrectly.

Has the CRA looked to waive any penalties that small businesses may have incurred after they received wrong advice from the CRA, going to the future? You can understand the frustration of small businesses. They phone the CRA office. They wait patiently. They get advice. They file taxes that way, and if the advice is wrong, it won't be the CRA paying the penalties; it will be the small businesses.

Mr. Ted Gallivan: I appreciate the question.

At the agency, obviously, we need to strive for 100% accuracy. Any level of error is not acceptable. Notwithstanding that our internal stats show roughly a 92% accuracy rate, it's just not acceptable. We appreciate that. We have a taxpayer relief program in place to deal with this specific eventuality, and your specific question. The taxpayer relief program gives the minister, and delegates to officials, the authority to waive penalties and interest. One of the specific criteria is departmental error.

Mr. Nathan Cullen: The question, though, is that if the small business says, "I received this advice..." I'm going to challenge you on that 92%; I know that's internal, but it was your own internal survey that showed the accuracy rate at 75%. You actually omitted one of the seven questions asked to help the numbers out. CFIB was the one that was probing on this, that is, if a business says, "I phoned and this is the advice I got" and if the business doesn't have any evidence other than that, the CRA is going to say, "Sorry, we don't have a record of that, so you owe us x number of dollars and you owe penalties because you filled out your taxes wrong."

Mr. Ted Gallivan: This specific concern was brought to light a number of years ago, and it was actually the first time the minister—it was Minister Shea—received the Golden Scissors Award from the

CFIB where we instituted a written online question service. To address that specific concern, taxpayers can go into their My Business Account or rep account and ask a question. The CRA will provide a written response and the CRA has said that we will stand behind that written advice and hold taxpayers harmless from penalty and interest.

• (0950)

Mr. Nathan Cullen: Are we talking about advice over the phone?

Mr. Ted Gallivan: The concern was there is no written record of a phone conversation, and so, to go back to a phone conversation, it's taxpayer relief. The taxpayer would have to contact the CRA and indicate that they were given inaccurate information. Under the criteria of taxpayer relief, departmental error is one of the criteria through which the taxpayer could see the penalty and interest waived.

Mr. Nathan Cullen: Thank you.

We just finished a fairly lengthy study on combatting terrorist financing and money laundering. How much do we spend annually in Canada on those initiatives through the CRA?

Mr. Rick Stewart: For CRA specifically, the unit we have that is involved in that, we spend roughly—I didn't bring the stats with me today—I think it's around \$3 million a year. Those are the resources we have committed to that unit within my directorate.

Mr. Nathan Cullen: Around \$3 million, and what was the allocation to auditing and going after charitable groups in the last budget from the federal government? How much money does the CRA have for charitable audits?

Mr. Rick Stewart: As a result of the budget 2012 initiative? I believe it's around \$13.5 million over a five-year period.

Mr. Nathan Cullen: Here's the confusion. We have growing terrorist threats globally. We're spending \$3 million a year going after terrorism and money laundering, and \$13 million a year going after Canadian charities.

Mr. Rick Stewart: I think that CRA is not the only organization that is involved in monitoring and pursuing terrorist financing. We are actually a very small bit of a bigger effort, but nobody else does charities registration.

The Chair: Thank you, Mr. Cullen.

Mr. Van Kesteren, for your round, please.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, witnesses, for coming. It's been good testimony this morning. I thank you.

I find the CRA, although certainly you probably have your problems, for the most part to be very professional. I want to thank you for the work you do.

I'm encouraged by some of the things I'm hearing. Mr. Cannan spoke about small businesses. I come from a small business environment. I started my day off this morning, as a matter of fact, talking to a small business owner about some of the frustrations. It wasn't in regard to your department, but the theme is generally the same. I'm encouraged to hear that you've implemented some policies that are helping small businesses, and I think they're working.

What I think we spent more time talking about this morning was on the area of sensitivity. I'm wondering if you do training. His comment was, "Don't these people understand that our businesses have to make a profit, and if we're not in business, we're not going to be there?" I find a lot of businesses get frustrated to the point where they say, "What am I doing this for?" I'm wondering if you're engaged with the employees at CRA so that they understand the frustrations that small businesses go through. Maybe you could comment on that.

Mr. Ted Gallivan: I'll make three quick points.

First, the 6,000 auditor workforce I mentioned previously all receive sensitivity training on business realities, and then specific training around sector-specific issues. We provide that training up front.

A second thing I'd mention is last year we piloted and have now made permanent something called the liaison officer initiative, where auditors invite businesses to receive a CRA official in their place of business in a non-audit context, with no possible reassessment, to talk to them about common errors and mistakes and help them get it right from the start.

We see those two measures as reactive and reflective of the small business reality.

The third point is the minister recently announced a review of our output in letters for plain language and understandability so that we communicate with Canadians in a manner they understand, that's clear and offers them the help they need, rather than in an aggressive tone that may confuse the issue.

Mr. Dave Van Kesteren: Do you get that message across? I don't see it on television. Are there ways that maybe we could improve on that? Are businesses getting that message?

I'm going to tell you, in a small business, oftentimes I would get forms from CRA and if it looked like it was basically the same form for a remittance or something, I wouldn't read all the preamble, so I'm wondering if you're getting that message across to businesses.

• (0955)

Mr. Rick Stewart: This was an issue that I heard on a consistent basis in the consultation forums that I participated in over the course of last fall. In many cases there was surprise on the part of small businesses when they were informed that there were certain flexibilities that were available to them, for instance, information availability. To be frank, I'm not sure that we have done the job that we need to do in ensuring that the small business community is fully cognizant of the services that we have available to them. Frankly, that is something we'll have to do a better job of going forward, and certainly our commitment is to kind of redouble our efforts to improve that communication.

I don't think it is just about us. I think it is about CRA also working with some key partners like CFIB and CPA Canada, because they can help us play a role in communicating with their own members the flexibilities that exist and the information that's available. We'll be taking that seriously on board.

Mr. Dave Van Kesteren: I'm glad to hear that.

Very quickly, the other business owner who I spoke to on the weekend was expressing his frustrations with the underground economy. He is in the demolition industry. A lot of the regulations were not just regulations or restrictions on the federal side, but they're also on the provincial side. The question I hear repeatedly is, "What am I doing this for?" They talk about using those same techniques that are hurting them. What is CRA doing to combat that sort of problem that we have in this country of the underground economy?

Mr. Ted Gallivan: Last fall we released a renewed three-year underground economy strategy. What's new is a focus on the demand side, on the consumer side, working in partnership with key stakeholders. The minister established an advisory committee, and we have people from the CFIB, Canadian Home Builders' Association, and others at the table using their credible voices to get the message out.

The budget proposes an additional \$118 million over five years that would provide for roughly 150 additional full-time equivalents in the field. That strategy very much is about a level playing field. As we go into these audits and as we talk to these auditors, it is about the people who are underground, who are making all of us pay more, and about establishing a level playing field for the businesses.

The Chair: Thank you, Mr. Van Kesteren.

[Translation]

Mr. Dionne Labelle, the floor is yours.

Mr. Pierre Dionne Labelle: Thank you, Mr. Chair.

I would like to continue discussing HSBC Bank.

We really feel that the Canada Revenue Agency went easy in that case, especially if we compare its attitude to that of other countries. For example, Argentina, France and Belgium laid charges in related cases.

The agency received 1,349 files. Some of those taxpayers did not have enough money and others were deemed to be high risk. So investigations were carried out on 264 cases that were voluntarily disclosed. My figures should be fairly close. The non-compliant taxpayers will pay fines in 21 cases. Where are the charges against those individuals?

Between 2006 and 2013, there were eight convictions for offshore tax evasion. How many convictions have you obtained and how many charges have you laid since 2013?

Mr. Ted Gallivan: If we focus only on the HSBC Bank cases, I would like to point out that a number of files were examined to determine whether there were grounds for an investigation in order to lay criminal charges. We don't have sufficient evidence to carry out an investigation in any of those cases or to lay charges under Canadian legislation.

Mr. Pierre Dionne Labelle: What should we improve in this area? Argentina, France and Belgium are successfully laying charges. Have you looked into the role of HSBC Bank's Canadian branches? Did the bank staff participate in the transfers? What happens to people who encourage transfers of funds to tax heavens? Have you conducted investigations in order to potentially lay charges? It does appear that those people are acting with impunity.

For example, the National Consortium of Investigative Journalists carried out investigations. In the document margins, in the footnotes, the banker would write that he suggested his client open an offshore account in the Bahamas, or somewhere else. People who say things like that are encouraging international tax evasion. Is that not punishable?

• (1000)

Mr. Ted Gallivan: I can tell you that our criminal investigations program is focused on stakeholders and promoters. We are no longer spending our days going after small companies for small amounts of money.

Promoters and professionals who participate in that environment are the focal point of our criminal investigations. Our challenge is to gather the facts that give us ammunition to carry out criminal investigations. That is why I mentioned the disclosures that give us much more tangible evidence.

Mr. Pierre Dionne Labelle: Are some of those facilitators now worried?

Mr. Ted Gallivan: I think that they are, as the number of disclosures has doubled. Last year, the number of international disclosures went from 5,000 to 10,000. When we launched our disclosure line, we started receiving information on offshore transactions of more than \$10,000. Over the course of that 12-month period, the number of disclosures doubled.

Mr. Pierre Dionne Labelle: Do I have any time left, Mr. Chair?

The Chair: Only a little bit.

Mr. Pierre Dionne Labelle: So I will be very brief.

Mr. Huppé, during your presentation, you talked about requests for this year. Your requests have decreased by nearly \$50 million. Your document says that what was proposed in the budget is not included in what you mentioned. So there is a shortfall there.

Mr. Roch Huppé: As always, we are following a process, but the budget was obviously announced after the deadline for producing main estimates documentation. In short, what was announced in the budget will follow the usual process—the money will be provided to the agency through supplementary estimates.

The Chair: Okay. Thank you.

[English]

We'll go to Mr. Adler please.

Mr. Mark Adler (York Centre, CPC): Thank you, officials, for being here this morning. I want to talk a bit about the voluntary disclosure program. We all know why it exists, to encourage compliance with Canada's tax laws. Could you talk a bit first of all about the success of the VDP and about whether that success has grown within the last decade, for example?

Mr. Ted Gallivan: Various figures are used depending on how far back in time you go. It's 400% if you go back to 2008-09 depending on the year you pick, and you don't want to cherry-pick. I'll just talk about fiscal 2013-14 to the fiscal year that just ended, 2014-15. Overall we went from \$15,800 to \$19,000. The dollar value of income associated with that grew from \$800 million to \$1.3 billion. The component of that though that relates to offshore, as I was mentioning in another response, grew from \$5,200 to \$10,200, and the dollar value grew from \$300 million to \$780 million, so there's been a very significant increase.

At the same time, we were given new powers through budget 2013 and new sources of information. Internally within the agency we adopted our communication approach, and we deliberately focused communication messages encouraging taxpayers to file voluntary disclosures.

Mr. Mark Adler: This is for those who do business both domestically and internationally of course. What are some of the measures you've taken to help Canadians become aware that they may not be declaring all that they should be, and aware of the options that are open to them?

Mr. Ted Gallivan: They run the gamut. When there's a criminal conviction, we now publish the criminal conviction and the information related to the crime, and then we encourage people who may have a similar situation or fact set to make a voluntary disclosure. In response to media inquires and news releases, we very deliberately lay out the fact that we have access to all international transactions over \$10,000, the fact that there is a paid informant line, and the idea that, by the way, if someone does want to correct their affairs going forward, they do have voluntary disclosure as an option.

Mr. Mark Adler: You pretty much run the gamut then from exhortation right up to prosecution in some instances.

Mr. Ted Gallivan: That's correct.

Mr. Mark Adler: In terms of the voluntary disclosure program, could you give me a fictitious example of a company or individual who realizes they have problems they must correct or address, so they opt for the voluntary disclosure versus the situation of those who know they have issues, choose not to do anything, and are willing to wait it out to see if they actually get caught? Could you outline the two different scenarios for us? What would be the implications of both?

• (1005)

Mr. Ted Gallivan: Sure. I was speaking to a tax practitioner last week and they talked about a case of succession, so either on the death of the parents or planning for that eventuality, the business was transferred to the children.

That scenario gives rise to a lot of voluntary disclosures. If they follow the voluntary disclosure route and CRA hasn't initiated any audit or enforcement action, upon payment of all the tax and all the arrears interest owing, they wouldn't be subject to any penalty.

If they choose the different path, first of all, the practitioner could be liable for criminal prosecution or third party sanctions, which aren't criminal but monetary, and the individuals upon conviction could be liable for up to 200% of the tax owing. That's quite a different outcome in tax administration.

Mr. Mark Adler: In terms of the practitioners, presumably you're working with the professions to educate them on the value of encouraging their clients to disclose voluntarily. Could you talk a bit about what you do with the professions to educate them on that front?

Mr. Ted Gallivan: We have a very close relationship from small to large, so with the CFIB, the Canadian Payroll Association and CPA Canada, the accounting community, with seven formal subcommittees, we have regular cross-communication. In other words, they push out communication messages to their members and they look to us for information.

We would provide them information regarding the VDP, as I mentioned, certainly around the timing. Again, back on January 1 we were starting to get new FINTRAC data. The time is right; we draft an article, and then they push it out to their members through their publications, through their websites, through their communication means.

Mr. Mark Adler: Do you have a study, a dollar figure that you could share with the committee, the amount that has been paid as a result of voluntary disclosure over the past year, maybe two years, three years?

Mr. Ted Gallivan: The figure I'd share is the total income involved in the last fiscal year was \$1.3 billion came in through voluntary disclosures.

Mr. Mark Adler: Thank you.

I'm fine, Mr. Chair. Thank you.

The Chair: Thank you, Mr. Adler.

We will go to Ms. Bateman, please.

Ms. Joyce Bateman (Winnipeg South Centre, CPC): Thank you to all the officials who are here this morning.

I was very interested when I heard through various sources that our Minister of National Revenue, Kerry-Lynne Findlay, had received the Golden Scissors Award. This is something that I'm always hearing about from business people in my riding, that there's so much red tape and it's so hard to deal with these large bureaucracies. I'd like to hear why she got that award and what it was for. Also, I'd like to hear what other red tape reduction initiatives you have in place.

Mr. Rick Stewart: Thank you for the question.

Mr. Chair, I think in the interest of time, I won't repeat all the things we have changed, but to focus on the Golden Scissors Award, I believe that was awarded to the minister specifically for the remittance threshold reduction change that the government implemented that had such a significant reduction in the reporting burden.

Ms. Joyce Bateman: How many times did a small business person have to remit previously and how many times now?

Mr. Rick Stewart: I think it depended on whether it was payroll tax, EI, income tax, but the aggregate effect of that change in remittance thresholds was to reduce the number of remittance transactions across the entire small business community from about 800,000 down to about 500,000.

Ms. Joyce Bateman: Okay. That's a great—

• (1010)

Mr. Rick Stewart: It's a significant change.

Ms. Joyce Bateman: That's a significant first step.

You spoke earlier, Mr. Stewart, in your comments to my colleague Mr. Van Kesteren, that you're working in partnership with professional organizations, a number of people, but the bottom line is small business doesn't know what options are available. You did indicate that you think you have more work to do. What kind of work? To serve small business is very important for us. Small business is the backbone of job creation in this country.

Mr. Rick Stewart: I'd say there are probably three elements to that.

One is to, if you will, better work with those key partners we have been working with, and obviously not significantly enough, to better communicate the information we've been trying to communicate on the improvements and changes we have made to date. That's kind of working with what we already have, if I can characterize it that way.

Second, last fall we conducted our second round of consultations with the small business community about what more we need to be doing to reduce red tape. We did a first round in 2012 and another round last fall. We're committed to doing these on a regular basis so that we get ongoing regular feedback on the changes we have been making: are they effective; are they working to reduce the burden; what more do we need to be doing?

Also, the minister and the government will be coming forth with an action plan in the coming months. They're in the process of finalizing that now. It will lay out our commitments of the further steps we will be taking over the next two years. We will be focused on ensuring that the action plan is effectively and comprehensively broad-based communication, so that people are aware that we have an action plan and of what's in it.

Third is to continue working on an ongoing basis, ensuring we have an open door to feedback. As I said, we've already been working with some of our key stakeholder partners, like CFIB and CPA Canada, the tax professionals. We'll be using that as a more active avenue for soliciting feedback on an ongoing basis, so that we get that continual feedback about the improvements we're making, so we don't have to rely solely on a biannual consultation process.

Ms. Joyce Bateman: Now that the officials are here, I have to ask this, because I've had a lot of feedback on the issue of this tax-filing system in my constituency.

In small business, if you have three people on your payroll, you are required to file the T4 slips by the end of February. Meanwhile, the banks that are issuing T3s have a significantly greater period of time, and by the way, they have a whole bunch more people working for them and a little bit more capacity than your normal small business with three people on the payroll.

There's an enormous problem for people who get a T3 slip and then have to file it after the fact. We have a situation where we have small business people and just normal consumers and clients being massively inconvenienced, which brings me to your online system, because they can't do the T1 adjustment request easily. What's the solution for that? Is it maybe making the banks comply with the same thing that small business does?

Mr. Ted Gallivan: The agency is really focused on electronic services and real-time data. Not that it's a silver bullet, but the hope is to have real-time data exchange and have people use the electronic services to help decrease the pressure those deadlines create.

Ms. Joyce Bateman: What do you mean by "decrease the pressure"?

Mr. Ted Gallivan: In other words, if somebody's able to file electronically easily, then it's not so cumbersome for them to meet the deadline, because it's a simple click of the mouse—

Ms. Joyce Bateman: But could the banks have the same deadline as small businesses?

The Chair: Sorry, you are well over your time.

Ms. Joyce Bateman: Okay. Thank you very much, Mr. Chair. We'll follow up after.

The Chair: I just want to follow up on a point by Mr. Keddy.

I think you said that in terms of electronic filings, you've gone from 55% to 80%, and then 82%. Can you give us the numbers for personal and for business?

Mr. Roch Huppé: Actually the numbers I referred to were for personal taxes.

The Chair: They were for personal. What are they for business?

Mr. Ted Gallivan: For both corporations and GST, and GST would have just caught up to individuals, it would be in the range of 84% to 85%. We can confirm that off-line. For corporations, T2 would be close to 90% this year, if not over.

The Chair: Here's a very quick question. As a taxpayer, I actually find the CRA My Account very helpful, but how many Canadians use that service? You can respond off-line if you want, as well.

Mr. Roch Huppé: The numbers I have here are for last year, not this year, which I think grew quite a bit. We had 2.7 million individuals and 1.9 million businesses registered.

• (1015)

The Chair: They were registered for the CRA My Account.

Mr. Roch Huppé: Yes.

The Chair: All right. Well, I encourage everyone to get their own, because it is an incredibly helpful service.

My final point may be as much a comment as a question, involving some of my colleagues' questions. The comment I get most often that's critical of CRA is about when someone is being audited either as a person or as a business and the auditors change through that audit. It's very hard on the person who's being audited in terms of having to re-educate someone all over again regarding their particular situation. I think that has improved over time, but that's the biggest comment I get from taxpayers in my constituency.

I don't know if you have a comment on that.

Mr. Rick Stewart: I guess as a general comment I would say two things. We're cognizant of the challenges that poses, and at the end of the day, we're taxpayers as well, so I can recognize that challenge.

The Chair: Any improvements in the bill would be appreciated.

Thank you so much for being with us here today.

Colleagues, do I have consent to submit all the votes under the Canada Revenue Agency at once?

Some hon. members: Agreed.

CANADA REVENUE AGENCY
Vote 1—Operating expenditures.....\$2,898,927,871
Vote 5—Capital expenditures.....\$80,496,902

(Votes 1 and 5 agreed to)

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

Some hon. members: Agreed.

The Chair: I will do so. Thank you.

I thank our officials.

Colleagues, I understand there is unanimous consent to have a small business meeting after this, so we will thank our officials, and we'll clear the room, suspend, and then we'll go in camera.

Thank you.

[*Proceedings continue in camera*]

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