



Revenue Canada

For the
period ending
March 31, 1997



Improved Reporting to Parliament —
Pilot Document

Canada

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Foreword

On April 24, 1997, the House of Commons passed a motion dividing what was known as the *Part III of the Estimates* document for each department or agency into two documents, a *Report on Plans and Priorities* and a *Departmental Performance Report*. It also required 78 departments and agencies to table these reports on a pilot basis.

This decision grew out of work by Treasury Board Secretariat and 16 pilot departments to fulfil the government's commitments to improve the expenditure management information provided to Parliament and to modernize the preparation of this information. These undertakings, aimed at sharpening the focus on results and increasing the transparency of information provided to Parliament, are part of a broader initiative known as "Getting Government Right".

This *Departmental Performance Report* responds to the government's commitments and reflects the goals set by Parliament to improve accountability for results. It covers the period ending March 31, 1997 and reports performance against the plans presented in the department's *Part III of the Main Estimates* for 1996-97.

Accounting and managing for results will involve sustained work across government. Fulfilling the various requirements of results-based management – specifying expected program outcomes, developing meaningful indicators to demonstrate performance, perfecting the capacity to generate information and report on achievements – is a building block process. Government programs operate in continually changing environments. With the increase in partnering, third party delivery of services and other alliances, challenges of attribution in reporting results will have to be addressed. The performance reports and their preparation must be monitored to make sure that they remain credible and useful.

This report represents one more step in this continuing process. The government intends to refine and develop both managing for results and the reporting of the results. The refinement will come from the experience acquired over the next few years and as users make their information needs more precisely known. For example, the capacity to report results against costs is limited at this time; but doing this remains a goal.

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Revenue Canada

Performance Report

**For the
period ending
March 31, 1997**

**Honourable Herb Dhaliwal
Minister of National Revenue**

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Section I

Minister's Message

For many Canadians, Revenue Canada is their main link to the federal government. Indeed, few other departments interact with so many Canadians each day. For this reason, Revenue Canada has to be particularly sensitive to the evolving role of government in Canadian society and its impact on the competitiveness of business in an increasingly global economy.

We have endeavoured, even in an era of budget restraint, to maintain the high quality of service which Canadians have come to associate with our programs. We continue to place the emphasis on personal service, accessibility to information, fairness and respect for the rights and needs of all our clients. These are fundamental elements of our approach to helping our clients meet their obligations under the self-assessment system.

Furthermore, we work in partnership with all Canadians, especially provincial governments, to support their economic well-being and to provide a competitive advantage for Canadian business in the global economy. In doing so, we invest heavily in world-class information technology and in extensive systems to facilitate consultation with the business community.

With the announcement of the proposed Canada Customs and Revenue Agency, the next challenge is to build on our achievements by creating an organization with greater flexibility to tailor its policies and programs to more efficiently meet client needs. This organization will be committed to fairness, confidentiality and integrity, with a more business-like, efficient, open and transparent customs and revenue administration.

As evidence of this commitment to you, I am proud to submit Revenue Canada's 1996-97 Performance Report highlighting the diligence with which resources entrusted to us were dedicated to serving all Canadians.

Minister of National Revenue

Section II

Departmental Overview

1. Mandate, Roles, and Responsibilities

Given its general mandate under the *Department of National Revenue Act*, Revenue Canada administers the *Customs Act*, the *Customs Tariff*, the *Special Import Measures Act*, the *Excise Act*, the *Excise Tax Act*, the *Income Tax Act*, Part I of the *Canada Pension Plan*, Parts IV and VII of the *Employment Insurance Act*, and numerous other pieces of legislation on behalf of other federal departments and provincial and territorial governments.

Accordingly it collects revenues; administers tax laws for the federal government and agreeing provinces and territories; administers trade policies and legislation; provides border services; and makes social and economic payments to certain individuals and corporations.

In addition to collecting income taxes for the provinces and territories under agreements entered into by the Minister of Finance, in accordance with Part III of the *Federal-Provincial Fiscal Arrangements Act*, the Department also administers International Tax Agreements signed with a large number of countries. These Agreements are aimed at promoting the exchange of information between treaty partners and the avoidance of double taxation of foreign-earned income of their respective citizens.

Through administration of international agreements, such as the General Agreement on Tariffs and Trade (GATT), the Canada-United States Free Trade Agreement (FTA), and the North American Free Trade Agreement (NAFTA), as well as domestic laws, such as the *Exports and Imports Permits Act*, Revenue Canada protects Canadians and their businesses, from unfair competition and the entry of dangerous or illegal goods (e.g., drugs, weapons) and inadmissible people (e.g., criminals, illegal immigrants).

Furthermore, Revenue Canada administers numerous pieces of legislation, in whole or in part, on behalf of other federal departments, notably: Agriculture and Agri-Food; Industry; Citizenship and Immigration; International Trade; Health; Environment and Human Resources and Development Canada.

Overall, Revenue Canada administers more than 185 acts, regulations, incentives, credits, surtaxes, and international tax treaties. In doing so, it touches the lives of more Canadians than any other department.

In 1996-97, for example, the Department served some:

- 21.3 million individual income tax filers;
- 1.1 million corporations;
- 2.3 million Goods and Services Tax (GST) registrants;
- 1.3 million employers;
- 158 thousand commercial importers;
- 109.1 million travellers;
- 23 thousand registered pension and deferred profit sharing plans;
- 75 thousand charities;

and processed:

- \$248.2 billion in trade representing more than 27.9 million transactions resulting from 10.3 million commercial entries;
- 36.1 million Child Tax Benefit (CTB) payments;
- 32.6 million Goods and Services Tax Credit (GSTC) payments;
- 2.5 million British Columbia Family Bonus payments;
- 23.5 million public enquiries, including 2.6 million Tax Information Phone System (TIPS) enquiries and 1.2 million Automated Enquiries Response Service (AERS) enquiries.

In 1996-97, the Department collected gross revenue of \$224.8 billion. After refunds, drawbacks and credits, net revenue collected totalled approximately \$177.3 billion, of which \$132.5 billion was federal revenue (details in Section V, Appendix 6). This typically represents about 95% of all federal budgetary revenue collected by the Government. Revenue Canada collects: federal income tax; personal income tax on behalf of all provinces except Quebec; corporate income tax on behalf of all provinces except Alberta, Ontario and Quebec; the Goods and Services Tax (GST) in all provinces except Quebec; commodity taxes, Excise duties and import levies; provincial sales, alcohol and tobacco taxes at the border on behalf of certain provinces; employee and employer contributions under the *Canada Pension Plan*; and employee and employer premiums for Employment Insurance.

2. Objectives

Revenue Canada has set itself the following objectives:

- to ensure the assessment and collection and appropriate refund of all taxes, duties and other relevant charges and levies in a fair and timely manner;
- to enhance the competitiveness of Canadian business through administration of a wide variety of trade policy instruments and the facilitation of international commerce and tourism;
- to ensure compliance with legislation; maintain sovereignty at the border, and protect Canadian business, individuals and society generally from inadmissible or dangerous goods and people; and
- to support the social and economic programs and goals of the Government.

3. Strategic Priorities

The strategic priorities that guide Revenue Canada towards achieving its objectives, consistent with the 1996-97 Part III, are:

- client-driven, service-oriented policies and processes;
- harmonized business practices and rules;
- better coordinated, efficient and cost-effective delivery of federal, provincial, and other government services at the border, resulting in better government at less cost to taxpayers;
- well-trained, knowledgeable and versatile staff, who have the necessary skills, tools and facilities;
- effective working relationships with clients, partners and other government departments that contribute to increased compliance, improved service, and increased competitiveness;
- more effective compliance in all streams;
- reduced amounts of contraband, prohibited goods, and inadmissible persons entering the country; and
- reduced compliance costs for clients, partners and stakeholders, resulting in increased business competitiveness.

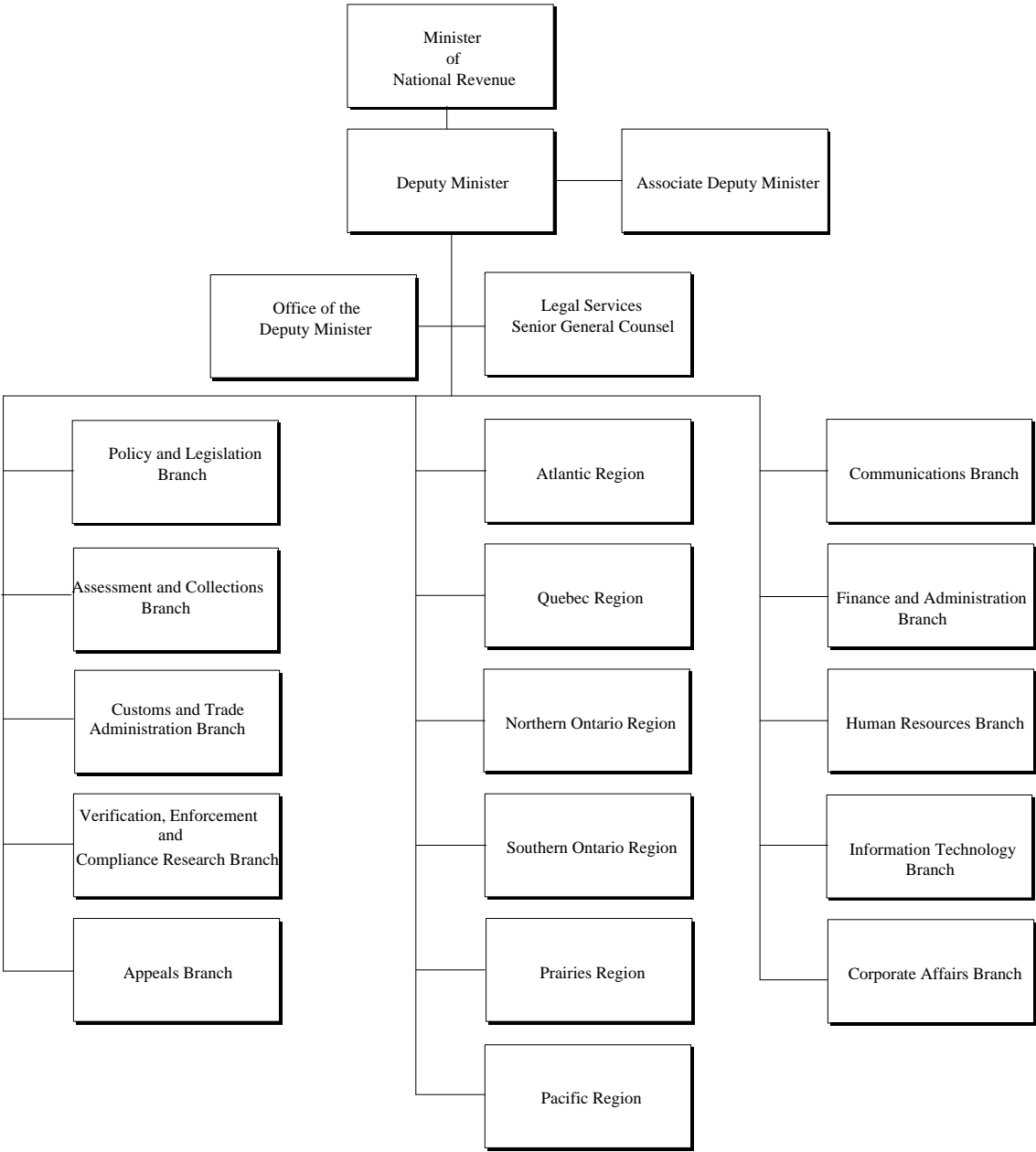
4. Summary of Performance Expectations

Revenue Canada's results commitments fall within the broad accountabilities of Effective Revenue Administration and Smart Border Administration as illustrated in the following table.

REVENUE CANADA	
provides Canadians with:	to be demonstrated by:
<i>Effective Revenue Administration</i>	
Administration of the taxation regime for the Federal Government and certain provinces and territories by assessing and collecting taxes, duties, and other levies and payments and delivering a number of social and economic benefits in a fair and timely manner.	<p><i>Assistance to clients and assessment of returns</i></p> <ul style="list-style-type: none"> trends in the processing of enquiries processed from individuals and businesses level of client satisfaction with the services the Department provides when communicating information and answering enquiries implementation of electronic service delivery options and client participation rates in such options trends in the time and costs for clients to comply with taxation requirements <p><i>Verification and Enforcement</i></p> <ul style="list-style-type: none"> total fiscal impact of enforcement activities trends in compliance in high-risk areas within the small and medium enterprise sectors taxes assessed as a result of targeting the underground economy the identification and audit of potentially abusive tax avoidance and tax shelter arrangements on a timely basis the extent to which the proper reporting of world income, and payments of Canadian taxes by non-residents takes place <p><i>Revenue Collections</i></p> <ul style="list-style-type: none"> implementation of a system allowing clients to deal with one official for collection of all revenue types maintaining accounts receivable at a level of not more than 4% of gross revenues <p><i>Appeals</i></p> <ul style="list-style-type: none"> the percentage of appeals processed within timeframes approved through the development of service standards the level of client satisfaction with the independence, timeliness and fairness of the redress process

REVENUE CANADA (cont'd)	
provides Canadians with:	to be demonstrated by:
<i>Smart Border Administration</i>	
Enforcement of Canadian laws and sovereignty at the border and support of Canadian industrial competitiveness and economic policies	<i>Customs Border and Trade Administration Services</i> <ul style="list-style-type: none"> • trends in the number of travellers and volume of commercial shipments processed • level of client satisfaction with services provided • compliance rate for travellers entering Canada • quantity of contraband goods detected and interdicted • the availability of electronic service delivery options and client participation rates in such options • use of streamlined options for processing low-risk travellers and commercial shipments • the number of unfair trade practices identified and eliminated to protect Canadian industry • the number of measures introduced to reduce the compliance burden for Canadian business

5. Organizational Structure of Revenue Canada



Section III

Corporate Performance Results

1. Financial Summary

The Department carries out its mandate through six Business Lines, maintaining clear accountabilities with the respective national program managers.

Comparison of Total Planned Spending to Actual Expenditures, 1996-97 by Business Line

(\$ millions)	Main Estimates	Total Available for Use	Actual Use
Assistance to Clients and Assessment of Returns	619.6	651.0	641.6
Customs Border and Trade Administration Services	378.4	412.9	404.5
Verification and Enforcement	462.6	488.1	464.1
Revenue Collections	213.7	220.4	207.0
Appeals	58.3	59.1	57.7
Administration and Information Technology	591.9	644.9	590.4
Gross expenditures	2,324.5	2,476.4	2,365.3
Revenues Credited to the Vote	(120.3)	(129.1)	(129.1)
Total	2,204.2	2,347.3	2,236.2
Human Resources (FTE)	38,539	39,457	39,163

The "Total Available for Use" column includes Supplementary Estimates, and year-end adjustments and transfers such as contributions to Employee Benefit Plans. The \$111.1 million difference from the total available to the actual use of authorities is due primarily to planned carry forwards of some \$97 million to support, among other projects, the Department's major re-engineering initiatives in 1997-98.

2. Key Program Achievements in 1996-97

In 1996-97, Revenue Canada supported key government priorities contained in the 1996 Federal Budget, other in-year announcements and priorities outlined in the 1996-97 Part III of the Estimates (Report on Plans and Priorities). In addition to the following key program achievements, specific business line achievements are detailed in Section IV.

Efficient Handling of Enquiries: Revenue Canada responded to more than 23.5 million enquiries by telephone, at the counter, by correspondence or automated telephone enquiries services in fiscal year 1996-97, compared to 21.2 million last year. The telephone, the preferred means of communication by Canadians, was also Revenue Canada's most cost-effective delivery mode for some 15.4 million enquiries.

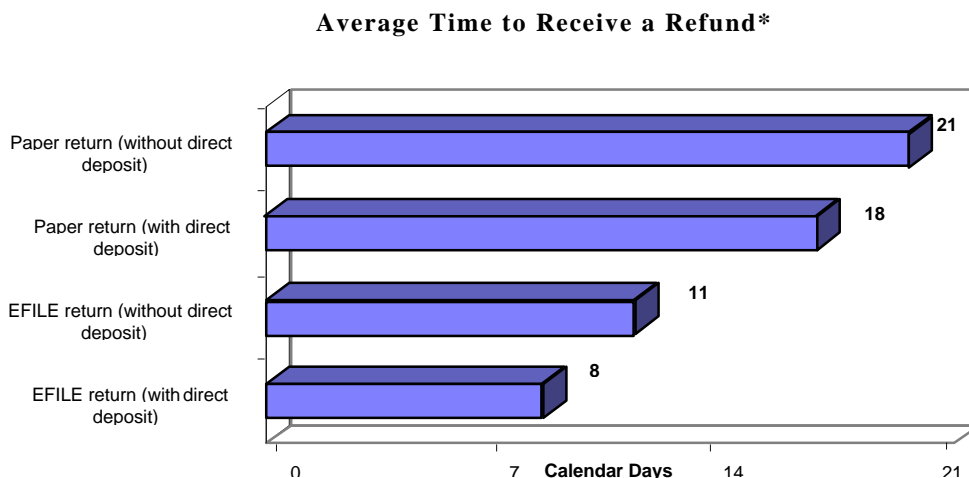
The Department was aware however, that some clients had difficulty getting through by telephone. An increasing proportion of calls was being made to find out the status of benefit payments. To address this problem and increase accessibility, the Department implemented an Automated Enquiries Response Service (AERS), which provides clients with recorded information as to when quarterly GSTC cheques and monthly CTB cheques would be delivered. It also provides alternative telephone numbers for those seeking to speak to an agent. AERS responded to 1.2 million requests for information on cheques and delivery dates.

A number of other service improvements were also introduced during the filing season. For example, the Ottawa Tax Services Office ran a pilot computerized, 24 hour telephone service called Business Information System (BIS), that provided general information to Business Window Clients concerning Payroll Deductions, the Goods and Services Tax, the Business Number, unincorporated, corporate, and import/export topics. This service will be implemented in other offices during 1998.

Simplifying Guides and Publications: Revenue Canada published a wide variety of returns, schedules, guides, and pamphlets to help Canadians file their income tax returns. To cut costs, reduce paper burden, and improve client service, various forms and guides were extensively modified and some completely eliminated. The introduction of the new separate T1 General Guide and T1 General Forms Booklet, as well as other related initiatives such as the T4 short form simplifying payroll reporting, resulted in annual savings of more than \$1.5 million and 120 million pages. In addition, all Revenue Canada publications, including income tax packages for each province, are now available on the Internet.

Increasing Electronically Filed (E-FILE) Returns: The Department processed some 4.8 million E-FILE returns, up from 4.5 million the previous year, including returns with a refund and those with a balance owing.

In the case of E-FILE returns, the issuance of a refund took an average of either 8 days or 11 days, depending on whether direct deposit was used. In comparison, the timeframes for processing refunds from paper returns took, on average, 10 days longer, as illustrated in the graph below. This is mainly attributable to E-FILE returns having fewer errors and no requirement for manual data entry by the Department.



*Time elapsed between Revenue Canada receiving a return and the client a refund.

Implications of Electronic Commerce for Compliance: The rapid growth of electronic commerce in the economy had a significant impact on the Department's ability to verify and enforce compliance. As a result, the Department worked in close cooperation with the Department of Finance and other tax jurisdictions to address the issue. The Department increased its expertise in audit and investigation techniques related to automated systems and electronic information, and established an Advisory Committee on Electronic Commerce with leading experts from the private sector, academic community and government.

Improving Controls on Benefit Programs: Revenue Canada designed several statistical samples and analyzed the results to verify the overall accuracy of its benefit payments. The results confirmed that, among other things:

- about 95% of all entitled children are enrolled in the CTB program;
- 99% of entitled tax filers complete the GSTC “application”, on the tax return;
- there are very few, if any, fictitious or duplicate children enrolled in CTB (based on 99.75% of samples verified to supporting documentation);
- duplicate or excess claims for the GSTC for children occur less than 0.5% of the time;
- in fewer than 700 cases per year nationally, unreported child deaths result in some child tax benefits being paid following the death of the child; and
- many entitled individuals are not claiming their full benefits (e.g., 6% of entitled individuals are not claiming the GSTC for their children).

Maintaining cost effective controls over these and related issues depends, in part, on the availability of birth and death records, which fall under provincial jurisdiction. Negotiations began with all provinces and the territories to obtain the information needed to more effectively administer benefit programs.

Sharing Expertise and Processing Capacity on Income Redistribution Programs: In terms of sharing, and consistent with the confidentiality provisions of the legislation, Revenue Canada provided information on CTB eligibility to the Québec government for la Régie des rentes du Québec, a provincial program which provides assistance to qualified families. It also supported administration of the Employment Insurance Family Income Supplement, by Human Resources Development Canada, by providing necessary CTB information and responding to related inquiries from clients. In addition, a Family Bonus program, consisting of an income tested monthly payment, was administered on behalf of the province of British Columbia.

Preparation work to administer additional benefit and tax credit programs on behalf of other provinces was also initiated with respect to the Alberta Family Employment Tax Credit (first payment in July 1997) and the New Brunswick Child Tax Benefit (first payment in October 1997).

Revenue Canada consulted with clients who had recently applied for CTB benefits in order to develop a service standard for the CTB application process. Based in part on client input, a service standard for processing applications was developed and put in place for the coming fiscal year.

Implementing Canada-Cuba Tax Assistance Project: On November 29, 1996, the Canadian International Development Agency (CIDA), designated Revenue Canada as executing agency, for the Canada-Cuba Tax Assistance Project as part of the Canadian Government's Cuban Economic Management Assistance Program. The project will have a three-year life cycle with the goal of assisting in the design, development, testing and implementation of an automated tax administration system in Cuba. Included in this system will be components relating to client registration, return and payment processing, collections and audit selection and verification. Also included in the Project will be consultation and assistance in training and other human resources issues.

Participating in Canada-India Project: Revenue Canada will also be the primary provider of technical expertise over the next five years, on a cost recovery basis, for the Canadian International Development Agency (CIDA) sponsored project for India entitled "Capacity Development of Revenue Administration Project". The Canadian Government supports the fundamental goals of the Indian Government's economic reform initiatives to increase resources to support social and economic programs. This project supports these goals by providing technical assistance in the area of revenue administration which, by strengthening India's ability to raise revenues, will provide a sustainable increase in funding available for government programs.

Pursuing Service Quality Strategy: The Department continued to work closely with central agencies and other departments, by contributing to the Treasury Board's Service Quality Guides and assisting in the development of a government-wide Service Quality Framework.

The Department developed two guides to assist managers and employees in implementing exemplary service quality initiatives: *A Practical Guide to Consultation*, was developed and widely distributed in 1996-97; and a document entitled *Managing Corporate Development, A Practical Guide* was drafted.

The Department measured client satisfaction for some services (detailed in Section IV, F) and planned a special study on client satisfaction measurements with a view to integrating these measures both to improve overall understanding of clients' views on service improvement and, possibly, to establish a client satisfaction index.

Re-engineering Border and Trade Administration Services for Commercial Importers (Previously Reported as a New Business Relationship): In 1996-97 Revenue Canada completed review of the Aerospace and Automotive Application Tests. As a result of lessons learned in these tests, as well as from extensive consultations with Canadian business, the Minister of National Revenue announced, in October 1996, a series of measures to fundamentally re-engineer the customs commercial process and establish a "Smart Border".

The Minister announced a two-phased approach for consulting the importing trade community. The first phase centres on two new options, the One Step and the Enhanced Option. The One Step process will be available to all commercial importers essentially allowing for elimination of the existing two step commercial process without impacting revenue cash flows. The Enhanced Option, available to qualifying importers, introduced concepts tested in the Application Tests, including expedited release processing, reduction of data requirements and extended accounting timeframes.

In January 1997, the conceptual design for the Phase I initiatives was presented to the Customs Commercial System (CCS) Consultative Committee, the primary forum for customs commercial consultation. As a result, a special sub-committee was formed to address the significant issues and to ensure that the final design would provide for: enhanced compliance rates, speed and certainty of process, uninterrupted flow of goods and less costly compliance processes which are so critical to international competitiveness.

The second phase of consultations with the community on further detail system design information will commence in the fall of 1997.

Expanding Electronic Commerce - Accelerated Commercial Release Operations Support System (ACROSS): In April 1996, ACROSS was implemented nationally. Reaction from the importing community has been very positive particularly with respect to the expanded use of electronic commerce which benefits clients as follows:

- reduction of paper handling costs;
- transmission of cargo and release data on a national basis 24 hours per day, seven days per week;
- elimination of hard copy paper import permits required by Foreign Affairs;
- elimination of the re-keying of data; streamlining of client operations (i.e., with ACROSS there is no need to have a physical presence in order to present release data anywhere in Canada);
- customization of service options to meet individual client needs from greater system flexibility; and
- streamlining of compliance verification through the use of more sophisticated and powerful targeting tools.

By the end of 1996-97, 23% of national release volumes were processed through the use of electronic data interchange (EDI). Since the implementation of ACROSS, numerous enhancements have been made to the system to further streamline and re-engineer the process. For example, the machine release component of ACROSS, implemented in January 1997, allowed Customs to build client profiles in ACROSS to allow automatic releases that meet the profile criteria. Approximately 25% of the total national release volume from 102 ports is now being received via EDI each day, with 1.5% being machine released.

It is anticipated that by the end of 1997-98, 45% of all releases will be transmitted by EDI and 18% will be machine released.

Implementing a Contraband Strategy: In support of the government's Anti-Smuggling Initiative, Drug Strategy and Firearms Initiative, Revenue Canada developed a strategy to guide its contraband interdiction program. Based on implementation of its Contraband Strategy, the Department:

- completed a number of risk assessments and began to apply increased interdiction efforts to high-risk areas (marine, rail, land commercial);
- created a Marine Centre of Expertise after extensive consultations with stakeholders within the Department and organizations outside the Department. Resources devoted to targeting marine locations, increased by more than 50%. A comprehensive marine course was developed for presentation to staff;
- allocated resources to areas of higher risk while maintaining sufficient resources in low-risk areas for deterrent purposes even while facilitating the movement of low-risk goods and people;
- strengthened relationships with law enforcement partners, stakeholders and clients; currently involved in 37 joint forces operations across Canada (i.e., Integrated Proceeds Of Crime, Cornwall Task Force);
- optimized investments in contraband detection technology and detector dogs;
- strengthened risk assessment, intelligence and targeting capabilities, for example, through the use of the Integrated Customs Enforcement System (ICES); and
- strengthened the Strategic Export Control Program.

At the end of the year, national risk assessment was reviewed and the Contraband Strategy adjusted accordingly. Operational priorities in both headquarters and the regions were based on implementing policies, procedures and programs which supported the goals and objectives of the Contraband Strategy.

Supporting Firearms Initiative: The Department continued to work closely with its federal and provincial partners in the drafting of policy and regulations for all firearms imported and exported by individuals and businesses. Regulations passed by Parliament impact on the storage, display, transport and handling of firearms. The Department also continued to develop the infrastructure and delivery mechanisms for the firearms legislation including the new Canadian Firearms Registration System.

The Department took steps to increase cooperation and sharing of intelligence information with the R.C.M.P. and other enforcement agencies at the national and provincial levels. It is participating in the new Firearms Intelligence Unit in the Criminal Intelligence Services of Canada; the National Working Group on the Illegal Movement of Firearms (NWGIMF) and its Core Group; and the Ontario Provincial Weapons Enforcement Unit (PWEU).

Modernizing the Travellers Program (Re-engineering Border Administration Services for Travellers): The strategic use of technology continued to support the travellers process. A long-term vision and strategy for the phased implementation of the Integrated Primary Inspection Line (IPIL) System was completed, and by the end of the fiscal year, the conceptual design of the prototype was initiated. This system will speed up processing of low risk travellers and enable the Department to concentrate its efforts on high-risk individuals by utilizing new technology. The IPIL will provide customs officers with a single, automated, user-friendly front-end to access current systems. It will allow input from a variety of processes/systems (e.g., licence plate and document readers, manual input, transponder transmissions, telephone reporting, interfaces with other systems, optical cards, etc.), and will automate background checks. The implementation of IPIL, in conjunction with other departmental initiatives, will result in a common technology platform across the business functions of travellers, commercial and contraband detection. This will decrease technical support costs and on-going training costs. It is anticipated that pilot testing of the prototype will begin in the coming fiscal year.

Implementing a Compliance Strategy: The Department continued to implement and refine its comprehensive compliance strategy to achieve and maintain an acceptable level of voluntary compliance. In March 1997 it released a report on compliance entitled "Compliance: From Vision to Strategy" to outline its approach, the results achieved and new challenges being addressed. The specific strategies focused on identifying the factors influencing compliance and non-compliance to ensure the best possible results.

The compliance strategy uses a balanced approach to achieve three related goals: to inform and educate Canadians about Canada's tax laws and their obligations and entitlements; to make compliance as easy as possible; and to have a credible enforcement presence. The strategy requires a coordinated effort across all business lines and a consolidated approach to audit, investigations, verification and collections. The comprehensive strategy, based on risks of non-compliance recognized the importance of partnerships with the private sector, the provinces and international organizations to protect the tax base and contribute to the competitiveness of Canadian businesses.

The broad strategy took cognizance of the challenges and issues arising from the changing business climate involving economic restructuring, increasing trade and globalization and changing demographic factors. It identified electronic commerce as an issue for increased attention, and included the establishment of a Compliance Advisory Committee, comprised of representatives from the tax practitioner, academic and business communities, to provide advice on ways to enhance voluntary compliance, as well as to discuss emerging issues and provide feedback on compliance strategies.

Introducing Audit Improvement Plan: Several aspects of an overall Audit Improvement Plan, including a new approach to large business audits, were implemented during the course of the year. This approach was based on integrated audits of large corporations conducted by teams of audit specialists knowledgeable in income tax, international tax, the Goods and Services Tax (GST) and Customs issues. Large File Case Managers are responsible for the Department's relationship with each large corporation and the coordination of all aspects of the integrated audit.

The Department also implemented a new approach to audits of small and medium enterprises involving improved risk assessment processes and increased emphasis on a sector approach to compliance. The audit selection system was redesigned as a computerized risk assessment system to identify non-compliance and to estimate the associated revenue risks. All corporate income tax files, those of self-employed individuals, and GST accounts were subjected to the risk assessment process. The Department is developing sector profiles that bring together industry and economic data for use in managing compliance for some 17 industry sectors.

Audit coverage of small and medium enterprises was expanded through implementation of Combined Audit and Compliance Review programs involving either an audit of both income tax and GST simultaneously, or reviews of specific compliance indicators for one tax when conducting an audit of the other. These programs will be expanded even more as audit personnel are cross-trained in both taxes.

The Department also continued the Underground Economy Initiative but reduced the number of targeted sectors in order to maximize the impact on those remaining sectors. The Department continued to build relationships with industry, professional and community associations at the local and national levels, holding meetings with more than 420 organizations. Revenue Canada worked closely with the provinces and territories through a joint federal-provincial and territorial working group on the underground economy resulting in cooperation agreements with them. These agreements have facilitated joint audits and audit strategies, joint training, exchange of staff, combined investigations, joint meetings with industry groups and associations, as well as the exchange and matching of data. Other initiatives implemented in 1996-97 include a new reporting system for payments to construction subcontractors, additional information requirements for persons claiming GST New Housing Rebates on owner-built homes, enhanced verification and self-review.

A Quality Assurance Program was implemented in all regions to examine the quality of audit activities in relation to established standards, and to determine the actions that had to be taken to recognize the need for continuous learning and improvement in audit work.

Pursuing New Directions for Scientific Research and Experimental Development (SR&ED) Program: The Department started introducing significant changes in the administration of the SR&ED program to increase the timeliness of payments, enhance certainty and consistency, and reduce the costs of compliance and paper burden. The new client-centred approach includes closer working relationships with industry and industry associations including exchanges of science staff, enhanced outreach activities, implementation of a pre-claim project review process, expansion and increased specialization of the Department's science personnel and implementation of the new software guidelines.

Undertaking Joint Initiatives: To improve program delivery and enhance service to our common clients, a number of Joint Service Initiatives (JSIs) were undertaken with other government departments. Revenue Canada and the Canadian Food Inspection Agency (CFIA) worked together on several initiatives with Revenue Canada assuming greater responsibility for delivering the CFIA's programs at the border. Customs Inspectors were trained to perform enhanced release functions for specific low-risk agricultural imports. This was successfully piloted at designated sites in Alberta, British Columbia, Quebec, and Ontario. National implementation of this initiative was approved in February, 1997.

Under the JSI, Revenue Canada cashiers collected CFIA inspection fees and import fees. Phase I and Phase II of this initiative were completed during 1996-97 and evaluation of the two phases began as a prelude to a Memorandum of Understanding to formalize the partnership.

A JSI was undertaken with Environment Canada to assess the feasibility of increasing the level of compliance with the Convention on the International Trade in Endangered Species (CITES) which regulates the importation and exportation of endangered species, including flora and fauna. Enhanced service to importers and exporters could be achieved by utilizing specialized CITES trained Customs Officers at selected pilot sites.

A six-month pilot was conducted at eight sites from June 1996 to November 1996. Following evaluation, a final report for consideration by Deputy Ministers of Environment and Revenue Canada was prepared. Overall, the pilot was successful, and it is anticipated that the two Departments will work together to develop a national implementation strategy.

In partnership with Transport Canada, dangerous goods awareness training was provided to all customs officers. The training focused on the basic verification of shipment documentation and safety markings, as well as health and safety considerations when processing dangerous goods shipments.

Harmonizing Sales Tax: A major step toward reducing compliance burden is inherent in the results of efforts to harmonize sales tax. In October 1996, a combined federal-provincial technical paper was released detailing how the harmonized sales tax would operate. Memoranda of Understanding have been signed with three Atlantic provinces; Nova Scotia, New Brunswick, and Newfoundland for implementation of the harmonized sales tax in April 1997. Bill C-70, containing amendments necessary to accommodate harmonization, received Royal Assent on March 20, 1997.

Re-engineering of Appeals: In 1996-97, the Department completed a review of the principal dispute resolution processes. This review formed the foundation for the broader Appeals Renewal Initiative (ARI) that was announced by the Minister in April 1997 aimed at improving the appeals process by focusing on service improvements in the areas of communications, fairness, transparency, timeliness and accessibility to the redress process.

Moving to Canada Customs and Revenue Agency (CCRA): The March 1996 Budget announced the Government's intention to establish a national revenue agency. During the months that have elapsed since this announcement consultations have taken place with the provinces and other stakeholders regarding proposals involving the mandate, governance, structure and management of the new Agency.

The Department is preparing to draft legislation to create an Agency that would take on duties currently fulfilled by Revenue Canada. Because of the proposed provincial participation on the Board of Directors, the new Agency would be better positioned than Revenue Canada to provide service to both levels of government.

Efficiencies are expected to result from greater administrative authorities within the federal system and from the reduction of overlap and duplication currently existing in separate federal and provincial revenue administrations.

Managing Human Resources Planning: Revenue Canada continued to successfully manage its work force reductions resulting from Program Review through the sound management of public service departure programs as well as the implementation of the staffing controls to monitor post-departure situations.

While Revenue Canada has received additional resources for new workloads, such as implementing legislative changes from the 1996 federal budget, the department has also launched a significant number of re-engineering and other major workforce change initiatives linked to Program Review. Throughout these major change projects, the Department continues to fully support employees who are impacted and to help them secure alternative placement. Retraining is made available to affected employees whenever this makes it easier to place them in alternate positions.

Section IV

Business Line Performance

A. Assistance to Clients and Assessment of Returns

1. Objective

To foster self-assessment and compliance and to process client returns.

2. Description

To communicate to clients their rights and obligations; to develop and maintain a registry of clients; to provide them with the necessary forms and information for filing returns accurately and on time; to respond to client enquiries; to process and assess their returns when received; to advise clients of results through the issuance of notices of assessment; to process payments; to update client accounts for all assessments and remittances; to conduct a limited verification of items that were accepted at the assessing stage, and to administer a number of income redistribution programs. Also included are: an advisory function to other government departments with respect to the administrative feasibility of new legislation and treaties under negotiation; activities related to the registration of charities, pension and deferred income plans; and the provision of advance rulings on the tax implications of potential transactions.

3. Major Achievements

The following achievements are in addition to the key program achievements described in Section III.

Improving Service to Clients: Responded to 23.5 million enquiries (21.2 million in 1995-96) from both individual and business clients, of which 2.6 million enquiries were answered by way of automated Tax Information Phone System (TIPS) and 1.2 million by way of the Automated Enquiries Response Service (AERS). The latter service was expanded in 1996-97 to respond to clients' requests on Child Tax Benefit (CTB) and Good and Services Tax Credit (GSTC) benefits.

Re-engineering Registration Process: Completed conversion of the multiple accounts of Revenue Canada's four main business clients (GST remitters, employers, corporate taxpayers, and importers/exporters) to a single Business Number (BN), enabling each client to be treated as a single entity instead of a separate taxpayer for each revenue program.

Re-engineering Processing Systems: Implemented changes to the T1 Individual taxpayer requested adjustment program and related systems, including the introduction of risk-scoring to identify those files which may warrant closer examination. This re-engineering initiative has resulted in direct efficiency gains of \$4 million in 1996-97.

Changes were also implemented to the T1 Individual processing systems to automate the assessment and reassessment of many returns which previously required manual intervention, and to streamline the calculation of interest and penalty charges for those returns which still require such intervention. This re-engineering initiative is expected to result in direct annual savings of over \$5.9 million.

Improving Accessibility: Increased the availability of departmental forms and publications on the Internet with the objective of reducing the number of client enquiries as well as printing and postage cost. For the period of January 1997 to March 1997, there was an increase of approximately 300% in the amount of traffic on Revenue Canada's website, from 1.2 million to 4.9 million hits when compared to the same period last year.

By means of electronic transmission (E-FILE), the Department received approximately 4.8 million individual returns, representing 23% of all returns filed by individuals during the 1997 filing season. This is an increase of approximately 300,000 returns from the previous year.

Reducing the Burden of Compliance: 1996-97 marked the twenty-sixth anniversary of the Community Volunteer Income Tax Program. During the 1997 tax filing season, 15,000 volunteers participated in the program and assisted over 268,000 clients file their income tax returns, nearly double the 7,000 volunteers and 140,000 clients assisted in 1990.

4. Key Performance Information

Figure 1-1: Public Enquiries Handled

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Enquiries (000's)					
Public Enquiries ¹	16,558	18,458	19,129	19,730	17,566
Associated FTE ²	1,808	1,876	2,093	2,082	1,849
Enquiries Handled per FTE	9,158	9,839	9,140	9,476	9,500

¹ Excludes approximately 2.6 million enquiries answered by way of TIPS and 1.2 million by way of AERS. Beginning in 1995-96, data includes enquiries related to the Goods and Services Tax and employer deductions at source, due to the consolidation of the departmental enquiries programs. The 1994-95 actual reflects a one-time increase in enquiries related to the elimination of the Capital Gains Exemption. The increase in the actual number of enquiries in 1996-97 over the projected volume is due primarily to the legislative changes subsequently announced in the 1996 Federal Budget.

² Associated FTE includes overtime.

Figure 1-2: Tax Filers by Type

(000's)	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Individuals and Trusts	21,168	21,322	21,805
Corporations	1,088	1,110	1,093
Goods & Services ¹	1,719	1,837	1,847
Total Tax Filers	23,975	24,269	24,745
Associated FTE ²	6,955	6,931	6,799
Tax Filers per FTE	3,448	3,502	3,640
¹ Excludes Tax Filers registered in the province of Quebec.			
² Associated FTE include overtime. The 1996-97 Estimates have been restated to reflect organizational restructuring.			

Figure 1-3: Processing Review (Individual) ¹, Additional Tax Assessed

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Returns Reviewed	278,197	643,400	945,650	899,907	950,000
Additional Tax Assessed ² (\$000's)	18,278	54,500	123,000	97,800	70,000
¹ Processing Review uses state-of-the-art software to identify returns with the greatest risk in terms of mistakes or non-compliance.					
² Includes additional federal and provincial taxes assessed.					

Figure 1-4: Matching of Individual Returns ¹, Additional Tax Assessed

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Returns Reviewed	1,333,500	1,352,168	1,400,036	1,437, 560	1,320,000
Additional Tax Assessed ² (\$000's)	227,100	215,687	250,119	305,454	223,775
¹ Matching provides for the verification of tax return information against other information such as T4 slips from employers and T5 slips from financial institutions.					
² Includes additional federal and provincial taxes assessed.					

B. Customs Border and Trade Administration Services

1. Objective

To enforce Canadian laws and sovereignty at the border, and support Canadian industrial competitiveness and economic policies.

2. Description

To enforce Canadian laws and sovereignty at the border and deliver customs border and trade administration services designed to advance and support the government's foreign policy and domestic socio-economic objectives, and thereby protect Canadian industry and society, through control of the movement of people, goods, and conveyances entering or leaving Canada and through the detection of contraband; to support Canadian industrial competitiveness by ensuring that Canadian business receives the advantages intended by various international agreements and other government trade policy instruments; and to support domestic economic policy, such as industrial development, by administering duty relief measures with respect to certain imported goods which are exempt from the application of the government's trade policies.

3. Major Achievements

The following achievements are in addition to the key program achievements described in Section III.

Protecting Canadians: Implemented an Integrated Customs Enforcement System (ICES) designed to support a Customs Officer's ability to collect, analyze and disseminate the information necessary to identify and react to risk at the border. ICES was implemented at 119 sites nationally in July 1996. The system provides coverage for 81% of business volumes and captures approximately 70% of the annual Customs enforcement actions. Development of the intelligence management system commenced in April 1996, as an enhancement to the ICES.

Facilitating the Movement of Low Risk Goods and People: Started the development of tailored solutions for small business clients, and a review of all the trade data importers must provide to the Department when they import goods. In April 1997, Revenue Canada began testing the use of debit cards at four locations: Woodstock, N.B.; Pearson International Airport, Toronto; Ottawa International Airport; and Queenston Bridge (Niagara Falls). The dollar amount for acceptance of uncertified cheques and credit cards on commercial shipments was increased from

\$500 to \$2,500, and from \$0 to \$500 respectively. The Commercial Cash Entry Processing System (CCEPS) is currently being pilot-tested in the Pacific Region (Vancouver Airport, Cargo and Pacific Highway).

CANPASS, a shared border initiative which expedites the movement of travellers through the use of a special permit to enter Canada, was implemented at all airports and approved marinas effective June 6, 1996. The highway program was extended to include Lacolle, Quebec in May 1996. Pilot tests continue on the remaining CANPASS programs. In 1996-97, there were approximately 80,000 participants using the CANPASS program.

An additional CANPASS Processing Centre was established in 1996-97 in Montreal, Quebec adding to the two previously established in Niagara Falls, Ontario and Douglas, British Columbia. By the beginning of 1996-97, four Telephone Reporting Centres had been established: three in Ontario at Lansdowne, Hamilton and Windsor, and one in Victoria, British Columbia, to process travellers arriving by private aircraft and private boats.

Contributing to Government Revenues: Collected in each of 1996-97 and 1995-96, approximately \$9 million in provincial sales and tobacco taxes and liquor mark-ups on behalf of the six provinces with whom agreements are currently in place. Negotiations with the provinces of Ontario, British Columbia and Manitoba are to begin for additional tax collection agreements.

Reducing Cost Burden: Encouraged other customs administrations to develop more facilitative, more certain and transparent, and less costly import procedures. Revenue Canada hosted and chaired three Asia Pacific Economic Cooperation (APEC) Sub Committee on Customs Procedures (SCCP) meetings. In addition, the Department co-hosted a Customs/Industry Symposium with the Canadian Chamber of Commerce in Montreal, in early May 1997. The outcome of Revenue Canada's involvement in APEC, through the SCCP, will be the development of a *Blueprint for APEC Customs Modernization*. The blueprint is considered a major deliverable for Canada and will be presented to the Leaders of the 18 APEC economies at the APEC Economic Leaders Meeting (AELM) that will take place in Vancouver at the end of November 1997.

Re-engineering the Customs Commercial Process: Continued re-engineering of the customs Commercial process from a paper-based transaction approach to a periodic verification system which resulted in seven million dutiable shipments subject to periodic verification. The verification of 34 companies representing \$49 billion of the total value for duty in import trade has been completed as part of Phase I of the Periodic Verification Initiative.

By the end of 1995-96, the Commercial Vehicle Processing Centre (CVPC) was approved as a project under the Canada-United States Accord. In early 1996-97, Revenue Canada and the United States Customs Service signed a Statement of Intent agreeing that the benefits of establishing this commercial pre-clearance process would be consistent with the spirit of the Canada-United States Accord and could result in more effective and efficient border management.

Responding to International Agreements: Signed a memorandum of understanding between Canada, the United States, the Province of Ontario, the Buffalo/Fort Erie Bridge Authority and Windsor Bridge and Tunnel Authority to pilot the North American Trade Automation Prototype (NATAP), an electronic commerce pilot project to facilitate the movement of commercial goods between Canada, the United States and Mexico.

Canada/Israel and Canada/Chile trade agreements were signed in July and November 1996 respectively. The Department has been involved in informing the public, updating systems and publications, and negotiating side agreements and common documentation, with the two countries, such as the certificate of origin.

4. Key Performance Information

Figure 2-1: Travellers

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Travellers Processed (in thousands) ¹	107,848	103,831	105,538	109,145	106,000
Compliance Rate (%) ²					
Air	n/a	87.3	92.3	93.6	88.0
Highway	95.2	96.4	96.7	97.6	96.0
Client Satisfaction ³ (%)					
Today	n/a	92.0	n/a	91.5	92.0
Overall ⁴	n/a	85.0	n/a	86.0	86.0

1 Individuals entering Canada reporting to Customs by any mode.
2 Travellers, by any mode, who comply with the laws administered by Customs Border Services. This measurement is a result of statistical sampling carried out systematically at points of entry across Canada.
3 Travellers who, when surveyed, indicate that they are reasonably to very satisfied with the service they received.
4 Travellers who, when surveyed, indicate they reasonably to very satisfied with what Customs Border Services is doing in general.

Figure 2-2: Commercial

(in thousands)	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Releases Processed ¹	7,090	7,720	8,182	8,017	8,220
Accounting Documents Processed ²	8,056	9,050	9,994	10,299	11,000
Postal Shipments Assessed ³	2,226	2,013	1,759	1,879	1,700
Courier Shipments Released ⁴	n/a	5,120	5,971	7,113	8,450
¹ Commercial shipments arriving by highway, air, rail and marine modes and released. ² Customs Accounting Forms (B3s) processed. ³ Customs Postal Import Forms (E14s) processed. ⁴ Courier shipments released with a value greater than \$20 and less than \$1,600.					

Figure 2-3: Tobacco, Drug, Alcohol and Fraud Seizures / Forfeitures

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Contraband Seizures ¹					
Value (\$000s)	1,507,000	919,500	1,002,000	694,000	900,000
Investigations					
Cases Investigated	1,336	1,253	1,419	1,497	1,300
Criminal Prosecutions Completed	202	122	144	227	145
Prosecution Success Rate	n/a	92%	98%	97%	n/a
¹ Includes drugs, alcohol, jewellery and tobacco.					

Figure 2-4: Appraisal and Adjustment

(in thousands)	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Commercial Entry Accounting Documents Processed	8,056	8,970	9,764	10,299	10,366
Commodity Declarations Presented ¹	21,214	23,209	24,860	27,937	28,056
Commodity Declarations Referred to Review ²	1,726	1,812	1,816	1,685	1,823
Adjustment Claims Processed ³	471	405	367	307	365
¹ Individual lines of transaction presented on entry accounting documents. ² Lines for review for a specific reason or randomly. ³ Includes appeals either importer generated requests for adjustments (either refunds, non-revenue changes, voluntary amendments) or Customs generated adjustments, includes all Drawbacks Claims and Certificates.					

Figure 2-5: Interpretative Policy Determination and Appeals

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
<i>SIMA</i> Complaints from Canadian Industries ¹	49	30	24	19	25
<i>SIMA</i> Investigations (on a country basis) ²	n/a	n/a	n/a	7	n/a
<i>SIMA</i> Measures (on a country basis) ³	n/a	n/a	n/a	22	n/a
Valuation Policy Interpretations	236	167	127	90	130
Tariff Classification and Policy Interpretations	14,562	14,109	12,569	9,567	16,150
Tariff, Valuation and <i>SIMA</i> Appeals	14,784	10,596	9,348	5,162	11,040
Adjudication Decisions	6,777	6,569	4,508	4,255	3,500
¹ <i>SIMA</i> (<i>Special Import Measures Act</i> / Anti-Dumping) figures include initial enquiries and formal complaints whether or not they lead to an investigation. The downward trend in <i>SIMA</i> Complaints may be related to the health of the Canadian economy in recent years. ² A country may be included more than once in this figure if it is subject to more than one investigation. ³ Number of re-investigations. A country may be included more than once in this figure if it was subject to more than one <i>SIMA</i> / Anti-Dumping measure.					

**Figure 2-6: Interpretative Policy Determination and Appeals
Acceptance of Final Departmental Decisions ¹**

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Accepted (%)	96.6	94.2	93.9	96	96
Upheld by External Tribunal (%)	1.7	2.6	2.8	2.8	2
Overtaken by External Tribunal (%)	1.7	3.2	3.3	1.3	2
¹ Includes decisions which are potentially appealable to an external body, where the final departmental decision does not fully agree with the appellant's contention.					

C. Verification and Enforcement

1. Objective

To enhance compliance with the laws administered.

2. Description

To carry out a range of programs related to the verification and enforcement of compliance with tax legislation. These programs include a variety of examinations, audits and investigations designed to increase compliance and ensure fairness in the self-assessment system.

3. Major Achievements

The following achievements are in addition to the key program achievements described in Section III.

Contributing to Government Revenues: Increased total fiscal impact on government revenues to \$5.2 billion in 1996-97, a 16% improvement over the previous year. Verification and Enforcement utilized 8,159 FTEs in direct and indirect enforcement activities; workload completed exceeded 1.3M actions (see Figure 3-3). The Revenue Recovery per FTE improved by 15% compared to the previous year as a result of the Compliance Strategy initiative and the Audit Improvement Plan. The Department reviewed over 28,000 referrals from the public. During 1996-97, 1,145 taxpayers came forward and filed a voluntary disclosure, a 29% increase over the previous year. Taxes and interest paid were \$27.5 million.

Adopting a Comprehensive Approach to Large Business Audits: Implemented the concept of integrated audits of large corporations in 1996-97, whereby teams of audit specialists conduct audits combining income tax, international tax, the GST and Customs issues. Overall results of the new approach cannot yet be measured but initial indications are that this approach results in a more cooperative and open relationship between large corporations and the Department leading to more efficient audits.

Using Improved Risk Assessment: Increased use of computerized risk assessment to maximize compliance of small and medium enterprises by identifying issues of non-compliance in taxpayer files and GST accounts, and by estimating the revenue risk associated with those issues. All corporate income tax files, self-employed individuals, and GST accounts are subject to the risk assessment process.

Achieving Compliance in Tax Incentive Programs: Issued new software guidelines for the Scientific Research and Experimental Development (SR&ED) program following extensive public consultation. The Department provided service related to the SR&ED program in over 20,000 specific instances and delivered 44 targeted information sessions. Consultations were also held with the Canadian film industry and the Department of Finance to discuss interpretation and policy concerns and to streamline the delivery of the Canadian Film and Video Production Tax Credit.

Reviewing Taxpayer Requested Adjustments for SR&ED Expenditures: Completed nearly 90% of the 16,000 requests received for prior years as a result of a legislative change which limited the time for filing these claims. The remaining larger, more complex, claims will be completed during 1997-98.

Enhancing Compliance in Tax Avoidance and Tax Shelters: Achieved increased compliance through aggressive auditing, a timely communication plan, increased sanctions and legislative changes, as well as early detection of tax avoidance schemes. The number of shelters has declined substantially from a peak of 589 in 1994 to 145 in 1996. Sales of tax shelters also continued to decline to \$1.7 billion in 1996 from \$2.3 billion in 1994. The proportion of tax shelters sold in relation to the total dollar value available through tax shelter arrangements (take up rate) has levelled off at approximately 30% during the last two years from a peak of 48% in 1993.

Anticipating Policy and Legislative Issues: Referred a number of legislative proposals to the Department of Finance. Nineteen have been actioned through budget and technical amendment announcements, the most recent of which include measures to discourage non-arm's length and loan back transactions related to charitable donations, harmonizing transfer pricing rules with Organization for Economic Cooperation and Development (OECD) guidelines and amortization of deferred charges related to tax shelters.

Ensuring Audit Standards: Implemented Quality Assurance Program in 1996-97; this program assures the quality of audit activities in relation to established standards. Emphasis was on the review of small corporations, self-employed and unincorporated business audit files.

Enhancing Investigation Activities: Established an Anti-Evasion Division to conduct research and to coordinate departmental activities across all programs on anti-evasion, smuggling and fraud to successfully address tax evasion. Enhanced communication and sharing of information with other enforcement agencies (e.g., RCMP, U.S. Internal Revenue Service). Worked with tax authorities of other countries to enhance expertise and acquire technology to facilitate investigation of tax evasion. Revenue Canada's Computer Search and Recovery specialists are internationally recognized as leaders in this field and are providing training to tax enforcement groups in Canada

and many other countries. Joint cooperation with provincial enforcement agencies provided the opportunity to improve compliance through enforcement efforts directed at illegal inter-provincial mail order sale of tobacco products. Revenue Canada employees assigned to western provinces resulted in 24 investigations and seven convictions to date.

Improving Compliance in International Tax: Improved compliance efforts in the international context through various initiatives: World Income Initiative to foster reporting of all income earned offshore, especially in tax havens; proposals for legislative changes to improve compliance; increased exchange of information with tax treaty partners; and an outreach program. With an outreach program addressed to new and prospective immigrants, particularly the investor and entrepreneur groups, results in the Vancouver area indicated a large increase in voluntary disclosures since the program was initiated. Analytical research is being done to improve detection of non-compliance related to international transactions and to provide strategic advice for the facilitation of international trade and investment. Systems were enhanced to increase the Department's capability to protect tax revenue related to income earned by non-residents. At the same time, international enforcement resources continue to be increased. Additional revenue assessed on international transactions totalled \$630 million in 1996-97 including \$532 million from International Audits and \$77 million from Non-Resident Audits.

Targeting the Underground Economy: Assessed over \$2 billion in additional tax since November 1993. To foster public awareness, the Department has continued to build relationships with industry, professional and community associations at the local and national level. Meetings have been held with more than 420 organizations with discussions focused on ways to improve the identification of underground activity and improve compliance. As a result, a plan was developed to reduce the number of targeted sectors and strategies were developed specifically for construction and home renovation, hospitality, used auto sales and auto repairs, and jewellery. Underground economy agreements and committees have been established with each province. In addition a draft Memorandum of Understanding, covering the release of information by Human Resources Development Canada to Revenue Canada to identify higher risk areas of non-compliance in the above sectors, was prepared for implementation in 1997-98.

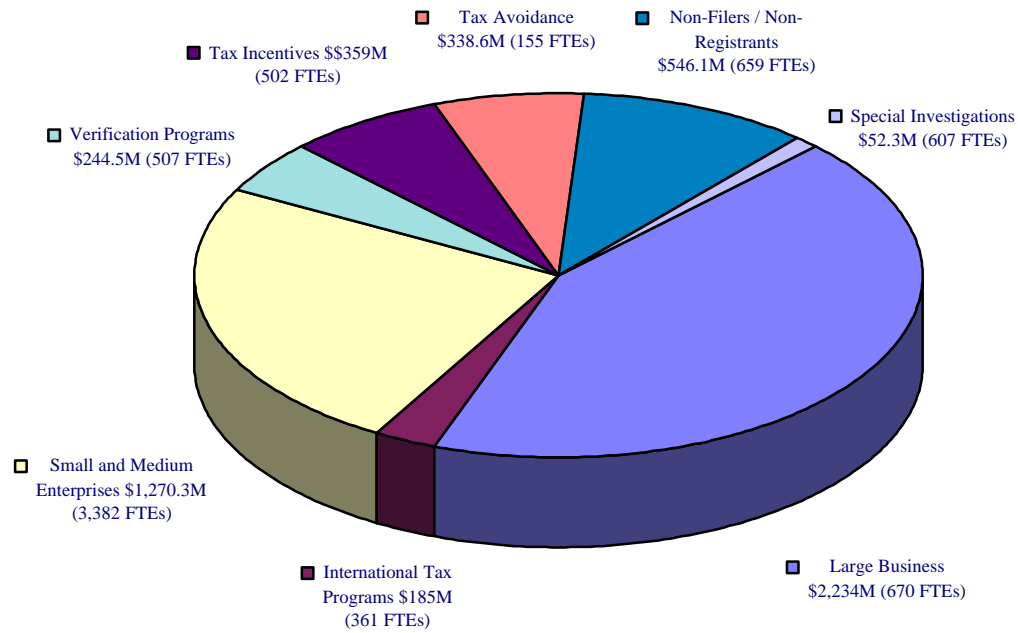
Promoting International Cooperation: Worked with other tax authorities and international organizations to improve compliance and to extend the principles of good tax administration to other countries. Canada is also participating in the harmonization of tax administration in member countries of international organizations such as the Inter-American Centre of Tax Administrations and the OECD.

Improving Compliance Through Federal Provincial Agreements: Continued to work closely with the provinces and territories. Cooperation agreements with all provinces have facilitated joint audits and audit strategies, joint training, exchange of staff, combined investigations, joint meetings with industry groups and associations, as well as the exchange and matching of data. Productive negotiations on cooperation agreements on the underground economy, tax evasion and smuggling took place with the Yukon and Northwest Territories.

Seeking Public Consultation: Continued to consult with outside parties and enhance partnerships with the private sector, the provinces and international organizations concerning all areas of compliance. In 1996-97, the Department established a Compliance Advisory Committee comprised of representatives from the tax practitioner, and academic and business communities to provide advice on ways to enhance voluntary compliance, discuss emerging issues and to provide feedback on compliance strategies.

4. Key Performance Information

Figure 3-1: Verification and Enforcement Programs - Actual 1996-97 Federal and Provincial Taxes - Total Fiscal Impact of \$5.2 billion ¹



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- 1 Total Fiscal Impact includes federal and provincial tax (participating provinces only), federal tax refunds offset or reduced, interest and penalties, and present value of future tax assessable.
- 2 FTE numbers represent direct enforcement resources only.
- 3 International Tax Programs: total recoveries of \$630 million when recoveries from audits of international transactions reported under other programs are included.
-

Figure 3-2: Verification and Enforcement Programs -Total Fiscal Impact, Workload Completed and Associated FTEs

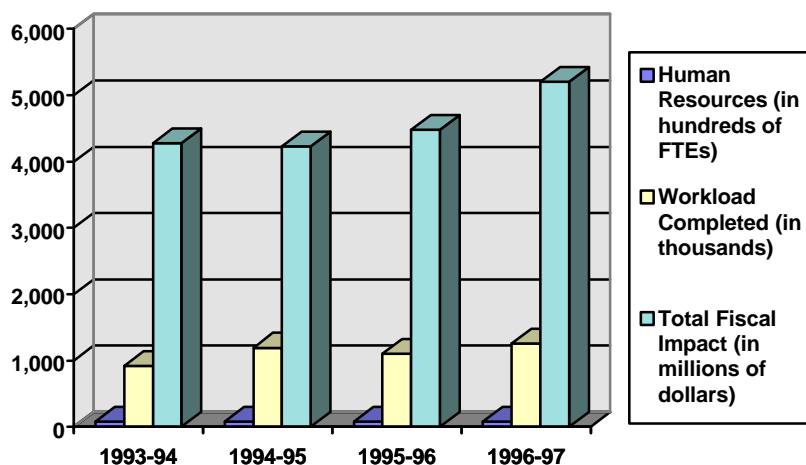


Figure 3-3: Verification and Enforcement Programs - Total Fiscal Impact, Workload Completed and Associated FTEs

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Total Fiscal Impact (\$ millions) ¹	4,278.0	4,231.3	4,481.8	5,229.2
Major Outputs (Workload Completed)				
Files Audited	155,980	146,825	209,655	214,519
Non-Filers - Returns Obtained	509,001	493,280	391,504	487,671
Special Investigations - Enforcement Actions	2,108	2,559	2,098	2,194
GST Domestic Rebates Processed	253,000	277,000	238,903	269,924
Non-Residents Returns Processed	n/a	251,665	227,203	298,376
International Tax - Other Outputs	n/a	22,660	31,030	33,568
Total Outputs	920,089	1,193,989	1,100,393	1,306,252
Associated FTE ²	7,597	7,942	8,087	8,159

¹ Total Fiscal Impact as defined in Figure 3-1, noting that actual amounts billed or refunded may be different due to availability of taxpayer requested offsetting adjustments or appeals or write-offs of uncollectable amounts.

² Associated FTEs represent all FTEs utilized to conduct direct and indirect activities.

D. Revenue Collections

1. Objective

To collect tax, levies, duties, and other amounts such as Canada Pension Plan and Employment Insurance payments.

2. Description

To collect tax, levies, duties, and other amounts including collections of amounts deducted at source by employers on behalf of employees; and outstanding balances resulting from assessment or reassessment of both income and GST amounts as well as outstanding levies and duties. Also included is the issuance of rulings on whether individuals are entitled to benefits under the *Canada Pension Plan* and *Employment Insurance Act*, and making other determinations at the request of the Department of Human Resources Development.

3. Major Achievements

The following achievements are in addition to the key program achievements described in Section III.

Re-engineering Collections Process: Established a pilot call centre to examine the feasibility of replacing collection letters with early personal contact. As a result, the Department proceeded with the development, design and testing of a fully automated national Collections Call Centre.

Reducing the Burden of Compliance: Submitted a comprehensive package of legislative proposals to the Department of Finance to encourage employers to comply with requirements regarding deductions, remittances and reporting, as well as to provide collectors with consistent collection procedures, authorities and powers (70 amendments to the *Customs Act*, the *Excise Act*, the *Excise Tax Act* and the *Income Tax Act*).

Developing Performance Indicators: Established a national committee with the goal of developing new performance indicators for the Revenue Collections program. This will provide managers with a comprehensive set of service, quality and compliance measures to assist them in tracking progress against program expectations.

Ensuring Consistency of Fairness Provision: Established a national Fairness Committee to act as a coordinating body for fairness issues relative to the waiver or cancellation of penalty and interest as well as to ensure consistency in application of fairness provisions. Developed a central registry for the Fairness Initiative. Debts forgiven in 1996/97 totalled \$40.1 million for Income Tax and \$10.8 million for Customs Levies, Excise and GST. This represents .03% of net revenue collected for Income Tax and .04% for Customs Levies, Excise and GST. For details by revenue category, refer to Figure 4-6.

Reducing Inventory of Accounts Receivable: Reduced income tax accounts receivable to 4% of gross revenues as at March 31, 1997 (see Figure 4-2 and Appendix 7). The overall departmental accounts receivable were at 4.3% of gross revenues for the same period.

Using Electronic Technology: Implemented a collections follow-up system utilizing risk scoring and account streaming logic to route accounts according to compliance patterns and potential for loss.

4. Key Performance Information

Figure 4-1: Annual Intake and Closing of Accounts Receivable ¹

	Actuals 1995-96	Actuals 1996-97	Estimates 1996-97
<u>Annual Intake</u>			
Number of Accounts	539,618	591,136	530,000
Total Amount (\$000's)	6,554,694	7,261,064	6,500,000
<u>Annual Closings</u>			
Number of Accounts ²	479,470	546,629	487,500
Total Collections (\$000's)	4,806,506	5,344,936	4,972,500
Associated FTE ³	2,838	2,980	3,040
Total Closings (Number of Accounts) per FTE	169	183	160
Total Collections per FTE (\$000's)	1,694	1,794	1,636
¹ Tax Services Office Accounts only; excludes routine accounts actioned by way of computerized collection notices and Ministère du revenu du Québec activities with respect to GST.			
² Includes accounts written off as uncollectible; and other sundry work disposal measures.			
³ Associated FTE includes overtime.			

Figure 4-2: Analysis of Accounts Receivable at Fiscal Year End ¹

(thousands of dollars)	Actual 1994-95	%	Actual 1995-96	%	Actual 1996-97	%
Income Tax						
Balance Outstanding ²	6,363,142	100	6,829,770	100	6,952,046	100
Allowance for Credit Reassessments	(1,262,484)	19.9	(1,355,966)	19.9	(1,387,751)	20.0
Allowance for Doubtful Accounts	(530,121)	8.3	(575,309)	8.4	(556,853)	8.0
Estimated Realizable Value	4,570,537	71.8	4,898,495	71.7	5,007,442	72.0
Gross Revenue Collected	151,372,102		162,273,190		172,308,142	
Total Balance Outstanding as % of Gross Revenue Collected	4.2%		4.2%		4.0%	
Customs Levies; Excise and GST Taxes						
Balance Outstanding	1,939,799	100	2,281,352	100	2,631,302	100
Allowance for Credit Reassessments (GST)	(124,000)	6.4	(133,087)	5.8	(151,465)	5.8
Allowance for Doubtful Accounts	(215,031)	11.1	(343,337)	15.1	(315,695)	12.0
Estimated Realizable Value	1,600,768	82.5	1,804,928	79.1	2,164,142	82.2
Gross Revenue Collected	48,490,676		49,890,642		52,185,616	
Total Balance Outstanding as % of Total Gross Revenue Collected	4.0%		4.6%		5.0%	
Total Department						
Balance Outstanding	8,302,941		9,111,122		9,583,348	
Gross Revenue Collected	199,862,778		212,163,832		224,493,758	
Balance Outstanding as % of Gross Revenue Collected	4.2%		4.3%		4.3%	
¹ Excludes those amounts not payable under taxes in dispute legislation, and non-tax revenue receivables. ² Includes Scientific Research Tax Credit accounts receivable of \$13.3 million in 1996-97; \$49.9 million in 1995-96 and \$50.7 million in 1994-95.						

**Figure 4-3: Distribution of Accounts Receivable ¹ by Age
(Major Revenue Categories Only)**

As at March 31, 1996 (millions of dollars)									
Age	Individuals	%	Corporations	%	Payroll Deductions	%	GST ²	%	Total
Less than 1 year	2,322.0	53.5	804.4	57.9	297.4	39.4	639.1	33.1	4,062.9
1 to 2 years	734.2	16.9	158.9	11.4	142.8	18.9	251.4	13.0	1,287.3
Over 2 years	1,283.7	29.6	426.9	30.7	314.8	41.7	1,040.4	53.9	3,065.8
Total March 31, 1996	4,339.9		1,390.2		755.0		1,930.9		8,416.0
As at March 31, 1997 (millions of dollars)									
Age	Individuals	%	Corporations	%	Payroll Deductions	%	GST	%	Total
Less than 1 year	2,391.8	53.4	703.9	50.2	331.7	41.1	1,221.0	53.5	4,648.4
1 to 2 years	804.1	18.0	151.3	10.8	152.0	18.8	210.8	9.2	1,318.2
Over 2 years	1,281.5	28.6	546.5	39.0	323.7	40.1	852.9	37.3	3,004.6
Total March 31, 1997	4,477.4		1,401.7		807.4		2,284.7		8,971.2
¹ Excludes those amounts not payable under taxes in dispute legislation, Corporate Share Purchase Tax Credits, and non-tax revenue receivables. ² March 31, 1996 re-stated to include \$281.1 million GST component of Customs import duties.									

**Figure 4-4: Distribution of Accounts Receivable ¹ by Dollar Range
(Major Revenue Categories Only)**

As at March 31, 1996 (millions of dollars)									
Dollar Range	Individuals	%	Corporations	%	Payroll Deductions	%	GST ²	%	Total
Less than \$1,000	464.9	10.7	13.6	1.0	19.9	2.6	38.4	2.0	536.8
\$1,000 to \$9,999	1,273.2	29.3	91.6	6.6	132.6	17.6	381.7	19.8	1,879.1
\$10,000 to \$49,999	1,116.6	25.7	176.2	12.6	265.7	35.2	675.7	35.0	2,234.2
\$50,000 to \$99,999	412.3	9.5	83.0	6.0	121.8	16.1	274.8	14.2	891.9
greater than \$100,000	1,072.9	24.7	1,025.8	73.8	215.0	28.5	560.3	29.0	2,874.0
Total March 31, 1996	4,339.9		1,390.2		755.0		1,930.9		8,416.0

As at March 31, 1997 (millions of dollars)									
Dollar Range	Individuals	%	Corporations	%	Payroll Deductions	%	GST	%	Total
Less than \$1,000	448.2	10.0	14.5	1.0	20.2	2.5	41.5	1.8	524.4
\$1,000 to \$9,999	1,328.9	29.7	102.8	7.3	135.3	16.7	407.9	17.8	1,974.9
\$10,000 to \$49,999	1,123.5	25.1	197.1	14.1	283.9	35.2	730.8	32.0	2,335.3
\$50,000 to \$99,999	433.0	9.7	80.0	5.7	135.5	16.8	296.2	13.0	944.7
greater than \$100,000	1,143.8	25.5	1,007.3	71.9	232.5	28.8	808.3	35.4	3,191.9
Total March 31, 1997	4,477.4		1,401.7		807.4		2,284.7		8,971.2

¹ Excludes those amounts not payable under taxes in dispute legislation, Corporate Share Purchase Tax Credits and non-tax revenue receivables.

² March 31, 1996 re-stated to include \$281.1 million representing GST component of Customs import duties.

Figure 4-5: Uncollectable Write-offs ¹ by Revenue Category

(thousands of dollars)	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Income Tax				
Individuals Tax	339,363	381,315	471,579	731,887
Corporation Tax	121,082	229,205	298,450	160,714
Payroll Deductions	126,994	116,259	120,658	137,022
Scientific Research Tax Credits	62,346	586,249	0	38,933
Other ²	648	3,278	3,832	10,366
Income Tax Write-offs	650,433	1,316,306	894,519	1,078,922
As a % of Net Revenue Collected	0.55%	1.02%	.65%	.73%
Customs Levies; Excise and GST Taxes	13,869	88,517	100,509	205,422
As a % of Net Revenue Collected	.05%	.32%	.37%	.71%

¹ Excludes non-tax write-offs.

² Includes Non-Resident Tax, Petroleum and Gas Revenue Tax, Resource Royalties Tax, and other miscellaneous amounts.

Figure 4-6: Debts Forgiven by Revenue Category ¹ (Fairness Initiative)

(thousands of dollars)	Actual 1996-97
Income Tax	
Individuals Tax	31,975
Corporation Tax	4,076
Payroll Deductions	3,995
Other ²	91
Income Tax Debts Forgiven	40,137
As a % of Net Revenue Collected	.03%
Customs Levies; Excise and GST Taxes	10,792
As a % of Net Revenue Collected	.04%
¹ Data not available prior to 1996-97; excludes non-tax debts forgiven.	
² Includes Non-Resident Tax, Petroleum and Gas Revenue Tax, Resource Royalties Tax, and other miscellaneous amounts.	

Figure 4-7: Canada Pension Plan and Employment Insurance Rulings

	Actuals 1994-95	Actuals 1995-96	Actuals 1996-97
Intake	94,026	98,100	89,869
Completions	92,192	96,965	89,323
Closing Inventory	7,057	8,192	8,738
Associated FTE ¹	261	351	351
Completions per FTE	353	276	254
Completions as a % of Intake	98%	99%	99%
¹ Associated FTE include overtime.			

E. Appeals

1. Objective

To provide clients of the Department with a dispute resolution process that is fair, impartial, objective, open, transparent and timely.

2. Description

To provide a fair and impartial redress process for clients who contest Income Tax and Goods and Service Tax assessments and reassessments, requirements to pay *Canada Pension Plan* (CPP) contributions and *Employment Insurance* (EI) premiums, and entitlements to rebates, refunds and credits under the various statutes administered by the Department.

3. Major Achievements

The following achievements are in addition to the key program achievements described in Section III.

Improving Efficiency: Increased the number of Income Tax objections completed per FTE by 5%, from 90 in 1995-96 (after adjusting for extraordinary one-time workload) to 95 in 1996-97. This improvement in productivity contributed to a reduction of 16% in the number of active files over 1995-96. For details on actual results, refer to Figure 5-1.

The number of Income Tax and Excise/GST appeals completed per FTE increased in 1996-97, compared to 1995-96 productivity levels. Completions per FTE increased from 32 to 43 for Income Tax appeals and from 23 to 35 for Excise/GST appeals. For details on actual results, refer to Figure 5-2.

Reducing Risks Through Strategic Partnerships: Implemented an improved risk management process whereby information on significant cases/issues is shared with the Departments of Justice and Finance to reduce risk exposure and to protect government revenues.

Figure 5-1: Income Tax, Excise/GST Objections

	Actual 1993-94	Actual 1994-95	Actual ¹ 1995-96	Actual 1996-97
Income Tax				
Intake	50,814	67,667	102,973	51,804
Completions	50,742	50,710	113,173	53,406
Closing Inventory	35,342	52,299	42,158	40,448
Associated FTE	527	555	605	561
Completions per FTE	96	91	187	95
Percentage of objections:				
- Allowed in full	35%	34%	13%	35%
- Allowed in part	22%	22%	16%	22%
- Confirmed	43%	44%	71%	43%
- Percentage of objections appealed	7%	7%	3%	8%
Breakdown of inventory workload				
- Active	13,365	14,470	19,708	16,588
- Pending ²	21,977	37,829	22,450	23,860
Excise/GST ³				
Intake	4,154	4,293	5,404	4,941
Completions	3,516	4,208	5,207	5,080
Closing Inventory	5,099	5,184	4,847	4,705
Associated FTE	128	155	124	118
Completions per FTE	27	27	42	43
Percentage of objections appealed	10%	9%	9%	12%
Breakdown of inventory workload				
- Active	3,684	3,762	2,405	2,114
- Pending ²	1,415	1,422	2,442	2,591
¹	The 1995-96 actual figures for income tax include a one time increase in intake and completions related to two large groups of files, one dealing with the taxation of child support payments and the other with scientific research and experimental development claims resulting in an unusually high number of completions per FTE. The variance in intake, completions and the percentages of income tax objections that were allowed in full, confirmed and the percentage that were appealed during 1996-97 is directly attributable to the one case finalized during 1995-96 that dealt with the issue of the taxation of child support payments. The percentages of objections that were allowed in full, in part, confirmed and the percentage that were appealed remain in line with the results achieved in 1993-94 and 1994-95.			
²	Awaiting legal advice, court decision, etc.			
³	Excludes workload and resources utilized by Ministère du revenu du Québec activities with respect to GST.			

Figure 5-2: Income Tax, Excise/GST Appeals to the Courts¹

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Income Tax				
Intake	3,700	3,524	3,736	4,468
Completions	3,335	3,451	3,464	4,562
Closing Inventory	7,052	7,125	7,397	7,304
Associated FTE	126	118	108	105
Completions per FTE	26	29	32	43
Excise/GST				
Intake	410	416	484	649
Completions	332	250	444	488
Closing Inventory	992	1,158	1,089	1,238
Associated FTE	21	17	19	14
Completions per FTE	16	15	23	35

¹ Includes Appeals for Tax Court of Canada, Canadian International Trade Tribunal, Federal Court - Trial Division, Federal Court of Appeal and Supreme Court of Canada.

Figure 5-3: Judgements (Tax Court of Canada/Canadian International Trade Tribunal)¹

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Income Tax				
Judgements in favour of the Minister	916	930	1,004	1,176
Total Judgements Rendered	1,257	1,328	1,467	1,711
Percentage in favour of the Minister	73%	70%	68%	69%
Consent to judgements in favour of taxpayer (allowed in full)	336	295	277	349
Consent to judgements (allowed in part)	651	525	626	585
Discontinuances	683	869	723	1,442
Excise/GST				
Judgements in favour of the Minister	103	100	108	125
Total Judgements Rendered	147	160	174	171
Percentage in favour of the Minister	70%	63%	62%	73%
Consent to judgements in favour of taxpayers (allowed in full)	44	60	30	59
Consent to judgements (allowed in part)	-	-	-	55
Discontinuances	163	80	178	102

¹ Total Judgements Rendered does not include consent to judgements and discontinuances.

Figure 5-4: CPP/EI Determinations

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Intake	8,479	10,708	9,396	7,586
Completions	8,676	9,940	9,050	8,803
Closing Inventory	2,369	3,137	3,483	2,266
Completions as a % of Intake	102%	93%	96%	116%
Percentage Appealed	22%	26%	35%	29%
Associated FTE	142	166	152	150
Completions per FTE	61	60	60	59

Figure 5-5: CPP/EI Appeals to the Courts ¹

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Intake	1,952	2,676	3,209	2,692
Completions	1,295	2,566	2,928	3,000
Closing Inventory	2,517	2,627	3,088	2,765
Associated FTE ²	25	34	38	36
Completions per FTE	52	75	77	83

¹ Includes Appeals for Tax Court of Canada, Federal Court-Trial Division, Federal Court of Appeal and Supreme Court of Canada.

² Associated FTE includes overtime.

Figure 5-6: CPP/EI Judgements ¹

	Actual 1993-94	Actual 1994-95	Actual 1995-96	Actual 1996-97
Total Judgements Rendered	880	1,594	1,724	1,817
Judgements in favour of the Minister	676	1,268	1,364	1,354
Percentage in favour of the Minister	77%	80%	79%	75%
Consent to Judgements	211	341	403	380
Withdrawals	204	631	535	803

¹ Includes Appeals to Tax Court of Canada, Federal Court - Trial Division, Federal Court of Appeal and Supreme Court of Canada.

F. Administration and Information Technology

1. Objective

To provide executive direction, information technology, and financial, administration and human resource services necessary to administer the law uniformly and economically.

2. Description

To provide executive direction and a range of support and central services to the other Activities. These include electronic data processing and information technology, internal audit and program evaluation, financial management, resource management, office systems, security, human resources, training, laboratory and legal services.

3. Major Achievements

The following achievements are in addition to the key program achievements described in Section III.

Developing Service Standards: Achieved significant progress in the development of Service Standards during 1996-97. Fifteen service standards for many major external services such as Rulings on Technical Income Tax Law Interpretations, Enquiries Programs and Processing Services have been adopted, with additional standards planned for publication by the end of 1997.

Establishing Long Term Facilities Investment Plan: Developed a Long Term Facilities Investment Plan (LTFIP). The Plan, based upon operational input from headquarters and the field, addresses health and safety deficiencies, accessibility and the establishment of additional shared border facilities.

Managing and Developing Human Resources: Continued to successfully administer work force reductions resulting from Program Review through the sound management of the involuntary departure programs as well as the implementation of staffing controls to monitor post-departure situations, placing 207 affected departmental staff as well as 97 affected employees from other departments.

Furthermore, a strategic framework was established for training and development through the formulation and approval of “*Guiding Principles*” and “*the Accountability Framework for Managing Training and Development in Revenue Canada*”. These documents strategically position the Department to evolve to a learning organization. The strategy describes a move from a culture of dependency on traditional classroom

learning to an environment where employees and managers have the tools available to identify learning needs and can access a variety of learning products and strategies to satisfy needs.

Also, the *Management Learning Forum* was created to address issues surrounding management in Revenue Canada. This committee initiated a number of projects that will assist in identifying and addressing learning needs required to assist managers in meeting their performance objectives.

Implementing Revenue Canada Network (RCNET): Completed national implementation of RCNET, an initiative to provide integrated multi-media capacities to all Revenue Canada sites. In 1996-97, a \$6.0 million savings in telecommunication costs was realized. This figure is expected to increase to \$8.0 million for 1997-98 and successive years.

Promoting Electronic Commerce: Added new trading partners to the Electronic Funds Transfer (EFT) system, which enables businesses to remit payroll source deductions, corporate instalments, and non-resident tax electronically. In 1996, \$22.3 billion in payments were received through this system, an increase of 105% over 1995. One hundred and thirty-nine importers and brokers began to transmit release and invoice data to the Department in an electronic format.

Supporting Business Number Registry and Integrated Services: Commenced, in the summer of 1996, enhancements to Departmental Business Number (BN) system to create a joint registration capability with provinces and other government departments, and to automate the BN registration process.

4. Key Performance Information

Figure 6-1: Administration and Information Technology Business Line as a Percentage of Departmental Total

	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Total Business Line FTEs	6,597	7,374 ¹	6,233
Total Departmental FTEs	38,786	39,163	38,539
Total Business Line FTE, as a % of Total Department FTE	17.0%	18.8%	16.2%
¹ 1996-97 Actual FTE utilization includes 674 FTEs related to the 1996 Census, the costs of which are paid by Statistics Canada. When excluding these FTEs, Administration and Information Technology Business Line as a percentage of the Departmental Total would be 17.4%. In addition, 1996-97 utilization was higher than 1995-96 due to re-engineering initiatives and the introduction of the Harmonized Sales Tax which required the utilization of additional Information Technology FTEs.			

Section V

Supplementary Information

Appendix 1: Use of 1996-97 Authorities - Volume II of the Public Accounts

Vote	(dollars)	Main Estimates	Total Available for Use	Actual Use
National Revenue				
1	Operating expenditures	1,834,363,000	1,956,149,673	1,853,489,475
5	Capital expenditures	12,277,000	13,586,000	13,203,399
10	Contributions	92,750,000	102,750,000	94,865,275
(S)	Minister of National Revenue			
	- Salary and motor car allowance	48,645	48,645	48,645
(S)	Contributions to employee benefit plans	222,783,000	231,309,000	231,309,000
(S)	Children's Special Allowance payments	42,000,000	42,100,193	42,100,193
(S)	Spending of proceeds from the disposal of Surplus Crown Assets		475,797	295,175
(S)	Court Awards		904,926	904,926
(S)	Refunds of Amounts Credited to Revenue		-	-
Total Ministry - Budgetary		2,204,221,645	2,347,324,234	2,236,216,088

Appendix 2: Comparison of Total Planned Spending to Actual (shaded) Expenditures, 1996-97 by Business Line

(in millions of dollars)							Less: Revenues Credited to the Vote	Total
	FTE	Operating ²	Capital	Transfer Payments	Total Gross Expenditures			
Assistance to Clients and Assessment of Returns	10,696	506.1 504.6		144.9 137.0	651.0 641.6			651.0 641.6
Customs Border and Trade Administration Services	7,295	399.4 391.3	13.5 13.2		412.9 404.5			412.9 404.5
Verification and Enforcement	8,113	488.1 464.1			488.1 464.1			488.1 464.1
Revenue Collections	4,649	220.4 207.0			220.4 207.0			220.4 207.0
Appeals	1,036	59.1 57.7			59.1 57.7			59.1 57.7
Administration and Information Technology	7,374 ¹	644.9 590.4			644.9 590.4			644.9 590.4
Revenues Credited to the Vote					-	(129.1)		(129.1)
					-	(129.1)		(129.1)
Total Budgetary	39,163	2,318.0 2,215.1	13.5 13.2	144.9 137.0	2,476.4 2,365.3	(129.1) (129.1)		2,347.3 2,236.2

¹ Actual FTE utilization includes 674 FTEs for the 1996 Census. For more details, refer to Figure 6-1 in Section IV.

² Includes contributions to employee benefit plans and Minister's salary and motor car allowance.

Appendix 3: Departmental Planned versus Actual Spending by Business Line

(millions of dollars)	Actual 1995-96	Total Planned 1996-97	Actual 1996-97
Assistance to Clients and Assessment of Returns	648.0	651.0	641.6
Customs Border and Trade Administration Services	389.0	412.9	404.5
Verification and Enforcement	452.6	488.1	464.1
Revenue Collections	201.1	220.4	207.0
Appeals	56.2	59.1	57.7
Administration and Information Technology	590.1	644.9	590.4
Revenues Credited to the Vote	(115.1)	(129.1)	(129.1)
Total	2,221.9	2,347.3	2,236.2

Appendix 4: Details of Spending by Object

(thousands of dollars)	Actual 1994-95	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Personnel				
Salaries and wages	1,601,109	1,554,181	1,535,391	1,536,423
Contributions to employee benefit plans	202,699	209,583	231,309	222,783
Minister's Salary and Motor Car Allowance	49	49	49	49
	1,803,857	1,763,813	1,766,749	1,759,255
Goods and services				
Travel	46,885	30,913	35,267	28,028
Postage	48,526	50,651	56,818	57,351
Other communications and transportation	63,525	66,595	64,627	58,469
Information	37,859	39,861	33,464	47,368
Professional and special services	117,987	103,137	99,863	93,284
Rentals	12,964	8,826	9,808	14,879
Purchased repair and maintenance	49,180	46,574	45,523	35,640
Utilities, materials and supplies	37,914	33,034	38,738	31,842
Other subsidies and payments	1,027	275	(606)	1,073
	415,867	379,866	383,502	367,934
Capital				
Controlled Capital	2,323	8,903	13,203	12,277
Minor Capital	65,205	52,554	64,927	50,323
	67,528	61,457	78,130	62,600
Transfer payments				
Grants (statutory payments) ¹		40,135	42,100	42,000
Contributions	101,276	91,763	94,865	92,750
	101,276	131,898	136,965	134,750
Gross Expenditures	2,388,528	2,337,034	2,365,346	2,324,539
Less: Revenues Credited to the Vote	(102,295)	(115,136)	(129,130)	(120,317)
Net Expenditures	2,286,233	2,221,898	2,236,216	2,204,222

¹ Responsibility for Children's Special Allowance Statutory Vote Payment was transferred effective August 28, 1995 from Human Resource Development Canada (P.C. Order 1995-342).

Appendix 5: Revenue Collections by Type, 1996-97 and 1995-96

(thousands of dollars)	Gross Collections 1996-97	Refunds Drawbacks and Credits ¹ 1996-97	Net Collections 1996-97	Net Collections 1995-96
Income taxes				
Individuals ²	145,458,182	19,731,214	125,726,968	119,233,370
Corporations	23,862,879	4,513,184	19,349,695	17,060,455
Non-Residents	2,198,848	61,158	2,137,690	1,610,875
Petroleum and Gas Revenue Tax	-	792	(792)	-
Resource Royalties Tax	28,932	-	28,932	6,511
Miscellaneous ³	759,301	50,021	709,280	493,002
Excise Taxes and Duties				
Goods and Services Tax (GST)	40,669,768	22,654,259	18,015,509	16,316,753
Customs Import Duties	3,114,208	437,178	2,677,030	2,971,067
Sales Tax	(1,492)	26,136	(27,628)	(142,120)
Motive Fuels	4,435,538	(3,529)	4,439,067	4,397,432
Excise Duties	2,275,134	18	2,275,116	2,222,911
Other Excise Taxes	946,120	56,505	889,615	775,257
Other				
Softwood Lumber Products				
Export Charge	96	-	96	76
Air Transportation Tax ⁴	737,241	-	737,241	682,723
Provincial Sales, Tobacco and				
Alcohol Taxes	9,003	-	9,003	9,018
Non-Tax Revenue	289,146	-	289,146	215,345
Total Revenues	224,782,904	47,526,936	177,255,968	165,852,675
¹ Refunds, Drawbacks and Credits include Child Tax Benefit (CTB) payments of \$5,238,750,638 (in 1995-96, CTB payments totalled \$5,196,905,976) and Goods and Services Tax (GST) Credit payments of \$2,872,080,664 (in 1995-96, GST Credit payments totalled \$2,798,940,904).				
² Includes Canada Pension Plan contributions and Employment Insurance Premiums.				
³ Includes revenues from trusts and estates, and special returns not processed by the normal systems.				
⁴ Air Transportation Tax is subsequently transferred to Transport Canada on a monthly basis.				

Appendix 6: Allocations of Revenues Collected, 1996-97 and 1995-96

(thousands of dollars)	Gross Collections 1996-97	Refunds Drawbacks and Credits ¹ 1996-97	Net Collections 1996-97	Net Collections 1995-96
Federal				
Income Tax	107,368,262	24,356,369	83,011,893	77,016,544
Goods and Services Tax	40,669,768	22,654,259	18,015,509	16,316,753
Other Taxes, Duties and Non-Tax Revenue	11,795,896	516,308	11,279,588	11,122,615
Provincial				
Income Tax ²	33,342,007	-	33,342,007	31,859,504
Other Taxes ³	9,099	-	9,099	9,094
Canada Pension Plan Contributions ⁴	11,390,703	-	11,390,703	10,607,273
Employment Insurance Premiums ⁴	20,207,169	-	20,207,169	18,920,892
Total Revenues Allocated	224,782,904	47,526,936	177,255,968	165,852,675
¹ Refunds, Drawbacks and Credits include Child Tax Benefit (CTB) payments of \$5,238,750,638 (in 1995-96, CTB payments totalled \$5,196,905,976) and Goods and Services Tax (GST) Credit payments of \$2,872,080,664 (in 1995-96, GST Credit payments totalled \$2,798,940,904). ² Provincial Income Tax is allocated from the collection of Individuals' Tax and Corporation Tax. ³ Other Provincial Taxes include sales, tobacco and alcohol taxes, as well as the Softwood Lumber Products Export Charge collected on behalf of the provinces. ⁴ Canada Pension Plan Contributions and Employment Insurance Premiums are allocated from the collection of Individuals' Tax.				

Appendix 7: Statement of Accounts Receivable at Fiscal Year End

(thousands of dollars)	As at March 31, 1996	As at March 31, 1997
Income Taxes		
Individuals ¹	4,339,901	4,477,398
Corporations	1,392,541	1,403,953
Scientific Research Tax Credit ²	49,942	13,291
Source Deductions	755,006	807,394
Non-Residents	260,827	211,583
Miscellaneous ³	31,368	38,262
Retirement Compensation		
Arrangement Tax	38	24
Energy Taxes		
Petroleum and Gas	147	141
GST and Other Excise Taxes and Duties	2,159,699 ⁴	2,525,880
Customs Duties	121,653 ⁴	105,422
Total Tax Revenue Receivable	9,111,122	9,583,348
Sundry (Non-Tax Revenue) ⁵	226,517	233,197
Total Accounts Receivable ⁶	9,337,639	9,816,545
¹ Excludes the prepayment of the Child Tax Benefit (CTB) and the Goods and Services Tax Credit (GSTC). ² Represents "returns assessed" under Part VIII of the Income Tax Act relating to scientific research project expenditures that have not been accepted as tax credits under SRTC legislation. ³ Includes taxes and penalties assessed under T3-T4-T5 series of returns. ⁴ March 31, 1996 data re-stated to include \$281.1 million which is the GST collected on imports previously included in Customs Duties. ⁵ Excludes Revenue Internal to the Government (1996-97) \$168,331.00 and (1995-96) \$1,275.00. ⁶ Excludes amounts not payable under taxes in dispute legislation (\$4,105.5 million at March 31, 1997 and \$3,981.4 million at March 31, 1996).		

Appendix 8: Non-Tax Revenues - 1996-97 Public Accounts

(thousands of dollars)	Actual 1995-96	Actual 1996-97
Non-Tax Revenues		
Return on investments		
Public buildings and properties rental	339	441
Refunds of previous years' expenditures		
Refunds of previous years' expenditures	1,288	1,909
Adjustment of Prior Year's Payable at Year-End	1,401	9,037
Privileges, licenses and permits		
Brokers' licence fees	407	435
Services and Service Fees		
Ruling fees	1,207	1,221
Photocopying charitable organization returns	0	6
Special report on tax statistics	34	27
Foreign travel	94	138
Inspection fees	3	6
Recovery of conference and seminar fees	2	1
Customs bonded warehouse fees	755	933
Provincial tax credit fees		29,496 ¹
Special services fees	1,417	1,364
Other fees	1,539	2,117
Proceeds from Sales		
Proceeds from sales	176	54
Sale of unclaimed goods, seals, etc.	563	291
Spirit age labels	36	0
Other	29	99
Proceeds from the disposal of surplus Crown assets	320	324
Other Non-Tax Revenues		
Penalties		
Goods and services tax	67,385	79,919
Other	3,033	6,863
Interest		
Goods and services tax	67,560	78,776
Other	9,714	8,129
Customs Seizures	239	33
Investigation services seizures	2,023	1,766
Port seizures	8,193	6,859
Duty free shops	3,341	3,553
Fines and forfeitures	9,563	8,000
Access to information	31	20
Law costs awards	4	17
Miscellaneous user fees	22	30
Advance Pricing Agreements fees	156	154
Rental of parking space	225	249
Family Bonus B.C. (new for 1996-97)		2,459
Recovered of employee benefits	16,744	20,452
Other	17,503	23,968
Total Non-Tax Revenues	215,346	289,146
¹ Includes \$9,531,795.78 for the Administration of Provincial Tax Credits during 1994-95 and \$9,677,599.17 during 1995-96, which were received in 1996-97 and reported in the 1996-97 Public Accounts.		

Appendix 9: Revenues Credited to the Vote (Respendable Revenues)

(thousands of dollars)	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Canada Pension Plan	50,005	55,796	51,163
Employment Insurance	65,131	73,334	69,154
Total Revenues Credited to the Vote	115,136	129,130	120,317

Appendix 10: Human Resource Utilization (FTE) by Business Line

	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Assistance to Clients and Assessment of Returns	11,125	10,696	10,401
Customs Border and Trade Administration			
Services	7,383	7,295	7,579
Verification and Enforcement	8,028	8,113	8,177
Revenue Collections	4,601	4,649	5,078
Appeals	1,052	1,036	1,071
Administration and Information Technology	6,597	7,374 ¹	6,233
Total	38,786	39,163	38,539

¹ Actual FTE utilization includes 674 FTEs for the 1996 Census. For more details, refer to Figure 6-1 in Section IV.

Appendix 11: Transfer Payments

(thousands of dollars)	Actual 1995-96	Actual 1996-97	Estimates 1996-97
Grants (statutory payments)			
Children's Special Allowance	40,135	42,100	42,000
Contributions to the Province of Quebec			
in respect of the joint administration			
costs of federal and provincial sales taxes	91,763	94,865	92,750
Total	131,898	136,965	134,750

Appendix 12: Major Capital Expenditures

(thousands of dollars)	Actual 1995-96	Actual 1996-97 ¹	Estimates 1996-97
New Facilities Projects			
Saint-Bernard-de-Lacolle, Quebec	2,913	10,206	8,589
Pigeon River, Ontario	2,960	120	139
Existing Facilities Projects			
Facilities Improvements related to Anti-Smuggling			
Initiatives (ASI)	1,530	-	-
Health and Safety Projects	1,500	1,500	1,500
Other Projects		1,377	2,049
Total	8,903	13,203	12,277

¹ Total available for use (as shown in Appendix 1) included in-year Supplementary Estimates approvals of \$845,000 transferred from Operating expenditures and a \$464,000 carry forward from 1995-96.

Appendix 13: Results of Program Evaluation Studies

Underground Economy Strategy Evaluation: The evaluation assessed the effectiveness of Revenue Canada's strategy on the underground economy. As a consequence of the evaluation, several issues relating to publicity, guidelines for community visits, the release of information, and performance measures, have already been proposed for implementation and others are under active consideration.

Goods and Services Taxes (GST) Fairness Provisions: Following the conduct of an evaluation on the Income Tax Fairness Provision in 1994-95, a second review was undertaken to review the GST Fairness provisions. Based on the findings of this review, policy and procedural changes were undertaken, processes were streamlined and a tracking system has been put in place.

Anti-Smuggling Initiative Evaluation: This evaluation reviewed the measures taken in the Anti-Smuggling Initiative for which the department had been funded additional resources. The evaluation confirmed for management the effectiveness of the anti-smuggling initiative and resulted in the continuation of funding. Management is also incorporating other recommendations into delivery of the initiative to further improve its effectiveness.

Trust Accounts and Source Deductions: This project was designed to develop recommendations for the optimized organizational design for the Source Deduction function at Headquarters and in regional offices. As a result of the evaluation, the account examination function was retained within its original branch with some changes made to officers' duties. A further impact was to initiate another study to determine the optimum level of audit penetration for trust accounts.

Aerospace Application Test Evaluation: The evaluation addressed the rationale and pilot application of an audit approach to verification of trade information. The findings of this review were accepted by the responsible branch and are being considered as part of program development efforts.

Automotive Application Test: The evaluation assessed the effectiveness of the new process for the reporting and accounting of imports via highway for the Big Three automotive companies. Although some improvements had been achieved, opportunities were identified to further modify the process to increase effectiveness.

Appendix 14: Results of Internal Audits

Client Services Directorate - Tax Publication Division: The objective of the audit was to assess the efficiency of the current publication process within the Tax Publications Division of the Client Services Directorate and to identify re-engineering initiatives with respect to publications within Client Services Directorate. Numerous good practices and re-engineering initiatives for providing accessible and reliable service were identified, including several initiatives which have resulted in about \$3 million in annual savings. Opportunities for improving the publication process were also provided.

Review of the Application of the Fairness Legislation in Excise/GST: The objective of the audit is to assess the application of the Fairness legislation introduced with Bill C-112. The audit noted fair and responsible consideration of Fairness requests on a case by case basis. Policy refinement and the introduction of a computerized tracking system contributed to improving national consistency.

Business Number Registration System: The objective of the audit was to assess the effectiveness of the Business Number (BN) registration process. The audit found that the BN Registration System and process is generally effective in streamlining the registration of business clients and that there is limited risk associated with the registration process.

Cash Management Audit Phase I - Excise/GST Revenue: The objective of the audit was to assess the departmental cash management practices. The audit indicated that, overall, Excise/GST cash management is done properly.

Customs Drawbacks Audit: The objective of the audit was to assess the effectiveness of the management controls in place. Management is in the process of improving the management control infrastructure and applying recognized verification standards where required.

National Information Technology (IT) Security Review: The objective of the audit was to assess the level of security of IT throughout the Department. The audit found the application of IT security to be generally adequate throughout the Department.

International Tax Directorate: The objective of the audit was to assess the adequacy and effectiveness of the functional role of the International Tax Directorate. The audit indicated that the streamlined programs examined are in constant evolution, and that management is in the process of improving many areas, such as the program structure and objectives.

Discipline Administration: The objective of the audit was to assess the appropriateness, relevancy, uniformity, consistency, and effectiveness of the process of discipline within/across all departmental business lines and business line support activities. Overall, it was concluded that the Department's policies are appropriate and consistent with central agencies. Human Resources will develop a single national policy, guidelines and standards to ensure a consistent disciplinary and fair process.

Employment Equity: The objective of the audit was to assess the efficiency and effectiveness of the Employment Equity (EE) program and of the degree of compliance with the Public Service Reform Act and the requirements of the Treasury Board policies. Overall, the EE program is functioning well and the Department is well positioned to respond to the requirements of the new Employment Equity Act.

Finance and Administrative Services - Verification Enforcement and Compliance Research Branch: The objective of this audit was to identify in the Administrative Services unit, potential duplication of the processes, the simplification and standardization of procedures and systems, the clarification of roles and facilitation of budget planning and forecasting. Overall the unit is meeting the expectations of its clients. The centralized approach to providing administrative services is effective and efficient.

IT Management Infrastructure: The objective of the audit was to assess regional IT management practices and systems in relation to the innovative use of IT, a consistent strategic direction and cost effectiveness. Information Technology Branch and regional IT Advisors are implementing a management framework and processes to better align national and regional IT plans, projects and support activities.

CPP Administrative Costs: The objective of this joint audit with Human Resources Development Canada (HRDC) was to attest the CPP administrative costs for 1995-96 chargeable to the Human Resources Development Canada. CPP administrative costs for 1995-96 were in accordance with the Memorandum of Understanding (MOU) between HRDC and Revenue Canada.

Financial Compensation: The objective of this joint audit was to assess the compliance of the financial compensation paid for the administration of the GST in Quebec under the provisions of the agreement. The GST systems used to determine the number of registrants is reliable.

Physical and Logical Security: The objective of this joint audit was to ensure that Revenue Canada and MRQ comply with security standards at least equal to those established by the Treasury Board Secretariat. Management is taking action to clarify the roles and responsibilities of areas within MRQ to protect GST data and physical GST files, the equipment for processing data, and the premises where the equipment and files is located.

Management of Funds: The objective of this audit was to ensure that money collected by the Ministère du Revenu du Québec on behalf of the Receiver General of Canada is properly managed. The audit concluded that the management of GST funds by MRQ complies with the provisions of the federal/provincial agreement regarding the administration of the GST by the Province of Quebec.

Appendix 15: Revenue Canada, Recipient of External Awards

Technology in Government Week Federal Awards: These awards were established to recognize leadership, innovation and excellence in the management and use of information within the federal public service. In 1996, the Department received the following recognition:

- **Gold Medal - Accelerated Commercial Release Operations Support System.** This was a joint project involving the Information Technology Branch, the Customs and Trade Administration Branch, and the Assessment and Collections Branch. Three years of re-engineering efforts have resulted in the streamlining and enhancement of the automated customs clearance process.
- **Gold Medal - Leadership.** Over a two-year period, major system modifications were made to allow Customs Border Services to streamline operations. Several enhancements to the programming standards and operating procedures resulted in reduced communications hardware, support and infrastructure costs. One employee of the Information Technology Branch provided leadership to the development team and contributed significantly to the analysis, design and programming.
- **Silver Medal - Refund Set-Off Program.** Using electronic data interchange (EDI) links between departments, Revenue Canada now tracks many different kinds of outstanding debts to the Crown and is able to encourage payment by offsetting tax refunds. Both Information Technology Branch and Assessment and Collections Branch participated in this project.

- **Bronze Medal - *The T4 Record of Earning Team*.** The Record of Earnings (ROE) establishes eligibility for the Canada Pension Plan (CPP) social benefits. Revenue Canada and Human Resources Development Canada worked together to automate and streamline verification procedures resulting in significant improvement in customer service and substantial savings to the Crown. Both Information Technology Branch and Assessment and Collections Branch participated in this project.

Professional Awards: The Association of Professional Executives of the Public Service of Canada Award was given to the Assistant Deputy Minister, Southern Ontario Regional Office. In addition, the Inter-American Centre of Tax Administrators presented an award for the world-wide tax administration essay contest. These awards highlight the strong professionalism of the Department.

Council of Federal Libraries Agatha Bystram Award for Leadership in Information Management: The Manager, Information Management Division (Finance and Administration Branch) received the Award for managerial skills demonstrated in the development of information management policies for Revenue Canada and in merging the policy and operational units of the two former departments of Customs and Excise, and Taxation as well as for contribution to the profession at the local, national and international level in the Association of Records Management and Administration (ARMA International).

Appendix 16: Legislation Administered

Acts under the responsibility of the Minister of National Revenue, including certain acts for which the Minister of National Revenue has a role:

Canada Pension Plan, C-8 (Part I)
Children's Special Allowances Act, 1992, c. 48 (Schedule)
Customs Act, R.S., c. 1 (2nd Supp.)
Customs Tariff, R.S., c. 41 (3rd Supp.)
Customs and Excise Offshore Application Act, C-53
Employment Insurance Act, 1996, c. 23 (Parts IV and VII)
Excise Act, E-14
Excise Tax Act, E-15 (Part II-IX)
Export Act, E-18
Export and Import Permits Act, E-19
Federal-Provincial Fiscal Arrangements Act, F-8
Fruit and Vegetable Customs Orders Validation Act, 1988, c. 5
Importation of Intoxicating Liquors Act, I-3
Income Tax Act, R.S., c. 1 (5th Supp.)
Income Tax Application Rules, R.S., c. 2 (5th Supp.)
Department of National Revenue Act, N-16

Petroleum and Gas Revenue Tax Act, P-12
Public Utilities Income Tax Transfer Act, P-37
Special Import Measures Act, S-15
Surcharge on Imports Order Act, etc., 1963, c. 18
Tax Rebate Discounting Act, T-3 (SI/95-102)
Trade Marks Act, T-13 (ss. 53 to 53.3)

Appendix 17: Revenue Canada, Other Sources of Information

- Compliance: From Vision to Strategy
- Index to Revenue Canada Services
- Revenue Canada: Benefit Programs
- 1996-97 and 1997-98 Reports on Plans and Priorities
- Tax Statistics on Individuals
- Revenue Canada Website (<http://www.rc.gc.ca>)

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October 7, 1997