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Reporting Fees for Service (RFS) Initiative

Executive Summary

Prepared for the Canada Revenue Agency

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Canada 

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The Canada Revenue Agency (CRA) commissioned Sage Research Corporation to conduct a qualitative public opinion research study with small and medium size businesses regarding reporting fees for service (RFS) requirements. The CRA will use this research to address knowledge gaps, help ensure reporting obligations are less time-intensive and as seamless as possible, and assist in developing outreach and education strategies.

The CRA will use this research to review its policies, procedures, and communication to the target audience, which includes all entities who, in the course of their business, pay fees for services. Ten focus groups were conducted between February 25 and March 5, 2020, with two groups in each of Moncton, Montreal, Toronto, Calgary and Vancouver. The target group was businesses that are subject to RFS requirements. Five focus groups were conducted with Small Businesses and five with Medium Business.

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Executive Summary

The Canada Revenue Agency (CRA) commissioned Sage Research Corporation to conduct a qualitative public opinion research study with small and medium size businesses regarding reporting fees for service (RFS) requirements.

Paragraph 153(1)(g) and regulation 200 (1) of the Income Tax Act indicate that every person paying at any time in a taxation year fees, commissions or other amounts for services, other than amounts described in subsection 115(2.3) or 212(5.1), shall make an information return in prescribed form in respect of the payment unless an information return in respect of the payment has been made under sections 202, 214, 237 or 238. For most payers, box 048 of the T4A slip is the prescribed method to report. A business must issue a T4A for a vendor if payments to that vendor for services is more than \$500 in a calendar year.

Preliminary public opinion research has revealed that there is a general lack of awareness of the obligation to issue a slip/report to the CRA when a fees for services payment has been made.

The research objectives for this study were to:

- Gauge awareness of the obligation to report with business audiences and understand where knowledge gaps exist;
- Better understand how compliance with this requirement could affect businesses, including any actual and perceived burdens it may place, particularly on small businesses;
- Help determine options for outreach and effective communications to ensure businesses can effectively be made aware of the reporting requirement and obligation.

Results from the research will be used to:

- Address knowledge gaps;
- Help ensure reporting obligations are less time intensive and as seamless as possible for businesses and providers of services by identifying any actual and perceived burdens; and
- Assist in developing outreach and education strategies, as well as enhancing other services for businesses and service providers, such as available information on websites and in guides.

Ten two-hour focus groups were conducted between February 25 and March 5, 2020, with two groups in each of Moncton, Montreal, Toronto, Calgary and Vancouver. The target group was senior stakeholders in businesses that are subject to RFS requirements – that is, they pay more than \$500 over the course of a calendar year to at least one vendor that provides a service to the business. Five focus groups were conducted with Small Businesses (less than 10 employees), and five with Medium Business (10 -249 employees). There were five to ten participants in each focus group, for a total of 80 participants. Participants were paid an honorarium of \$175.

This research was qualitative in nature, not quantitative. As such, the results provide an indication of participants' views about the topics explored, but cannot be statistically generalized to represent the full population. Qualitative research does, however, produce a richness and depth of response not readily available through other methods of research. It is the insight and direction provided by

qualitative research that makes it an appropriate tool for exploring participants' knowledge and opinions with respect to RFS.

Key Findings

Services Purchased

As a warm-up at the beginning of each focus group, participants were asked to name services that their business buys in the course of a calendar year. Results from this discussion suggest:

- Participants had a reasonably good “core concept” of what constitutes a “service”, but the subsequent discussion revealed substantial uncertainty about precisely what is and is not considered a service for RFS purposes by the CRA.
- While participants can quickly name some services they buy, it takes further thought and analysis to come up with all of them. That is, a complete list of services (and therefore vendors) is generally not top-of-mind.
- Based on the \$500 threshold, participants concluded they would have to file T4As for almost all vendors from which they buy services.

Awareness of RFS

Almost none of the participants were aware of RFS requirements. A small number had issued T4As for services provided to their business by an individual, however they were not aware of the much broader scope of RFS requirements.

Among participants whose business provides services to other businesses, almost none had received a T4A.

In the context of almost no awareness of RFS requirements, many participants wondered whether or not their accountant was aware, as they had not heard anything about RFS from their accountant. A small number assumed their accountant was aware of RFS and might even be dealing with the requirements. Most were just not sure if their accountant was aware.

Participants were asked whether or not they thought their accounting software could handle compiling the data needed for T4As and to generate T4As. Not surprisingly, given almost no awareness of RFS and the related role of T4As, there was a lot of uncertainty.

Participant Questions and Perceived Issues

What is a service? Almost all participants concluded that the CRA will need to provide clear guidance on what constitutes a service. While some things clearly appear to be “services”, there are other situations that are less clear, depending on how one looks at them. Participants cited a number of examples which can be perceived as including a service component and a product component. The question participants raised with respect to RFS is whether it is to be classified as 100% service, 100% product, or some mix of service and product.

Dealing with a combination of a service and a good: Many participants were concerned about how to deal with situations where, for RFS purposes, the cost of a service needs to be separated from the cost of goods. There were two major concerns: (1) the vendor does not always split out the two different costs on their invoice, and (2) when the costs are split out on an invoice, the current bookkeeping practice may be to combine both costs as a single entry. Overall, the combination of these two concerns led many participants to conclude that dealing with combinations of services and goods would substantially increase the time and cost of complying with RFS requirements.

Services purchased from vendors outside of Canada: Some participants said they buy services from a vendor outside of Canada, and asked whether or not RFS requirements apply to these vendors. The moderator said that there is a T4A-NR which might need to be filed. The fact the question was raised suggests there may be an issue with lack of awareness of T4A-NR filing requirements, and at least some participants did not appear to recognize the T4A-NR when the moderator mentioned it.

\$500 reporting threshold: Many participants felt that this threshold is too low: all or almost all the vendors they buy services from are paid more than \$500 in a calendar year, so they said that T4As would have to be issued for virtually all the services they buy. The most common suggested alternative thresholds were in the \$5,000 to \$10,000 range.

Overall Participant Reaction to the Impact of RFS

A small number of participants – most of whom were smaller businesses – felt that complying with RFS would not be too much work – typically based on their assumptions about how many T4As they would have to issue (e.g. less than 10) and ease of meeting the requirements with their existing accounting system.

However, the large majority of participants had a negative reaction to RFS because they believed that compliance would have substantial costs in terms of their time, staff costs and accounting costs.

Perceptions of the Rationale for RFS

Some participants said they did not know why the RFS requirements exist, but the majority appeared to quickly conclude that this is being done to check on whether vendors are declaring all their income – that is, to combat the underground economy.

A small number of participants felt that RFS is a reasonable tool for the CRA to use in combatting the underground economy.

However, most did not see this as a good reason for RFS requirements. The primary reason is that these participants felt the cost/burden put on business outweighs any benefits in terms of reducing the underground economy. They were not opposed to the CRA taking steps to combat the underground economy, but they did not feel that RFS would be effective enough to justify the cost and burden to business.

Participant Suggestions for How to Inform Business about RFS

Suggestions included:

- *Educate accountants:* Most participants said it would be very important to ensure accountants are well-informed about RFS requirements – particularly given that almost none had heard about RFS from their accountant.
- *Mail information about RFS:* Informing business by mail was a frequent suggestion. Some suggested a mailing dedicated to RFS, while some suggested inserting information in existing mailings, such as the Notice of Assessment.
- *Work with accounting software providers:* The major concern of most participants was that RFS will increase costs and workload. In this context, the functionality of accounting software is perceived to play a critical role in reducing cost and workload.
- *Educate vendors, as applicable, on splitting costs of services and goods on invoices*
- *CRA’s My Business Account:* Some participants who use the CRA’s *My Business Account* suggested a prominent notice here could be effective in getting their attention.
- *CRA Website:* Suggestions for the CRA website included putting a visually prominent message about RFS on the main pages that businesses are likely to visit, and creating a special section of the website dedicated to providing information about RFS requirements.
- *Explain what is a “service”:* Suggestions included providing a definition, providing lists of what count as services, and providing a list of examples of things that might seem to be services but are not (for RFS purposes).
- *Provide a dedicated information phone line*
- *Publicize the penalties for noncompliance:* A few participants suggested businesses will not be motivated to learn about RFS until it is clear that penalties will be imposed for noncompliance.

CRA Concepts for Supporting Business

Written notice of apparent low T4A filing, with a follow up offer to help the business understand their T4A reporting requirements. The idea here is that the CRA would identify businesses that appear to have a low level of T4A reporting based on, for example, the categories of expenses they report. There would be a follow-up offer to help the business better understand T4A filing requirements, and the business would be given an opportunity to correct its T4A filing if necessary. It was emphasized to participants that the intent of this initiative would be educational. Some participants thought the concept was a good idea, providing the intent truly is educational, and that it will not be used to “punish” a business. Some others were not supportive because it was perceived to sound “threatening” or to “sound like an audit.”

Putting T4As on My Business Account: The idea is that *My Business Account* would have all the T4A slips sent or received by a business. Many participants who currently use *My Business Account* liked this idea. Perceived benefits included:

- Helpful if a T4A sent to the business does not arrive
- A back-up copy if the business’s copy gets lost or destroyed

- Allows checking of exactly what T4As the CRA has on file for the business

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Rick Robson
Vice-President
Sage Research Corporation