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Chair: Mrs. Kelly Block



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• (1105)

[*English*]

The Chair (Mrs. Kelly Block (Carlton Trail—Eagle Creek, CPC)): I call this meeting to order and welcome you all to meeting number 11 of the Standing Committee on Public Accounts.

The committee is meeting in public today. Pursuant to Standing Order 108(3)(g), the committee is meeting today to continue its study of “Report 3—Taxation of E-Commerce” in the “2019 Spring Reports of the Auditor General of Canada”.

Today's meeting is taking place in a hybrid format, pursuant to the House order of September 23, 2020. To ensure an orderly meeting, I would like to outline a few rules to follow, but I will not repeat all of them because I think everyone, including our witnesses, is very familiar with them.

You may speak in the official language of your choice. Interpretation services are available for this meeting. You have the choice, at the bottom of your screen, of selecting either “Floor”, “English” or “French”.

Unless there are exceptional circumstances, the use of headsets with a boom microphone provided by the House of Commons is mandatory for everyone participating remotely who needs to speak. Should any technical challenges arise, please advise me. Please also note that we may then need to suspend for a few minutes, as we need to ensure all members are able to participate fully. I want to add for those participating in person that masks are required unless you are seated and when physical distancing is not possible.

Should you wish to get the attention of the chair, please signal the clerk with a hand gesture. For all, should you wish to raise a point of order, please activate your microphone and indicate clearly that you wish to raise a point of order.

With regard to the speaking list, the committee clerk and I will do our best to maintain a consolidated order of speaking for all members, whether you are participating in person or virtually.

Now I would like to welcome our witnesses. Joining us today from the Office of the Auditor General of Canada are the Auditor General, Karen Hogan; Mathieu Lequain, director; and Philippe Le Goff, principal.

We also have John Ossowski, president, and Peter Hill, vice-president, commercial and trade branch, from the Canada Border Services Agency; Bob Hamilton, Commissioner of Revenue and chief executive officer, and Ted Gallivan, assistant commissioner, compliance programs branch, from the Canada Revenue Agency;

and Paul Rochon, deputy minister, and Andrew Marsland, senior assistant deputy minister, tax policy branch, from the Department of Finance.

You will each have five minutes to make your opening statements.

Today I will start with Mr. John Ossowski. Please go ahead, sir.

Mr. John Ossowski (President, Canada Border Services Agency): Thank you, Madam Chair. Good morning to you and the members of the committee.

[*Translation*]

Thank you for having invited me once again to take part in today's discussion on the auditing of e-commerce taxation.

[*English*]

Peter Hill, the vice-president of our commercial and trade branch, joins me again.

When we last met, I outlined that the CBSA has already made significant progress on the concerns raised in the spring 2019 Auditor General's report. The CBSA acknowledges that there has been growth in low-value shipments year over year, particularly in shipments valued in the lowest value category—goods valued at \$20 or less—and, since the Canada-U.S.-Mexico agreement was implemented, also goods from the United States and Mexico valued at \$40 or less.

I would like to underline the fact that these items are exempt from duties and taxes, so there is no revenue loss associated with the increase in orders for these types of goods.

The CBSA is taking a comprehensive approach to addressing the challenges raised by the Auditor General. This includes our work on the CBSA assessment and revenue management project—the CARM project—the courier analytics tool and our e-commerce strategy, for example. These are key activities to adapt to a retail landscape in Canada in which people are making more and more purchases online.

In addition to dramatically growing volumes of e-commerce, these transactions have also increased in complexity. Changes in e-commerce are difficult to predict, such as supply chain disruptions, and can be influenced by factors outside of the country and outside of CBSA's control. That's why we are focused on working with partners and stakeholders both in Canada and internationally to tackle the challenges that we are facing.

In particular, I point to the World Customs Organization working group on e-commerce, which CBSA co-chaired. It has developed a global cross-border e-commerce framework of standards and a collaboration with our Border Five partners in the development of a business case to advance implementation of our customs e-commerce strategy.

The CBSA motto is protection, service and integrity. A lot has changed since the CLVS, the courier low-value shipment program, was first put in place. Consumer trends, volumes and even the pandemic have had their impacts. What has not changed is our commitment to protecting the tax space by ensuring that the sales tax system for e-commerce treats all vendors equally with regard to the GST and HST, ensuring the integrity of the data we collect and providing excellent service as one of the major stakeholders in Canada's e-commerce landscape.

- (1110)

[Translation]

I'd be happy to answer any questions from committee members.

Thank you for your attention.

[English]

The Chair: Thank you very much, Mr. Ossowski.

We will now go to Mr. Hamilton for five minutes.

[Translation]

Mr. Bob Hamilton (Commissioner of Revenue and Chief Executive Officer, Canada Revenue Agency): Thank you, Madam Chair.

Thank you for giving me this opportunity to discuss Report 3 with you. As you mentioned, I am accompanied today by Mr. Ted Gallivan.

[English]

I would say that in Report 3, the Auditor General made two recommendations to the CRA, and we accepted both of them.

As noted in our updated action plan, which has been provided to the committee, I am pleased to report that the CRA has already fulfilled a number of its commitments, and we are well on our way to addressing the remaining deliverables.

Thank you, Madam Chair.

I would be happy to answer any questions the committee may have.

The Chair: Thank you very much, Mr. Hamilton.

We will now move to Mr. Rochon.

[Translation]

Mr. Paul Rochon (Deputy Minister, Department of Finance): Good morning, Madam Chair.

Thank you for having invited us once again to appear before the Standing Committee on Public Accounts.

I'd like to give the committee a brief overview of recent changes that are relevant to your examination of the Auditor General's report on the taxation of e-commerce.

In the fall economic statement tabled earlier this week, the government proposed a number of changes designed to level the playing field for Canadian businesses in terms of applying the goods and services tax, the GST, to all products and services consumed in Canada, regardless of how they are supplied or who supplies them.

There are three proposals related to the GST and the harmonized sales tax, the HST.

[English]

Let me just briefly review the three changes that were introduced in the fall update, as they relate to the taxation of electronic commerce.

The first relates to foreign-based vendors with no physical presence in Canada, as these currently do not have to charge the GST on sales of digital products or services. These digital products and services that we're talking about include things like mobile apps, online video gaming, and video and music streaming.

To enhance tax fairness between Canadian and foreign-based vendors, the government proposes that foreign-based vendors selling digital products or services to consumers in Canada be required to register for, collect and remit the GST or the HST on their sales to Canadian consumers. It's estimated that this measure will raise \$243 million in revenue during the first full fiscal year that it is in effect, which will be 2022-23.

I would only note that the proposed approach is modelled on the guidelines developed by the OECD.

The second measure relates to a situation of there currently being no requirement for foreign-based vendors, including those that sell through digital platforms, to collect the GST or the HST on sales of goods stored in Canadian fulfillment warehouses. These are warehouses that foreign-based vendors use to store goods and then make deliveries to Canadians in a timely way.

In the fall statement, the government proposes to apply the GST and the HST on all sales to Canadians of goods that are located in Canadian fulfillment warehouses. Under this proposal, the GST and the HST will be required to be collected and remitted by either the foreign-based vendor or the digital platform that facilitates that sale. We estimate that this measure will raise \$275 million in revenue in the first full year that it is in effect, which is, again, 2022-23.

The third measure relates to property owners who are renting out their residences or other residential property through digital platforms for short-term periods. To improve GST and HST compliance and to ensure fairness across the accommodation sector, the government proposes to apply the GST and the HST to all platform-based short-term rental accommodation supplied in Canada. We estimate that this measure will raise about \$65 million in 2022-23.

These changes are proposed to take effect as of July 1, 2021.

• (1115)

[Translation]

That concludes my overview of the government's recent proposals.

My colleague Andrew Marsland and I would be happy to answer any questions you might have.

Thank you.

[English]

The Chair: Thank you very much, Mr. Rochon.

I will now turn it over to Ms. Hogan as our final presenter.

[Translation]

Ms. Karen Hogan (Auditor General of Canada, Office of the Auditor General): Good morning.

Thank you, Madam Chair.

Thank you for giving me the opportunity to continue our dialogue on the taxation of e-commerce.

[English]

I will leave most of my time to the committee members for questions.

I simply want to state that the government's proposals outlined in its fall economic statement are, in our view, in line with the recommendations of the OECD, which are the best practices or actions taken by other countries.

With that, I'll hand it back to you, Madam Chair.

Thank you.

The Chair: Thank you very much, Ms. Hogan.

We will now go to our first round of questioning. It is a six-minute round, and we will start with Mr. Lawrence.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you.

Thanks again to all the witnesses for their appearances. I believe everyone's come back for a second time, so I appreciate that.

I want to start off with you, Ms. Hogan.

First, having reviewed the economic and fiscal update, I would say that in table A1.9, it does appear as though the government has fulfilled your funding request, underneath "Office of Auditor General", with an impact amount of \$31 million. Is that correct?

Ms. Karen Hogan: We were pleased to see our funding included in the economic statement released earlier this week. I very much appreciate the committee's support as well as the finance committee's support for us to obtain our funding. Obviously now we look to the supplementary estimates (C) and Parliament's vote on that, but including our funding in the economic statement provides us with the clarity that we need in order to move forward to start rebuilding our performance audit practice and modernizing our office.

Mr. Philip Lawrence: Mr. Hamilton, I'd like to ask you some questions about the fiscal update. I'm not sure whether you're in a position to answer them yet.

First of all, have you had a chance to review the fiscal update, and are you up to date on it?

Mr. Bob Hamilton: Yes, I've obviously had a chance to review the update. We are up to date and look forward to getting ourselves ready to administer on July 1, should the—

Mr. Philip Lawrence: That's my first question. You're confident that you'll be able to collect the HST starting July 1.

Mr. Bob Hamilton: Yes. At CRA, we always do our best, and we're pretty confident that we will be able to. I would say, though, that it's going to require some thinking between now and then, and obviously consulting, because we want to do this in a way that's streamlined and efficient.

One good thing I would reference is that there are other countries and jurisdictions that have done some of this, so we'll be looking to those practices as well as engaging the stakeholders to look at the best way to implement this.

Mr. Philip Lawrence: You have all the resources you need from the government to implement this policy. Is that correct?

Mr. Bob Hamilton: At this stage I believe we do. There will still be questions as we move forward, but at this stage, we're pretty confident.

Mr. Philip Lawrence: It's early days yet, but by the end of this year, what percentage of the HST would you expect to capture from foreign companies?

• (1120)

Mr. Bob Hamilton: By the end of...?

Mr. Philip Lawrence: I mean by the end of 2021. My apologies.

Mr. Bob Hamilton: It's hard to put a percentage on it, but I would hope that we'd be collecting all that we can. Again, I would say that we will be consulting in advance to make sure. There is always some leakage in the tax system, and we have to continually work on that to ensure compliance and ensure that everybody knows the rules, but I'm confident that we'll be getting a good share of that revenue, and we'll be working on any areas where we identify gaps.

Mr. Philip Lawrence: With respect to enforcement, I suspect that the Netflixes of the world, as reputable, solid companies, will abide by Canadian rules, but what about some of the companies that would maybe even be part of the dark web—ones that perhaps distribute illicit materials and other things? What are your enforcement goals for the companies that aren't as reputable?

Mr. Bob Hamilton: That will be something...as we look at the regime and what it would take to administer it. We always have some compliance challenges that we have to move forward on. Maybe I'll ask my colleague, Ted Gallivan, to say a word.

We will be examining how companies are complying and where there might be gaps and then we'll be addressing strategies, which would be both education and hard enforcement where we need to.

Ted, I don't know if you want to add a couple of words.

Mr. Ted Gallivan (Assistant Commissioner, Compliance Programs Branch, Canada Revenue Agency): I would say the OECD doesn't just produce good guidance around how to facilitate voluntary compliance. Countries are working together to deal with aggressive non-compliance. There's something called JITSIC, whereby we already exchange information in relation to personal income tax. We certainly will plug in with our global partners around e-commerce as well.

Mr. Philip Lawrence: Thank you for that.

Mr. Rochon, thank you very much for your detailed response to my question. I certainly appreciate it.

I wanted to go over this quickly. Between the fulfillment warehouses, taxation, the digital content and the Airbnbs, we're looking at about \$500 million. We can argue whether it will come from the digital giants or from the taxpayers, but there will be an increased tax load on Canadians as a result of this. Is that correct?

Mr. Paul Rochon: We estimate in the update that the combined revenue uptake from the three measures—which is what you're asking, I believe—about is \$396 million in fiscal year 2021-22 and \$583 million in fiscal year 2022-23. It rises each year thereafter.

Mr. Philip Lawrence: Perfect.

At least a portion of that will be coming from the Canadian taxpayers, and as a sales tax, it is regressive, meaning that people at lower incomes pay proportionately more than those at upper incomes.

There is the GST credit, which you rightly point out in your answer. However, the GST rebate is not being increased. Is that correct?

Mr. Paul Rochon: The GST rebate is not being increased, not at this time. It is indexed to inflation, but you're right. It is not being increased.

I think a legitimate question in regard to the issue that you're pointing to is to what extent digital types of products and services are displacing current non-digital types of products and services that are currently being taxed.

This whole question of the increase in the tax incidence of these measures is—

Mr. Philip Lawrence: I think that's fair. I'm just going to try and squeeze in one more question—

The Chair: Thank you. No, I'm sorry, MP Lawrence. It was a good try, though.

I will now turn the floor over to Mr. Sorbara for six minutes.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Chair.

I'd like to begin on a slightly different note before I get into my questioning. I'd like to say thank you to Mr. Rochon.

Mr. Rochon, you announced you'd be moving on or retiring in the days ahead, so I want to say thank you. I got to interact with you many times over five years when I sat on the finance committee in the first session of Parliament to which I was elected.

We both share two things very much in common. We're both alumni from the University of Toronto's master of arts and economics program, where we both got our graduate degrees.

Second, you worked for a number of years—I think it was three years—at the Conference Board of Canada before joining the Department of Finance. You made a decision to change gears and move to something different, much like now, whatever that may be, whether it's retirement or whatever.

I too faced the same situation, and met a co-worker of yours, Paul Darby, many years ago when I was interviewed at the Conference Board of Canada. Unlike you, who were much wiser and decided to work at the Conference Board of Canada, I declined the offer and decided to move to New York City to work for an investment bank for a number of years before I came back here.

I know both our passion for economics and good policy is there, but I really want to say I wish you the best in your new endeavours. You've served the country in some very trying times, and I know you are an anchor within the department in guiding the country and our fiscal policy forward. I do want to say thank you.

I wanted to give you a minute or so to respond to that if you wish, before I get to questions.

● (1125)

Mr. Paul Rochon: Thank you very much for those gracious comments.

As you say, I had the great benefit of starting my career at the Conference Board, going then to the Department of Finance, the Department of Health, international development and back to finance, where I've had the tremendous opportunity to work with great ministers and great colleagues and to interact with fabulous parliamentarians.

I thank you both for your comments, Mr. Sorbara, and also, by extension, I thank you and the committee for the important work that you do. We sometime bat and debate things back and forth, but I think it's important not to lose sight of the importance of these discussions and the transparency and the things that we learn through them. Thank you very much.

Mr. Francesco Sorbara: Absolutely. Thank you.

Commissioner, can you give us an update and further expand on your introductory remarks in terms of the commitments the CRA has fulfilled? I know there's one commitment coming for December 2020, so could you elaborate on your introductory remarks in terms of what the AG recommended and what CRA has done? Thank you.

Mr. Bob Hamilton: Thank you.

We had recommendations from the AG, and as I've said, we've completed some elements of the action plan and everything is on track for completion. It was basically to look back at our corporate risk profile and identify places where there were risks of non-compliance.

Obviously, the change in legislation will change that calculation, should the legislation come forward, but we did recognize that this area is growing. We needed to integrate it better into our compliance risk strategy and take better account of where those risks are and what we could do about them by using tools that are available to us, some of which are technology-based.

We have done that. That part of the action plan was completed, in fact, earlier this year.

There's another part, which is to implement the system changes on tracking and monitoring. One thing that we were not doing was separately identifying our compliance activities in this particular area, as opposed to general compliance activities. We weren't tracking them separately and monitoring, and we will now be doing that. We are completing imminently that process of building those systems into place, and that will give us a better read in a real-time basis as to what's happening. The tracking will identify the places where we might be falling short and where we would need to correct the course.

Again, we're nearing completion on that aspect. The final area, really, is drafting a strategy going forward and, again, obviously we'll need to calibrate this to reflect the legislation at the time, but we are looking at that legislative framework. We'll be looking at the information that comes out of our better tracking and monitoring and coming up with effective compliance mechanisms.

Mr. Francesco Sorbara: Chair, may I follow up very quickly?

The Chair: You may. You have 30 seconds.

Mr. Francesco Sorbara: Okay.

In terms of the estimations of the tax gap, Commissioner, in terms of the FES document and the application of the GST, will our tax gap estimates on the various measures be strengthened, because now we'll have a greater transparency into some of these markets or sectors?

• (1130)

Mr. Bob Hamilton: I would expect there would be some improvement in the tax gap as a result of these measures, but again, I think that may be more important in the future than right now, if this area grows. In the past when we've looked at this and the degree to which we thought there was a gap in this area, we saw it was smaller relative to the bigger tax gaps that we have in other areas.

Yes, it will help—

The Chair: Thank you.

Mr. Bob Hamilton: —but I think that as this grows in the future, we would hopefully see even greater benefits.

The Chair: Thank you very much, Mr. Hamilton.

Mr. Francesco Sorbara: Thank you, Commissioner.

The Chair: We will now move to Mr. Blanchette-Joncas for six minutes.

[Translation]

Mr. Maxime Blanchette-Joncas (Rimouski-Neigette—Témiscouata—Les Basques, BQ): Thank you, Madam Chair.

Good morning to my colleagues.

I'd like to thank all the witnesses for being here.

I'm very pleased about the fact that this meeting is being held. It's one that I asked for, because I thought it was important to have a clear update. I'd like to thank my colleagues for their support in requesting that this meeting be held.

My first question is for Mr. Rochon.

Mr. Rochon, your record of service with the Department of Finance is eloquent. It speaks for itself. I was also told that you're the longest-serving deputy minister in the department since World War II. Your expertise is invaluable, particularly in view of the crisis we find ourselves in at the moment.

Can we infer from what you've said that the issue surrounding fair electronic taxation is closely tied to the government's will? Are there other reasons, legislative or otherwise, behind this matter?

Is it fair to say that Canada dragged its feet on collecting billions of dollars?

We might also ask about Big Tech, namely Google, Amazon, Facebook and Apple, or GAFA.

Mr. Paul Rochon: I believe that the measures announced in the economic update provide a structure that would enable us, particularly with respect to sales taxes, to deal with the major issues involved in electronic commerce.

My colleague Mr. Marsland has been dealing with this matter for several decades. I will therefore ask him to give you further details.

[English]

Mr. Andrew Marsland (Senior Assistant Deputy Minister, Tax Policy Branch, Department of Finance): My apologies; I was on mute.

I think, as Mr. Rochon said, these proposed measures really equip the sales tax system to deal with the particular challenges associated with electronic commerce. I think the government, in terms of the revenues, has published estimates with respect to the expected revenue pickup from the implementation of these measures.

[Translation]

Mr. Maxime Blanchette-Joncas: Thank you for this clarification, Mr. Marsland.

I will now return to you, Mr. Rochon.

The third measure you raised earlier in your presentation caught my eye. You said that individual property owners were renting out their residences or cottages through digital platforms, and that the government is proposing to apply the GST/QST to these individuals by 2023. It's staggering to be so proactive in going after taxpayer money when the GAFA companies have been a problem for years.

The Clerk of the Committee (Ms. Angela Crandall): Sorry.

We have an interpretation problem.

[English]

Mr. Philip Lawrence: I have a point of order.

He's been interrupted a couple times. Can we make sure, Chair, that he gets the time that he's entitled to while we've had these little technical issues?

[Translation]

Mr. Maxime Blanchette-Joncas: Can you hear me?

Is the interpretation working properly?

Madam Chair, could you check with the clerk to see how much time I have left?

[English]

The Chair: You have two and a half minutes.

[Translation]

Mr. Maxime Blanchette-Joncas: Thank you.

Mr. Rochon, as I was just saying, in your speaking notes this morning, the third measure caught my eye. You said that individual property owners were renting out their homes or cottages through digital platforms, and that the government is proposing to apply the GST/QST to these individuals by 2023. It's staggering to be so proactive in going after money from taxpayers, when the GAFA companies have been a problem for years.

I would also refer you to a press release about the Coalition for Culture and Media, which welcomed Canada's decision to finally

collect the GST for goods and services purchased over the Internet as of July 1, 2021. They have been asking for this for three years.

Quebec has been taxing Netflix for almost two years now and has also been taxing Amazon and Facebook. The province has therefore forged ahead, while the federal government, is still dragging its feet. How do you explain that?

• (1135)

Mr. Paul Rochon: As you know, these are government decisions. My role is to explain the policy decisions made by the government, and I believe your question should be put to a minister rather than to me. That's because it addresses questions that are essentially political.

Mr. Maxime Blanchette-Joncas: Mr. Rochon, if I have understood correctly, your role is to advise the government. With the data I have in hand, what I'm trying to do is ensure that there's a level playing field for consumers and businesses in Canada. The figures speak eloquently. They say that \$1.2 billion over five years could be collected if e-commerce were taxed. If that were to be done, it would be unnecessary to make cuts to other services.

Thank you for having sent a memo this morning from the department that provided various details. However, we have still not received an answer to the question about the 2017 estimate and the amount that could have been collected for the government coffers. I would be grateful if you could send us a reply from the department on this subject.

My next question is for Mr. Hamilton.

Mr. Hamilton, you were kind enough to quickly provide a number of details to the committee members following our meeting on November 17, and I would like to thank you for this.

In response to the question from my colleague Mr. Berthold, you admitted that the Canada Revenue Agency had not required the declaration of GST amounts on imports of digital services. Does this mean that you're going to allow the government to deprive itself of millions of dollars?

[English]

The Chair: I'm sorry. We are well over time. I'm wondering if we can come back to that question when Mr. Blanchette-Joncas has the opportunity to ask more questions. Thank you.

We will now move on to Mr. Boulerice. Thank you, and welcome here.

[Translation]

Mr. Alexandre Boulerice (Rosemont—La Petite-Patrie, NDP): Thank you very much, Madam Chair.

I would like to thank everyone who shared their expertise with us today about the very important matter of taxing products that enter the country, and also services delivered.

I represent a riding in downtown Montreal. In my own and neighbouring ridings, Airbnb rentals have become very problematic. They sometimes cause disturbances in the neighbourhood, such as excessive traffic noise.

These rentals are having an impact, even at the political level, because we are losing voters. There are fewer and fewer voters in our ridings. This is attributable to two things. First, there are a lot of foreign students, which is a very good thing, and also many people who have not yet acquired citizenship. Second, many housing units are being lost because they have become a permanent pool of short-term rentals, and this has rattled the entire hotel sector.

We know that owners of accommodation who use the Airbnb platform are not necessarily taxed and do not pay GST.

My next question is for Mr. Rochon, Mr. Hamilton, or Mr. Marsland.

What measures have been taken and what do you plan to do to collect the GST when housing units are in fact used for commercial purposes—virtually as hotels—rather than for private accommodation?

[English]

Mr. Andrew Marsland: Perhaps I might begin an answer.

Indeed, in the proposed approach, the third of the three measures that Mr. Rochon outlined is specifically addressed at ensuring that the GST/HST is collected when accommodation is let through a digital platform. It essentially ensures that regardless of the underlying supplier, when it is leased through a digital platform, the GST/HST will be collected in all cases on those supplies of accommodation.

That's the heart of the proposal. It's to ensure that there's an effective collection of the sales tax in those circumstances.

• (1140)

[Translation]

Mr. Alexandre Boulerice: Thank you.

What specific resources do you have to monitor rental services? Apart from Airbnb, there are many other Internet platforms and sites that regularly rent out houses or apartments.

Do you have enough staff to be able to monitor the whole situation, to find these people and to make sure they're paying their fair share of taxes? It's not just a matter of tracking one or two websites.

Mr. Ted Gallivan: Madam Chair, if you please, we can take that question.

In fact, I'll ask my colleague to go first.

Mr. Bob Hamilton: This is one of the challenges we will have to meet by June 1. I can assure you that we have a good procedure for managing the system and making observations. However, as I said, it will be important to make commitments, consult others in the industry and learn lessons from other countries that have already done something similar.

Mr. Gallivan, do you have any comments to add?

Mr. Ted Gallivan: Yes. As the Office of the Auditor General has already pointed out, we already have teams at work in these sectors. In the case of Airbnb, among others, we have acquired some experience, because we had to do audits on 10 to 20 houses for rent. The new measures will allow us to obtain more data so that we can target our research more accurately.

We're still working on risk assessment. We've now reached the stage of auditing platforms with 10 to 20 houses for rent. We'll continue this work until the message has been understood.

Mr. Alexandre Boulerice: Thank you very much.

In this week's economic update, it was announced that the web giants would be forced to charge GST to their clients or consumers. That, from our standpoint, is a good thing. We've been asking for this for years, because it levels the playing field and is fairer to businesses. Our small- and medium-sized enterprises have to charge GST, while others are exempt when the products or services come from elsewhere.

I have two questions about this.

How, concretely and physically, are you going to manage to do this as of January 1?

Are we talking only about commercial platforms that sell products, like Amazon, or are we also talking about digital content streamers like Netflix?

In other words, how is this to be done concretely, and is there a distinction to be made between products delivered after being packaged in a box and products streamed from a digital platform?

[English]

The Chair: I'm sorry; we have gone over time, so we will not be able to hear the answer, but I know Mr. Boulerice will have an opportunity to ask his question or just ask for an answer in the next round. Thank you.

We will now move to our five-minute round, starting with Mr. Berthold.

[Translation]

Mr. Luc Berthold (Mégantic—L'Érable, CPC): Thank you, Madam Chair.

I have a lot of questions to ask. I would therefore request that the witnesses reply briefly.

First of all, I'd like to thank all the witnesses for being here with us today.

Ms. Hogan, I have a question about additional funds. What I understood from the government's economic statement is that it's a statement of intent. It all needs to be confirmed in the supplementary estimates (C) that will be tabled after the holidays. There is nevertheless an amount of \$31 million to be allocated to the Office of the Auditor General for the 2020-2021 fiscal year.

Are you going to be able to use this entire amount?

• (1145)

Ms. Karen Hogan: That's also what I understood. It's a statement of intent, which will depend on what is voted in Parliament. The confirmation will also be included in the supplementary estimates.

If the vote occurs in February, we'll receive this money in March. And of course it should not be forgotten that the fiscal year ends in March. It would therefore be impossible to spend everything, or even half of it.

We're working very hard to be able to spend it in the following year. A lot of staff need to be hired, by which I mean 150 auditors. That will take several years.

Mr. Luc Berthold: Excuse me for interrupting, but I want to make sure about your answer. You're saying it's unrealistic to think that the entire \$31 million would be spent, even if, as part of your duties as Auditor General, you've already begun to spend some of the money.

My second question is for Mr. Hamilton.

Mr. Hamilton, I'd like to thank you very much for the answers you sent to us about collection measures. My understanding with respect to digital services is that no collection action has been taken against Canadians.

I would like to return to a portion of my question about physical products.

For digital services, the amount to be collected would appear at first glance to be rather too small to make it worthwhile to take action against each of the citizens involved. However, to return to my microwave oven and higher-value products; that's the part of the question you haven't answered.

Are there collection measures for people who did not make a declaration?

Mr. Bob Hamilton: I would like to ask my colleague Mr. Gallivan to answer this question.

Mr. Luc Berthold: Could we have a written response instead, as you did for digital services?

I'd like an answer concerning all the collection measures for electronic commerce that have been taken by the Canada Revenue Agency. I think that would be very useful to the committee in view of the work to come.

Are you okay with that?

Mr. Ted Gallivan: Yes.

Mr. Luc Berthold: Mr. Rochon, in the economic statement we were given this week, there were proposals about taxing products. However, you made a distinction between products stored in Canada by the web giants and those that are not.

Have you done an analysis of the current percentage of products warehoused in Canada and those that are sent directly from these major suppliers without going through Canadian fulfilment warehouses? How many assessments of foregone revenue have been done?

My daughter and I—shame on her and just a bit on me—still order products on the Internet and still receive parcels directly from China without paying any tax. I may end up being one of the first targets of the Canada Revenue Agency, but I'm just using this as an example to illustrate my point.

Have you conducted any studies that could give us a better overview of the situation?

Mr. Paul Rochon: Mr. Marsland can give you a general answer to this question.

[*English*]

Mr. Andrew Marsland: Yes. It's an excellent question. I think it's important to be clear about what the proposal deals with, and it's a particular circumstance of a Canadian business, a business that has a presence in Canada, that is supplying products on behalf of non-resident, non-registered businesses. In those circumstances, while tax is paid at the border on the customs-declared value of those goods, it probably does not reflect, in most cases, the retail price.

Effectively, when those transactions are made, perhaps out of a fulfillment warehouse in Canada, they're technically and legally sales by the non-resident, fulfilled by someone with a presence in Canada. What the proposal is to do is to make sure that the tax applies on the final retail price—as it should—of those products. That's the proposal. It essentially addresses a weakness in the system that has arisen with the growth of that business.

We do provide estimates in the fall economic statement of the expected revenue pickup associated with that measure—

Mr. Luc Berthold: Mr. Marsland, I'm sorry—

• (1150)

The Chair: I'm sorry, Mr. Berthold. Your time is up.

Mr. Luc Berthold: Ms. Chair, could I ask for a written answer about this, just as a general portrait of this situation, please?

The Chair: Absolutely. Thank you, Mr. Berthold.

We will now move to Mr. Blois for five minutes.

Mr. Kody Blois (Kings—Hants, Lib.): Thank you, Madam Chair.

I'd like to thank all the witnesses for being here today. Again, this is an important topic.

I'd like to thank Mr. Blanchette-Joncas for bringing forward this motion to make sure that we can talk about the good work that the government is implementing on this front, because I think it's very important.

Before I go any deeper, I'd like to echo the comments of Mr. Sorbara.

Mr. Rochon, thank you very much for your public service and your work, and all the best of luck in your future endeavours.

I want to personalize this a bit. As the member of Parliament for Kings—Hants, of course I work closely with community stakeholders. One of those is a gentleman named Stephen Shaw, who is the executive director of the Hants-Kings CBDC, the community business development corporation. He works closely with a lot of small businesses and retailers, and for a number of months, since I was elected last year, we've been having conversations about trying to make sure that we have an equitable playing field for retailers and small businesses. I certainly appreciate the proposals that are in the fall economic statement.

I want to start my questions with you, Mr. Rochon. What types of legislative changes are needed to be able to move some of these proposals forward? I assume that they're nuanced and that there are different ones, but as quickly as you can, what are we looking at in terms of how we move this forward?

Mr. Paul Rochon: My colleague Mr. Marsland can answer in more detail, but it requires legislation, and that is moving forward now.

Mr. Andrew Marsland: Just to be clear on that, we released in the fall economic statement draft legislative proposals with a view to seeking input on them from interested parties, and then I would imagine that the proposed approach is to have this legislated before July 1, 2021, assuming that Parliament accepts that.

Mr. Kody Blois: Okay. We know that there will probably be a vote on the different elements in the fall economic statement, so we appreciate that.

The last time we had a conversation on this topic in this committee, we talked about the different mechanisms that were in place, and one of the pieces was asking couriers to basically value the product and to levy some level of tax, because some of these measures weren't in place.

Perhaps this is a question for Mr. Hamilton or Mr. Ossowski. How is this going to impact on the border in terms of requiring companies to register? I assume that will actually make the border transition even easier, such that the Border Services Agency would not be required to check packages. This obligation is being placed on individual vendors that are competing or selling their products in Canada. Am I correct in saying that?

Mr. John Ossowski: Perhaps I could start.

From our perspective on the framework that was outlined in the economic statement, the impact for us is just simply ensuring that duties and taxes continue to be levied at the border. All goods that are imported into Canada will continue to be subject to all applicable duties and taxes on the value of goods at the time of the importation.

We would work with our colleagues from the Department of Finance on the point that my colleague Andrew Marsland pointed out in terms of the determination of the final retail price. Certainly, with the courier low-value shipment program, we rely on the courier to collect the appropriate duties and taxes when the goods come into the country. That's a bit of separate issue compared to the issue here in terms of these fulfillment centres and that potential gap.

Mr. Kody Blois: How does that interplay? You mentioned the low-value courier shipment program, and CUSMA was just rati-

fied. How do some of the proposals in the fall economic statement interplay with our existing trade agreements, in which there might have been some provisions to allow low-value shipments in? Is that going to be superseded? What's the interplay there, to help inform a parliamentarian in that regard?

Mr. John Ossowski: I might defer to my colleague at the Department of Finance on that one. I'm not aware of any impacts on the courier low-value shipment program per se.

Mr. Kody Blois: Okay.

Perhaps Mr. Rochon or Mr. Marsland could answer.

Mr. Andrew Marsland: I think part of the answer is that there's no direct relationship, but there is a kind of indirect relationship in the sense that we've seen over the past years a growth in the business models whereby sales are fulfilled through a warehouse or a facility in Canada on behalf of non-resident vendors.

I think part of that is reflecting a diversion from what would have been low-value packages coming over the border individually to bulk shipments into a warehouse in Canada. Then sales are fulfilled out of that warehouse. The core of this proposal is to ensure that in those circumstances, which seems to be a growing trend.... Clearly it's a growing trend that is displacing other sales that may have come across the border individually, which creates challenges when they do, which is outlined in the Auditor General's report. I think there is an indirect and very clear relationship between the two.

I hope that answers the question.

• (1155)

The Chair: Thank you very much, Mr. Marsland.

We will now move to our two-and-a-half-minute round, starting with Mr. Blanchette-Joncas.

[*Translation*]

Mr. Maxime Blanchette-Joncas: Thank you, Madam Chair.

I'll summarize the current situation to make sure that I've understood it.

After that my questions will be for Mr. Rochon.

At the moment, the Minister of Finance is responsible for establishing a fiscal balance. According to the report of the Auditor General of Canada, based on the 2017 audit, there is a fiscal imbalance because the federal government has foregone \$169 million in lost GST revenue by failing to tax digital products.

This places Canadian suppliers at a disadvantage, even though the government claims it would like to support them. People buy online because of the lower cost. Sixty-two per cent of Canadian consumers say they make purchases online. Online businesses are mainly located outside of Canada, and this enables them to buy at lower cost.

This practice leads to a fiscal imbalance because the federal government can't require foreign suppliers to collect sales taxes under the current e-commerce taxation measures. There are therefore job losses at vendors who carry out their operations from physical locations in Canada and Quebec. This leads to an economic imbalance because there's less money coming into government coffers. The federal government therefore has to decide whether to make cuts to public services or increase taxes.

I'm trying to understand, Mr. Rochon. Is my reading of the situation correct? Are there other factors relative to the fiscal balance and the tax base that need to be explained in more detail?

Mr. Paul Rochon: Basically, you've provided a good summary of the objectives of the measures described in the update.

Mr. Maxime Blanchette-Joncas: Thank you, Mr. Rochon.

According to Mr. Philippe Le Goff, Principal at the Office of the Auditor General, it's up to the federal minister of finance to decide on how to remedy the situation, even though this situation has been known for a number of years. In 2017, foregone GST revenue totalled \$169 million. Unfortunately, we don't know how much additional money could have gone into government coffers.

Mr. Le Goff also said that the government had not made the decision to enhance e-commerce practices in Canada. In his view, this is a systemic problem that should be closely examined by the Trudeau government to restore tax fairness between Canadian businesses and those outside the country.

I want to understand why we are prepared to take action now, but were not in the past? It's a situation that ought not to be repeated. It appears to be a question of tax fairness.

What can we do to prevent a scenario like this from happening in the future?

[English]

The Chair: Give a very short answer, please.

[Translation]

Mr. Paul Rochon: For a proper analysis, we need to look at how the situation developed and to have the kinds of discussions we're having today in this committee to accurately identify the issues.

[English]

The Chair: Thank you very much.

We will now go to Mr. Boulerice.

[Translation]

Mr. Alexandre Boulerice: Thank you very much, Madam Chair

Unsurprisingly, I would like to return to the whole question of tax fairness in the taxation of products and services.

I'd like to look at it from a slightly different angle. To your knowledge, are there any Quebec or Canadian businesses or vendors that have decided to relocate their activities abroad in recent years so that they could benefit from a tax advantage because consumers would not have to pay GST on the products they would be sending to Canada?

Has tax inequity forced entrepreneurs to conduct their activities outside of Canada because it would give them an advantage?

• (1200)

[English]

Mr. Andrew Marsland: I don't think we're aware of specific examples of businesses having left the country. Clearly, when there is a weakness in the system, it creates potential for distortion, and I think that is one important reason that the government is moving forward with these measures: It's to ensure that as business models change, the sales tax system adapts and effectively collects the tax that should be collected on consumption in Canada.

[Translation]

Mr. Alexandre Boulerice: Thank you, Mr. Marsland.

I fully agree with that, but would like to come back to the question I tried to ask earlier.

How are you going to, very concretely, require businesses like Apple or Amazon to charge the GST? Which companies will be included as of January 1 in the measures requiring the application and collection of the GST? Will these measures apply only to retail trade or will they also include foreign vendors that deliver digital content, like Netflix?

[English]

Mr. Andrew Marsland: Perhaps I could answer that question by referring to the experience of other countries.

I'll begin with the work done at the OECD over many years to develop a framework, a common framework, to do this. That framework is the one that the government is proposing to follow with respect to non-resident businesses such as the examples you gave. That framework has been applied in other jurisdictions, and the experience has been that there's been a high degree of compliance.

The Chair: Thank you.

Mr. Andrew Marsland: It is probably for good business reasons that businesses choose to comply with these requirements, but in the absence of voluntary compliance, then I think there will be steps taken to try to ensure compliance, in partnership with other countries.

The Chair: Thank you very much for that, Mr. Marsland.

We will now start our next round of questioning. It's a five-minute round, and we will go to Mr. Webber.

Mr. Len Webber (Calgary Confederation, CPC): Thanks, Chair.

Mr. Ossowski, first of all, thanks again for coming back a second time on this issue.

In your opening comments, you talked about the World Customs Organization and how the CBSA was involved in the working group in e-commerce, and you mentioned that you co-chaired it. I went to the website of the World Customs Organization and I was quite impressed with how extensive the website was, and in particular by the international collaboration that is going on. I would recommend that any member here go to that site to see just what is going on out there.

There's one thing that I just want to throw out there. It hasn't been brought up before. It is with regard to Bitcoin cryptocurrency. I know that payments are made on the Internet by Bitcoin and that it's ever-increasing as well. How does the CBSA value and trace and tax Bitcoin payments? I know it's a relatively new type of currency, but I know governments are concerned as well. Do you have any comments on that at all, Mr. Ossowski?

Mr. John Ossowski: Thank you for the question.

It's important to understand the flow of goods. You go online and you buy something with some type of payment tool. Potentially, it's cryptocurrency. At some point it's going to come into the country, and depending on the value or the mode with which it comes into the country, we will levy the appropriate duties and taxes at the border.

Regarding our role at the border in terms of the application and in the context of what the Auditor General commented on in this particular report on the courier low-value shipment program, it's moot to us how the good was initially paid for. It's up to the courier company to ensure, in this particular study, that the appropriate duties and taxes have been applied against the country. We would then follow up and look at validation of that with various compliance work to verify the country of origin, a proper description and ultimately whether the right duties and taxes were assessed against it.

• (1205)

Mr. Len Webber: Mr. Hamilton, do you have any comments with regard to Bitcoin currency and the CRA?

Mr. Bob Hamilton: I'll start.

We have been doing quite a bit of work in this area, just to think about what cryptocurrencies mean for us in the tax compliance world. As with e-commerce, it's a growing industry, and we want to make sure that we're aware of how it can be used positively and where it could pose some challenges for us. We've actually set up a group of people to look at that.

Ted, maybe you want to give some brief insight into the work we are doing.

Mr. Ted Gallivan: I'd say there are three key components. We are active. We have specialized audit teams and training. We're trying to get technical experts. We're active in terms of capital gains, so there has been a clarification in terms of people buying and selling and what the tax treatment is of those transactions.

Second, either through CRA criminal investigations or with the RCMP, we're looking for a nexus with criminality.

We are also in our first unnamed persons requirement with a cryptocurrency vendor. We get a client list and their records and

match that against our data to see if people are doing a traditional underground economy.

I think we're active in all three of those spaces right now.

Mr. Len Webber: Excellent. That's great to hear. Thank you.

Madam Chair, I don't know how much time I have left, but I know my colleague Mr. Lawrence has a question that he really wants to get out, so I'm going to pass it on to him.

The Chair: Mr. Lawrence, you have one minute.

Mr. Philip Lawrence: Thank you. I appreciate that.

It's more for a report, so the minute should be enough.

Mr. Rochon or maybe Mr. Hamilton, with respect to individuals with outstanding taxes, one of the things that's created in this is the inequality between the tech giants and the small businesses of Main Street. I'm curious to know how many small business owners are now behind in HST remittance, how many are paying interest and penalties and how many small business owners are also late in paying their taxes.

I know you won't know the numbers, but if you could provide me with a report, that would be great.

Mr. Bob Hamilton: You're correct that I don't know those numbers, but we'll do the best we can to get you those numbers.

The Chair: Mr. Hamilton and Mr. Lawrence, thank you very much. That takes us very close to the end time of this round.

We will move to Mr. Ferguson for five minutes.

[*Translation*]

Mr. Greg Ferguson (Hull—Aylmer, Lib.): Thank you very much, Madam Chair.

First of all, I would like to wish Mr. Rochon good luck and every success.

Mr. Rochon, we're extremely grateful for your dedication and for the work you've done in the public service.

My question is for Mr. Ossowski.

Mr. Ossowski, at our last meeting on the report, we heard that the agency needed an automated system to quickly handle the high volumes of parcels.

In the updated action plan provided to the committee, it is mentioned that options are currently being examined to further automate the program by March 2023, including the capacity to receive, process and analyze data on customs activities. It mentions that an interim solution has been introduced to rationalize many of the processes involved in shipping low-value products by courier.

Could you tell us more about the interim solution and how it works?

[English]

Mr. John Ossowski: Thank you for the question.

As an interim solution, we have something called CARM, the larger system that I mentioned last time as well as in my remarks today.

We have something called the courier analytics tool. This is being piloted, I believe, in three ports of entry. It allows us to tap into some technology to allow the officers to assess better what's coming in.

Let me turn to my colleague Peter Hill to expand on this a bit.

● (1210)

Mr. Peter Hill (Vice-President, Commercial and Trade Branch, Canada Border Services Agency): Thank you.

We have been piloting the courier analytics portal since 2019. As the Auditor General noted, we rely on the couriers' proprietary systems for data. What we're trying to do is build on this system to establish an easier way to receive the data.

The pilot is operational in a testing mode, such that it facilitates the provision of electronic data. It provides a single interface for our officers to use, and we're able to begin to risk this information to identify areas of potential higher non-compliance.

This gives us a tool that will also help us build a national system to scale. It's a networked system using the cloud. It will enable us to apply data analytics as well as machine learning, going forward, to ensure that we have an ability to ensure compliance in the CLVS system.

[Translation]

Mr. Greg Fergus: Thank you for your answer, Mr. Hill, but in view of the growing dependence of your activities with respect to the shipping of products purchased online during the COVID-19 pandemic, don't you have concerns about failing to further automate the systems before 2023?

[English]

Mr. Peter Hill: We're using all of the systems we have, and our officers have authority to examine shipments whenever there is suspicion. We have the authority to compel bills of sale and so on.

We're dealing with the volumes with all of the tools we have and we are on track to deliver our action plan. We're moving ahead as quickly and as prudently as is possible.

[Translation]

Mr. Greg Fergus: Is this really a time to be prudent? Shouldn't it be a time for action?

Allow me to put my question another way. Is it possible to speed things up in order to do a better job of addressing the urgency and requirements of the new realities?

[English]

Mr. John Ossowski: As I mentioned, this CARM project, which we have been working on for a number of years, is coming online in a couple of years. It will be, quite frankly, a game-changer.

I want to assure the committee with respect to the point around the courier low-value shipment program that we're very comfortable with the level of risk that's being managed here. We believe there is not significant leakage. We have done several compliance reviews ourselves to assure ourselves of that.

I think the system will be able to cope with the volumes. It has certainly advanced further than people anticipated, as a result of the pandemic, but I think we're in good shape. It will become easier not only for us but also for the importers to track in detail, with the new system, the progress of goods through the system.

The Chair: Thank you, Mr. Ossowski.

We will now move to our next round of questions. We have 16 minutes left, and these are six-minute rounds.

We will start with Mr. Berthold for six minutes.

[Translation]

Mr. Luc Berthold: Thank you very much, Madam Chair.

Mr. Ossowski, I'd like to begin by apologizing for last week, when I had trouble pronouncing your name. I hadn't brought the right glasses with me and could not read very well. I felt that it was a lack of respect on my part to be unable to speak your name properly in committee. I just wanted to take a few moments to tell you so.

My questions are rather practical. You said today in your statement that the volume of parcels valued at less than \$20 has greatly increased in recent years. It's easy to write on a parcel that its value is below \$20, but what process is used by customs staff to ensure that the contents actually match what is written on the form?

● (1215)

[English]

Mr. John Ossowski: I might turn to my colleague again, but essentially we do a risk-based compliance activity. We rely on the courier companies to ensure that their documentation is correct with respect to the country of origin, the value of the good and the description of the good. Then over time, using some of the technologies my colleague described before, using techniques such as artificial intelligence, you start to understand what you're seeing. It will flag items for our officers that they might want to take another look at to validate that those elements have been properly declared.

At a deeper level, there is a full-on books and records review compliance activity by which we go into the company, do a sample and do a deep examination to satisfy ourselves that the program is being administered properly.

[Translation]

Mr. Luc Berthold: When you notice that a particular supplier tends—when a business is systematically reporting value incorrectly—do you take special action with this vendor or carrier?

[English]

Mr. John Ossowski: Absolutely. We have the ability to flag certain companies in our system. We would divert anything that we have any concerns with for subsequent secondary examination or deeper follow-up.

[Translation]

Mr. Luc Berthold: Do you take punitive measures? To whom do you refer the matter?

[English]

Mr. John Ossowski: With respect to the carriers, which are responsible for administering this particular program, there is an administrative monetary penalty regime, but it's part of our e-commerce strategy that we'd be looking to develop a little further.

[Translation]

Mr. Luc Berthold: Okay.

Mr. Ossowski, during the Christmas holidays there must be an absolutely phenomenal number of parcels going through. Are additional measures taken at this time, particularly this year with the pandemic, to make sure that the rules are followed?

[English]

Mr. John Ossowski: Yes, of course, we are very aware of the seasonal cycles of these types of activities in all modes, whether it's postal mode or carrier mode, so we are able to allocate additional officers and resources to these challenges.

[Translation]

Mr. Luc Berthold: During the pandemic, are you succeeding in adding staff to deal with the huge number of parcels, given that there are all kinds of health and public safety procedures to follow? What are you doing to protect additional staff at the moment?

[English]

Mr. John Ossowski: My officers are used to working in this type of environment. They are very well trained. They have all the personal protective equipment available to them. Some stuff, such as these types of activities, can be managed electronically, so you don't necessarily have to be physically present. It depends on the mode, but we have an excellent workforce that is very diligent in doing what they can to manage these volumes, and they are flexible to adjust as required.

[Translation]

Mr. Luc Berthold: Thank you very much.

Madam Chair, I'd like to turn over my remaining speaking time to Mr. Webber so that he can ask a final question.

[English]

Mr. Len Webber: Is it okay, Madam Chair, if I jump in?

The Chair: Absolutely. You have two minutes.

Mr. Len Webber: Ms. Hogan, looking at your document here and the scope of your audit, there were products outside the dollar figures, high-value prices above \$2,500. That was outside the scope of your audit. How come? Do you feel comfortable that CBSA is able to track the higher-priced items?

Give me an explanation for why that was outside your scope.

Ms. Karen Hogan: I'm going to ask Philippe Le Goff, who led that audit, to answer that question. As you can appreciate, this study was launched and completed well before my appointment—

Mr. Len Webber: Absolutely.

Ms. Karen Hogan: —and I don't think I asked all those details, so I'm going to ask Philippe for an answer.

Mr. Len Webber: Certainly.

Mr. Philippe Le Goff (Principal, Office of the Auditor General): Good afternoon.

Madam Chair, we decided to scope this audit very narrowly, focusing on the CLVS, because at the time we had insight that there was maybe a problem with that program.

• (1220)

Mr. Len Webber: No problem.

Within that program with the lower... Oh, I see. That's why you...

The reason I ask is that a few months ago I was online and I registered to be a bidder in an auction in the United States for a vehicle. I'm curious. If I were to buy a vehicle online, Mr. Ossowski, I'm sure that for people who bring large items like that through the border, there are people in place to catch individuals smuggling vehicles into other countries. Maybe you can clarify some of that.

The Chair: Could you give us a very, very brief answer, please?

Mr. John Ossowski: Thank you, Madam Chair.

Yes, we have thousands of officers out there in the field to make sure that vehicles are imported properly and that the appropriate duties and taxes are collected.

The Chair: Thank you.

Mr. Len Webber: Thank you.

The Chair: Thank you both very much.

We will now move to Ms. Yip for six minutes.

Ms. Jean Yip (Scarborough—Agincourt, Lib.): Thank you all for coming in for a second time. My question is to Ms. Hogan.

One of the new measures introduced in the fall economic statement proposes that “foreign-based vendors selling digital products or services to consumers in Canada be required to register for, collect and remit the GST...on their taxable sales to Canadian consumers.”

Does this bring us in line with the recommendations of the OECD on digital economy?

Ms. Karen Hogan: Yes, what we found in our audit was that there was an inequality if you were a foreign vendor versus a Canadian vendor. The measures that have been proposed are in line with the recommendations of the OECD.

Ms. Jean Yip: Thank you.

My next question is for Mr. Gallivan.

In the CRA's detailed action plan, there is a compliance strategy, and it looks as though it's being finalized this month. Could you provide an update on the compliance strategy?

Mr. Ted Gallivan: Sure. I'll start, and my commissioner might want to come in.

I would say that for us, it was to understand the sectors and the specific problems. For example, social influencers are generating a lot of money. In online gaming, if you can imagine it, people are paid to play video games online. What we're doing is understanding these different pockets of non-compliance and then what works. In some cases, a simple letter or an education campaign can bring them into line. In other cases, we have to go to third parties to get data to show them that we know that there's some tax leakage. In other cases, we need hard audits. Even though the strategy is just being finalized, we've done a number of demonstration audits in each of these areas to understand where the pockets of risk are and what combination of education, nudging or hard audits is needed to get people to pay their taxes.

Ms. Jean Yip: Could you expand on what type of income we would be looking at for social influencers and gamers? Is it through their sponsored advertisers?

Mr. Ted Gallivan: Yes. In some cases, with the social influencers, first of all, the income ranges are quite surprising. We started in the one-million or half-million-dollar income range. Yes, they receive compensation from the people whose products they support. That's correct.

Ms. Jean Yip: How would the demonstration audits be used in that respect?

Mr. Ted Gallivan: One of the benefits of the social influencers in particular is that, by their definition, they're somewhat transparent, so our auditors are able to monitor. It's very surprising what people post on their Facebook pages and their Twitter pages, and so there's a lot of open-source intelligence that has led us to contact certain vendors. I would say the very transparency of their interactions has facilitated some of the targeting in that space.

• (1225)

Ms. Jean Yip: What types of compliance interventions are used to address non-compliance? You mentioned nudging and letters. Is there more than that?

Mr. Ted Gallivan: Yes.

I think we try a progressive approach at the CRA. Some in this space are quite young. Their skills are perhaps not in accountancy. That's not what they studied at university. We would lead with education first. We would explain certain provisions of the act. Then we'd watch their account to see if there's a response. Some of them engage a professional accountant and some of them begin filing returns or adjusting income. We always try to do that first.

Subsequent to that—I mentioned this third party information—we would send a second letter that would suggest we have information pointing to their level of income, citing from bank records or businesses that they deal with that we know that the income would be in this range and that their reported income is in that range. Again, if that doesn't work, then it's an audit launch letter, where we use the powers delegated under the act to look at their banking records and their financial statements and those kinds of things.

Most Canadians and most businesses do comply after education and with information. I would say, then, that showing them that we know there's a question or a disparity between our information and their tax filing usually works. As a last resort, we use the audit approach.

Ms. Jean Yip: Thank you.

I would like to share—

The Chair: Ms. Yip, you have 10 seconds left.

Ms. Jean Yip: Oh, okay.

Well, I'll just say thank you very much for answering my question.

The Chair: Thank you so much, Ms. Yip.

We now will go to our last questioner, for four minutes. Go ahead, Mr. Blanchette-Joncas.

[*Translation*]

Mr. Maxime Blanchette-Joncas: Thank you, Madam Chair.

Mr. Rochon, I have a more general question. I've taken a moment to remove my ideological filter because this can sometimes lead to other observations.

Can you tell us what the impacts of non-harmonized taxation are on the behaviour of consumers when they buy things?

Mr. Paul Rochon: As you've already pointed out, there's a risk that the lack of harmonization could lead to taxes not being collected.

Mr. Maxime Blanchette-Joncas: In that case, Mr. Rochon, I'd like to continue by quoting the Department of Finance, which said that, “the situation could have encouraged domestic vendors to move their operations abroad”.

At the end of the day, when federal government tax measures don't reflect actual buyer behaviour, it's harmful to the economy. The problem of e-commerce taxation has exploded since the beginning of the pandemic. We are headed in the right direction, but the harm has been done. Unfortunately, there have been job losses for Canadian businesspeople and workers. According to the Office of the Auditor General's report, Canadian vendors are moving their operations abroad. This means that when there is no appropriate harmonized taxation that reflects the behaviour of consumers, we're shooting ourselves in the foot.

Mr. Le Goff even said that the tax base would erode because the federal government is depriving itself of revenue. These are damning comments and they raise many questions. The federal government really has to step up to the plate and deal with the situation to prevent it from happening again.

I now have a question for Mr. Ossowski.

Mr. Ossowski, thank you for having provided these details. I'm nevertheless surprised to see that it took a report from the Office of the Auditor General to explain the phenomenal amounts that are in play. We have been talking about several million dollars, and even billions of dollars over several years. If the GST is applied to e-commerce, it would mean \$1.2 billion being collected over the next five years.

I don't necessarily want to blame anyone, but it's important to be clear. The scope of the goods and services audits you need to conduct would appear to indicate that you have a huge challenge given the gap between your current resources and the flow of information you have to process.

Is your current funding adequate or do you believe you'll be overwhelmed by the scale of the task, given the explosion in online commerce since the beginning of the pandemic?

• (1230)

[English]

Mr. John Ossowski: I would just say that the Auditor General didn't opine on any sense of leakage with respect to the courier low-value shipment program in terms of overall impact. The \$169 million that's referred to is with respect to offshore service providers, such as Netflix.

With respect to resources, I think right now we have a good plan. We'll see how the situation evolves. If it continues to grow and

we're not able to cope, we'll obviously seek new resources and authorities from the government to manage that better.

[Translation]

Mr. Maxime Blanchette-Joncas: Thank you, Mr. Ossowski.

I always try to anticipate to avoid any unpleasant surprises. I will nevertheless ask the question once more, a little more emphatically.

You're aware of the fact that the online marketplace is growing rapidly. Do you believe that you currently have the tools and leverage required, and the resources, to properly do your job? At the end of the day, it's the Canada Revenue Agency that deals with all parcels received. If this work is not done properly, it creates unfairness in the system, harms our domestic vendors, causes job losses—in short, our economy suffers.

Do you need additional support from the government to do your work effectively?

[English]

The Chair: Please provide just a very short response, Mr. Ossowski, as we are over time.

Mr. John Ossowski: Thank you, Madam Chair.

I would just say that it was part of our action plan and our economic strategy with the new standards coming in from the WCO, and with the CARM project, I think we're well positioned to support the government's objectives in this zone.

The Chair: Thank you very much, Mr. Ossowski.

Thank you, colleagues, for a great meeting today and for your excellent questions.

I thank our witnesses for joining us and I invite you to leave the meeting as we are moving into an in camera session.

Members, as you leave the meeting and log on to a new meeting, the information for the second meeting is in the same email as the information for logging into the first part of this meeting.

It may take us five to 10 minutes to do this. Let's hope not.

We will see you in a few minutes.

[Proceedings continue in camera]

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