



Canada Revenue
Agency

Agence du revenu
du Canada

PAYMENT TAX GAP and COLLECTION EFFORTS

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Executive Summary

In April 2016, the Government of Canada committed to estimating the federal tax gap to encourage an open and transparent discussion on tax non-compliance. Acting on this commitment a dedicated unit was established at the Canada Revenue Agency (CRA) to examine and publish a series of reports analyzing different components of Canada's tax gap. Including this report, the CRA has now published seven tax gap reports with detailed information of the methodologies used and the activities the Government is undertaking to reduce non-compliance. This information, combined with other indicators of compliance and non-compliance, provides valuable insights into the general health of Canada's tax system.

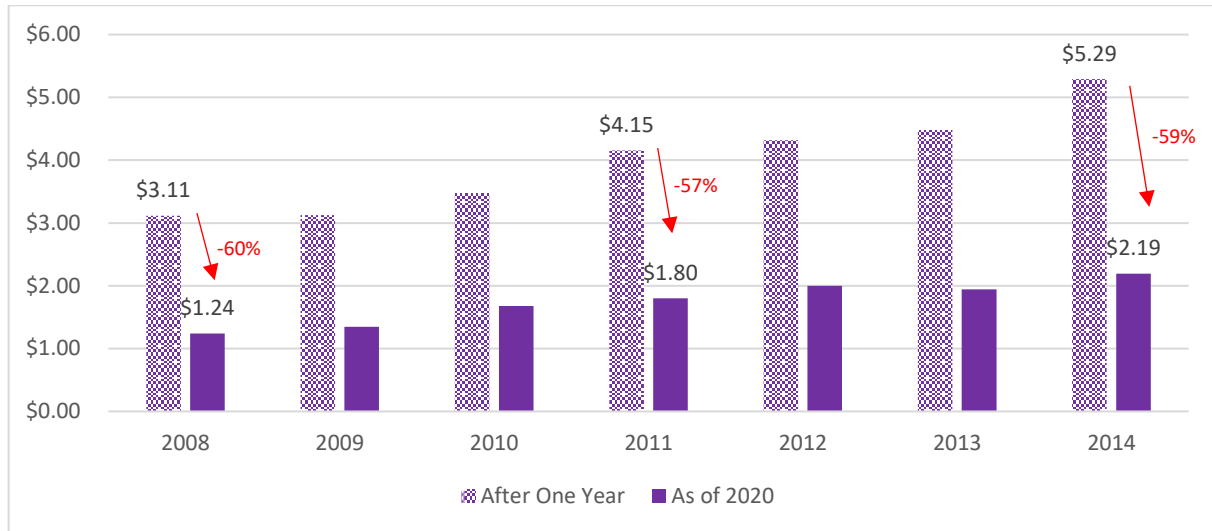
This report examines the tax gap resulting from **payment non-compliance** – when assessed taxes are not fully paid by taxfilers for a particular taxation year. In other words, the payment tax gap (also referred in this report as the “payment gap”) measures the amount of tax liability that has not been paid or collected after taxes have been assessed by the CRA. In this report, the payment gap includes outstanding tax debt and write-offs (i.e., uncollectible tax liability), but excludes interest and penalties since they are not considered tax liabilities. In addition, this report considers certain uncollected provincial taxes as part of the federal tax debt because the CRA always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed).¹ The payment gaps for tax years 2008 to 2014 were calculated for four types of taxfilers – individuals, corporations, Goods and Services Tax/Harmonized Sales Tax (GST/HST) registrants, and excise tax and duty licensees/registrants.

Since the payment deadline can vary for different types of filers, the first instance of payment non-compliance can also vary. For example, the due date for the GST/HST return is determined by a registrant's reporting period which can be on a monthly, quarterly, or annual basis. The payment due date for corporations can also vary depending on their reporting periods. Since there can be many different payment deadlines, it was necessary to choose a common starting point to analyze the payment gap. In order to capture the payment gap for all taxfilers, this report's analysis begins one year after each taxation year (as of December). For example, one year after tax year 2008 would be the payment gap as of December 2009 and one year after tax year 2014 would be the payment gap as of December 2015. Since the payment gap is constantly changing due to reassessments (e.g., audits and appeals) and payments by taxfilers, the payment gap was calculated for multiple years. As of 2020, the total payment gap for each tax year has declined significantly. In general, the payment gap amounts from earlier tax years tend to be smaller than more recent years due to

¹ The federal government pays the assessed taxes to the provinces before it is fully collected. Therefore, the uncollected provincial taxes become federal debt. The provincial taxes which are not administered by the CRA are not included in this report.

multiple reasons: the tax base has increased over time, tax rates have changed, and taxfilers have had more time to pay their debt. For example, payments to the CRA generally goes towards the oldest tax debt and therefore earlier tax years tend to have lower payment gaps.

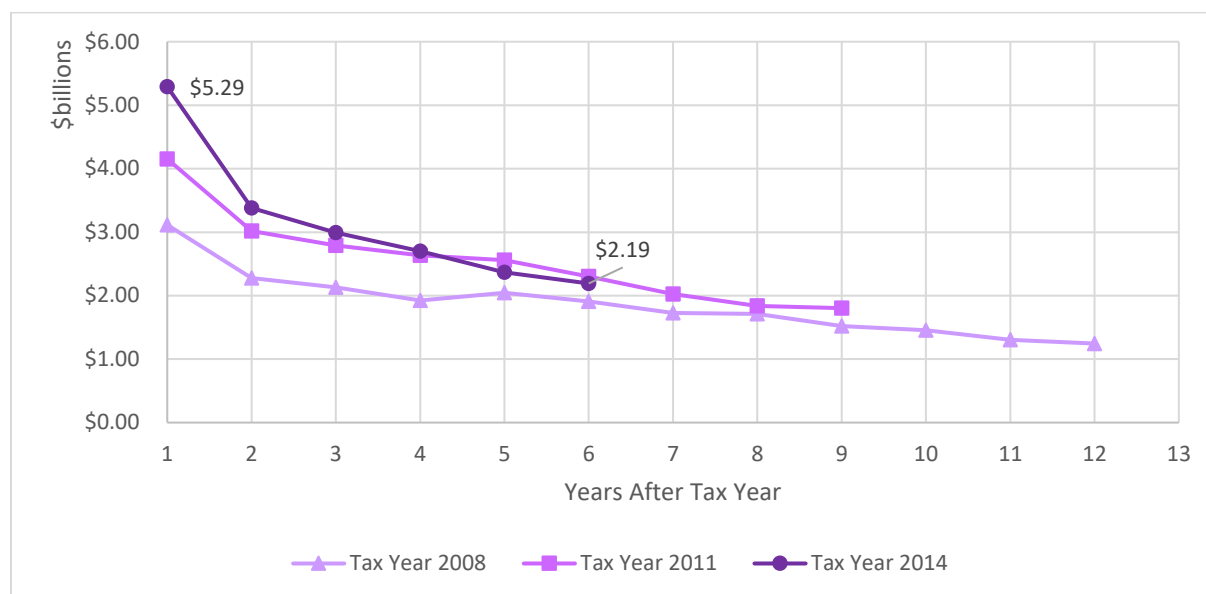
The Total Payment Gap for Tax Years 2008 to 2014, After One Year and As of 2020*



* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.
 Source: CRA's accounting systems as of July 30, 2020.

In some cases, the payment gap may rise before falling due to audits, objections, and appeals that may increase the amount of outstanding tax liability. This is particularly true for corporations since it can take multiple years to complete a comprehensive audit. While the total payment gap starts higher for more recent tax years, it declines over time to previous tax years' payment gap levels (see graph below). The payment gap tends to stabilize once most of the tax debt is collected by the CRA and certain tax debt becomes uncollectible (i.e., write-offs).

Evolution of the Total Payment Gap*



* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.
Source: CRA's accounting systems as of July 30, 2020.

In 2015, the total payment gap for tax year 2014 was \$5.29 billion. In 2020, the total payment gap had declined to \$2.19 billion, a decline of 59%. For tax year 2014, the payment gap from individuals decreased at a faster rate (-76%) than the payment gap from corporations (-38%) and GST/HST registrants (-30%). The payment gap from excise licensees/registrants was negligible due to high levels of regulation and compliance. Specifically, excise licensees/registrants are subject to frequent audits and revenue identified through these audits are generally low, pointing to a highly compliant group of taxfilers. Given that only a small number of excise licensees/registrants tend to be non-compliant for any given tax year, the exact payment gap amounts are not reported publicly to maintain confidentiality. Additional information on excise non-compliance can be found in the CRA's report titled, "Tax Gap for Federal Excise Duty on Cigarettes", which was released concurrently with this report.

Breakdown of the Total Payment Gap for Tax Year 2014 *

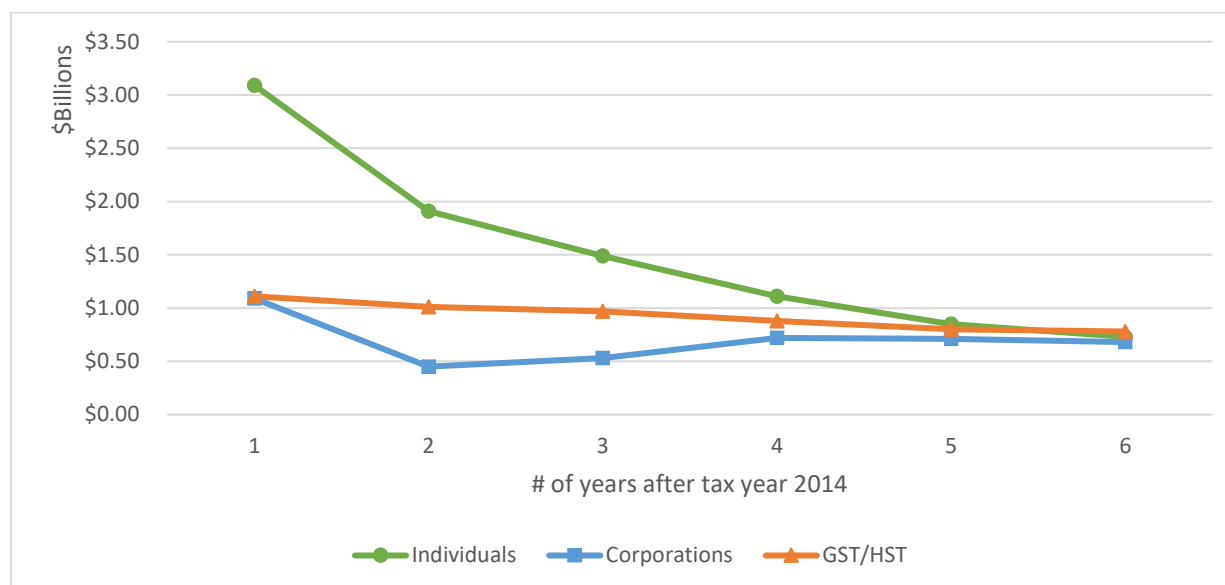
Payment Gap Component	Payment Gap after One Year (\$billions)	Payment Gap as of 2020 (\$billions)	%Decline
Individuals	\$3.09	\$0.73	-76%
Corporations	\$1.09	\$0.68	-38%
GST/HST	\$1.11	\$0.78	-30%
Excise Duties and Taxes	\$ - **	\$ - **	-**
Total Payment Gap	\$5.29	\$2.19	-59%

* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.

** The excise duty and tax payment gap for tax year 2014 was negligible due to high levels of regulation and compliance. The exact tax gap amount is not reported to maintain taxpayer confidentiality.

Source: CRA's accounting systems as of July 30, 2020.

Evolution of Payment Gap Components for Tax Year 2014*



* Does not include non-residents. All amounts are in nominal dollars.

Source: CRA's accounting systems as of July 30, 2020.

There are key features of the payment tax gap that make it different from the CRA's previous tax gap estimates. For example, payment gaps presented in this report account for audit results (also referred to as the net tax gap) while many of previous tax gap estimates are before audit (gross tax gap). As a result, the payment gap cannot be directly added to previous tax gap estimates without special considerations (see Section 2.2 for more details). One approach would be to calculate the gross payment gap which can then be added to previous estimates. These considerations, including additional information on the impact of audits for other tax gaps, will be explored in greater detail in a future tax gap report.

The CRA's collection efforts have been crucial in reducing outstanding debt and thus reducing the payment tax gap. For example, during 2018–19, CRA measures resolved just under \$68 billion in outstanding tax debt for multiple taxation years, an increase of 17.6% over 2017–18. Of this total, \$64.7 billion was collected and \$3.3 billion was written-off. During 2019–2020, the CRA resolved just over \$65 billion in outstanding tax debt. Of this total, \$61.7 billion was collected and \$3.3 billion was written off by the Collections programs. The CRA continued to maximize its use of Budget 2016 funding by resolving an additional \$2 billion in outstanding tax debt.² Write-offs, in most cases, do not release the taxpayer from their obligation to pay off the debt. It means legal actions will not be undertaken to collect the debt unless the taxpayer's financial situation improves. Since write-offs still represent forgone tax revenue, they are included in the payment gap calculations in this report. Interest and penalties within write-offs are excluded from the payment gap results.

The CRA is committed to openness and transparency as a world-class tax and benefit administrator. Therefore, the CRA will continue to examine and report on Canada's tax gaps while engaging with domestic and international partners. As well, the CRA is committed to

² While collection efforts were slowed down as a result of COVID-19, collection objectives were met when looking at the results holistically.

improving its tax gap methodologies to leverage all of the data and methods available to produce the most accurate estimates possible.

1. Introduction

The Government of Canada is committed to maintaining and improving the fairness and integrity of the Canadian tax system. As part of this commitment, the CRA estimates and publishes Canada's federal tax gaps to provide the public with information on tax compliance and non-compliance. Tax gap is broadly defined as the difference between the taxes that would be paid if all obligations were fully met in all instances, and the tax actually paid and collected. In other words, tax gap is a measure of tax revenue loss resulting from intentional and unintentional tax non-compliance.

Tax non-compliance can occur at different stages in the taxation process – at the time of registration/filing, reporting, or paying taxes. In addition, tax gap estimation can be considered from a number of different perspectives – domestic or international, by type of tax or taxpayer, or by different forms of non-compliance. Therefore, Canada's overall tax gap is composed of smaller, more specific gaps that require nuanced methodologies depending on a variety of factors such as data availability and the scope of non-compliance. Accordingly, the CRA has taken a step-by-step approach to develop appropriate methodologies for different types of tax gaps and has published seven reports since 2016:

- Tax Gap in Canada: A Conceptual Study (June 2016);
- Estimating and Analyzing the Tax Gap: Related to the Goods and Services/Harmonized Sales Tax (June 2016);
- Tax Assured and Tax Gap for the Federal Personal Income Tax System (June 2017);
- International Tax Gap and Compliance Results for the Federal Personal Income Tax System (June 2018);
- Tax Gap and Compliance Results for the Federal Corporate Income Tax System (June 2019);
- Tax Gap for Federal Excise Duty on Cigarettes (December 2020); and
- Payment Tax Gap and Collection Efforts (December 2020).

Previous reports mainly focused on estimating the tax gap resulting from **reporting non-compliance** – when taxpayers fail to provide complete and/or accurate information on their tax return by under-reporting income and/or claiming deductions or credits to which they are not entitled. In general, reporting non-compliance accounts for the majority of the overall tax gap. This report is unique from many of the previous publications as it focuses on non-compliance *after* taxpayers have been assessed by the CRA with taxes owing. The tax gap arising from **payment non-compliance** – when assessed taxes are not fully paid on time by taxpayers for a particular taxation year – is the subject of this report.

This report is organized as follows. Section 2 provides a brief overview of the tax gap, the three stages of non-compliance, and scope of payment tax gap results. Section 3 presents payment gap results for individuals, corporations, GST/HST registrants, and excise licensees/registrants. Section 4 highlights key collection efforts by the CRA to manage and reduce the outstanding tax debt. Section 5 provides concluding remarks and summarizes the main findings of the report.

2. Background

Like many other developed countries, Canada's tax system is based on self-assessment – whereby taxfilers complete a tax return each year to report their income and claim any deductions and tax credits to which they are entitled. This process determines whether taxfilers owe taxes, are entitled to a refund, or neither.

The CRA administers the tax laws for the Government of Canada and for most provinces and territories. It is responsible for collecting taxes such as personal income tax, corporation income tax, GST/HST, and excise duties, taxes, and other specific levies. The CRA also delivers various benefits to Canadians through the tax system (e.g., Canada Child Benefit, GST Credit). During the tax administration process, non-compliance may occur resulting in tax revenue loss and a tax gap. This section briefly reviews the concept of tax gap, three stages of non-compliance, and the scope of this report's tax gap results.

2.1 Tax Gap and the Three Stages of Non-Compliance

Broadly defined, the tax gap is the difference between the taxes that would be paid if all obligations were fully met in all instances, and the tax actually paid and collected. While the tax gap is sometimes seen as a measure of tax evasion or fraud, it is a result of both intentional and unintentional non-compliance. For instance, non-compliance can be due to:

- deliberate choices (such as hiding income or over-claiming deductions/credits);
- mistakes;
- ignorance of filing, reporting, and payment obligations; and
- inability to comply (such as when a taxpayer declares bankruptcy and cannot pay their tax debt).

In general, non-compliance can occur at three key stages in the tax administration process – registration/filing, reporting, and payment. **Registration/filing non-compliance** occurs when people or corporations fail to register or file their tax return when they are required to do so. In Canada, registration/filing non-compliance is expected to be a relatively minor source of the tax gap.³ Nevertheless, there are those that do not register or file their taxes either intentionally or unintentionally. Tax gap resulting from this type of non-compliance may be examined in a future study.

Once a tax return is filed, there is potential for **reporting non-compliance**. Taxfilers may fail to provide complete and/or accurate information on their tax return by under-reporting income and/or claiming deductions or credits to which they are not entitled. Reporting non-compliance generally accounts for a large share of the tax gap and is often difficult to identify because it is by definition not directly visible (e.g, hidden income). Previously published tax gap reports focused on estimating the reporting tax gaps for individuals (domestic and international), corporations, GST/HST, and excise duties and taxes.⁴

³ In general, registration/filing non-compliance is a relatively minor source of the overall tax gap. For example, the non-filing gap in the United States is estimated to be around 9% of the gross tax gap between tax years 2011-2013.

⁴ A full list of previous tax gap reports can be found on page 7.

After taxfilers have been assessed by the CRA and it is determined that taxes are owed, **payment non-compliance** may occur when assessed taxes are not fully paid for a particular taxation year. Unlike reporting non-compliance, the tax gap from payment non-compliance can be calculated based on CRA's accounting records. The tax gap resulting from payment non-compliance is the subject of this report.

2.2 Scope of Payment Tax Gap Results

This report presents the payment tax gap results for four different taxfilers: individuals, corporations, GST/HST registrants, and excise licensees/registrants.⁵ In general, the payment gap includes federal and certain provincial taxes owed and amounts written off as uncollectible (i.e., write-offs).⁶ Although taxpayers are required to pay interest and penalties, the payment gap does not include these amounts since they are not tax liabilities (see Box 1).⁷ Interest and penalties within write-offs are also excluded from the payment gap results.

⁵ Data to calculate a payment gap for trusts were not available at the time of writing the report. The tax gap from trusts is expected to be relatively small given that the corresponding tax revenue is relatively minor.

⁶ The CRA is responsible for collecting certain provincial taxes and always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed). Therefore, this report considers these provincial tax liabilities as part of the federal tax debt.

⁷ Interest and penalties are not tax liabilities but rather amounts which are charged due to non-compliant actions. Similar to previous reports, non-resident taxfilers are excluded from the analysis.

Box 1: Overview of Payment Tax Gap Methodology

$$\text{Payment Tax Gap} = \text{Outstanding Debt} + \text{Writeoffs} - \text{Interest \& Penalties}$$

Outstanding Debt

When there is a positive balance owing, a taxfiler must pay this amount to the CRA by the due date. Otherwise, the outstanding debt becomes part of the payment gap.



Write-offs

While write-offs are deemed uncollectible, they are unpaid tax liabilities.* Therefore, they are included in the payment gap and one of the reasons why the tax gap can never be zero.



Interest and Penalties

The CRA charges interest and/or penalties if a taxfiler makes late or insufficient payments. Interest and penalties are removed because these amounts do not represent tax liabilities.

* Write-offs include amounts that are legislatively uncollectible such as the expiry of the collections limitation period and accounts that have an insolvency event under the Bankruptcy and Insolvency Act.

There are key features of payment non-compliance that makes the payment tax gap different from previously published tax gap estimates. First, the payment gap can be directly calculated and therefore does not need to be estimated. Unlike previous tax gap estimates which tried to measure what is not directly observed by the CRA (e.g., hidden income), payment gaps can be calculated based on CRA's accounting records – taxfilers have either paid or have not paid their taxes owing. Second, previous reports focused on estimating the *federal* tax gaps and did not include any provincial tax non-compliance. In contrast, this report considers certain provincial tax liabilities to be part of the federal tax debt since the CRA is responsible for collecting certain provincial taxes and always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed).⁸ Third, the payment gap for a given tax year is constantly changing due to reassessments by the CRA (e.g., audit results increasing or decreasing the balance owing) and payments by taxfilers (e.g., reducing the tax

⁸ The procedure for the administration of provincial taxes is outlined in the tax collection agreements with each province. For further details see: <https://www.canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/canada-revenue-agency-ministerial-transition-documents-november-2015/section-3-introduction-canada-revenue-agency-cra-1.html>

debt by making payments to the CRA). Therefore, the payment gaps in this report are snapshots at given point in time. For example, the payment gap from corporate filers is often highest after the fifth or sixth year as complex audits with high adjustments are completed around that time. From there, the payment gap starts declining as taxfilers payoff their tax debt.

In addition, there is no single unit of time when the payment gap begins since the payment deadline is not the same for different types of taxfilers. For example, the payment deadline for individuals is usually in April of the following tax year. However, GST/HST registrants must file a return and remit taxes regularly. The due date for the GST/HST return is determined by a registrant's reporting period which can be on a monthly, quarterly, or annual basis. The payment due date for corporations can also vary depending on their fiscal periods and they generally pay taxes in instalments. Since there can be many different payment deadlines (even within the same tax type such as in the case of GST/HST and corporate income tax), it was necessary to choose a common starting point to analyze the payment gap. In order to capture the payment gap for all taxfilers, this report's analysis begins as of December of the following year and ends as of July 2020.⁹

Given these unique features, it is important to interpret the results in this report with caution. For example, since payment gaps presented in this report account for reassessments (e.g., audits and appeals) and collection efforts, it cannot be directly added to other tax gap estimates unless they too account for reassessments. As such, the payment gap can be viewed as a net tax gap as opposed to being a gross tax gap, particularly for payment gaps as of 2020. It is also important to be cautious when comparing Canada's payment gap results internationally. A direct comparison of tax gap figures across countries can be misleading due to significant differences in tax gap methodologies, tax systems and economies. For instance, the United Kingdom's non-payment gap is based on tax debts that are written off and acts as a net tax gap.¹⁰ Meanwhile, the United States calculates their underpayment gap by aggregating the amount of taxes that were not paid by the payment due date, acting as a gross tax gap.¹¹ The CRA will explore the best approach to align the payment gap with previous tax gap estimates so that they can be added together in the overall tax gap report.

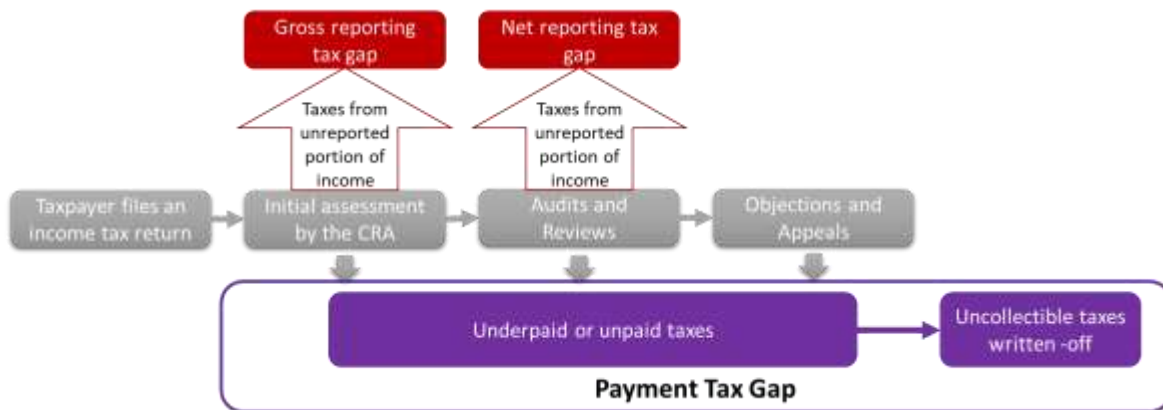
⁹ The payment gap was calculated as an aggregate for each of the four tax types (i.e., individual income tax, corporate income tax, GST/HST, and excise duties and taxes).

¹⁰ For more information, please visit:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/907122/Measuring_tax_gaps_2020_edition.pdf

¹¹ For more information, please visit: <https://www.irs.gov/pub/irs-pdf/p1415.pdf>

Box 2: Illustrative Example of the Payment Tax Gap



When a taxpayer files a tax return and it is initially assessed by the CRA, there could be a reporting tax gap: taxfilers may fail to provide complete and/or accurate information on their tax return by under-reporting income and/or claiming deductions or credits to which they are not entitled. The reporting tax gap is by definition not directly visible (e.g., hidden income) and therefore must be estimated. The reporting tax gap before CRA compliance actions is referred to as the gross tax gap while the remaining tax gap after compliance actions is referred to as the net tax gap.

In contrast to the reporting tax gap, payment non-compliance can occur at different stages and can be calculated using CRA's accounting data. For example, if a tax return is assessed by the CRA but assessed taxes are not fully paid by the taxfiler by the due date, there would be a payment tax gap. However, payment non-compliance may also occur after reassessments, such as audits, objections, or appeals, are completed. For example, if an audit determines that a taxfiler owes additional taxes but this amount is not fully paid, the payment gap would increase. On the other hand, if an appeal reduces taxes owing, this could reduce the payment gap once the appeal is completed. Therefore, it was important to analyze the evolution of the payment gap in this report. When tax liabilities are deemed uncollectible (e.g., due to a bankruptcy), it can be written off. However, write-offs, in most cases, do not release the taxpayer from their obligation to pay off the debt and could be reinstated by the CRA; thus, contributing to the foregone tax revenue. Therefore, this report includes write-offs in the payment gap.

3. Payment Tax Gap Results

When taxes are owed and taxfilers fail to pay their balance owing by the deadline, there is a payment tax gap. This section presents payment gap results for four types of taxfilers: individuals, corporations, GST/HST registrants, and excise licensees/registrants. The payment gap is calculated using CRA's accounting data for tax years 2008 to 2014. The payment gap amounts presented in this section include outstanding debt and write-offs, but exclude interest and penalties (see Box 1). Given the importance of looking at the evolution of payment gaps, the analysis begins one year after the taxation year and ends as of July 2020. This is particularly true for corporations since it can take multiple years to complete a comprehensive audit. Since it takes several years of data to analyze the evolution of the payment gap, tax year 2014 is the latest year of analysis. A brief summary of descriptive statistics on non-compliant filers is provided for tax year 2014.

3.1 Individuals

Individuals are generally required to file an Income Tax and Benefit Return (T1 return) and pay their balance owing by April 30th of the following year.¹² For example, the T1 return for tax year 2018 was due April 30, 2019.¹³ By completing a return, individuals may receive benefits or get a refund for any overpayments of tax they made during the year. If individuals did not pay enough taxes during the year, they may have a balance owing. In addition to unpaid taxes, individuals may have a balance owing because they claimed a benefit to which they were not entitled. In this case, repayable amounts of deductions and credits also contribute to the balance owing. If the balance owing is not paid by the deadline, daily interest is charged starting May 1st on any outstanding balance and penalties may apply.¹⁴ The CRA administers and collects personal income taxes for the federal government and all provinces/territories, except for Quebec. In addition, the CRA also collects taxes on behalf of certain First Nations according to First Nations Personal Income Tax Administration Agreements.¹⁵

3.1.1 Individual Payment Gap

In June 2017, the CRA published a report on the domestic personal income tax gap for tax year 2014 which included an estimate of the individual payment non-compliance. At that time, a specific methodology for calculating the payment gap was not fully established and therefore, an estimate of payment non-compliance was provided by looking at all outstanding tax debt at initial assessment by the CRA. Based on this, the individual payment gap for tax year 2014, including interest and penalties, was estimated to be around \$2.2 billion as of 2017. Since that time, the CRA has revised its payment tax gap methodology for individuals (see Annex 1 for more details). This approach is more consistent with the definition of tax gap as it focuses on unpaid tax liabilities.

¹² The filing deadline for certain self-employed individuals is generally extended to June 15, although the payment due date is still April 30.

¹³ The 2019 payment deadline was extended to September 30, 2020 in response to COVID-19.

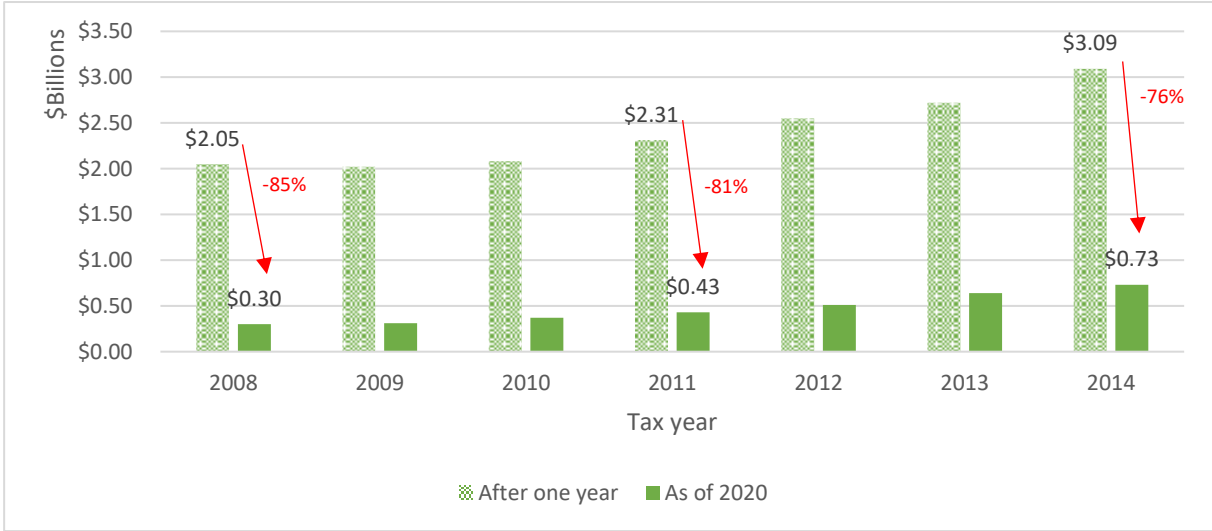
¹⁴ For more information, visit: <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/interest-penalties.html>

¹⁵ For more information, visit: <https://www.canada.ca/en/department-finance/programs/tax-policy/aboriginal/tax-administration-agreements/first-nations-personal-income-tax.html>

The individual payment gap in this report includes unpaid federal personal income tax, unpaid provincial personal income tax (except Quebec), unpaid First Nations personal income tax, repayable deductions and credits, and all uncollectable debt (i.e., write-offs). As discussed previously, interest and penalties are excluded. There are two main sources of the payment gap for individual filers: payment gap from unpaid taxes and payment gap from repayable deductions and credits. The majority of the individual payment gap is due to unpaid taxes for each tax year.

In general, the payment gaps from earlier tax years tend to be smaller than more recent tax years due to factors such as the tax base increasing over time (due to a combination of more taxpayers and higher earnings), tax rates having changed, and taxpayers having had more time to pay their debt.¹⁶ As shown in Figure 1, the payment gaps today (as of 2020) are much smaller than in the past (one year after the taxation year) for all tax years. The percentage decline tends to be smaller for more recent tax years since there are less years between the tax year and 2020.

Figure 1: Individual Payment Gap, Tax Years 2008-2014*

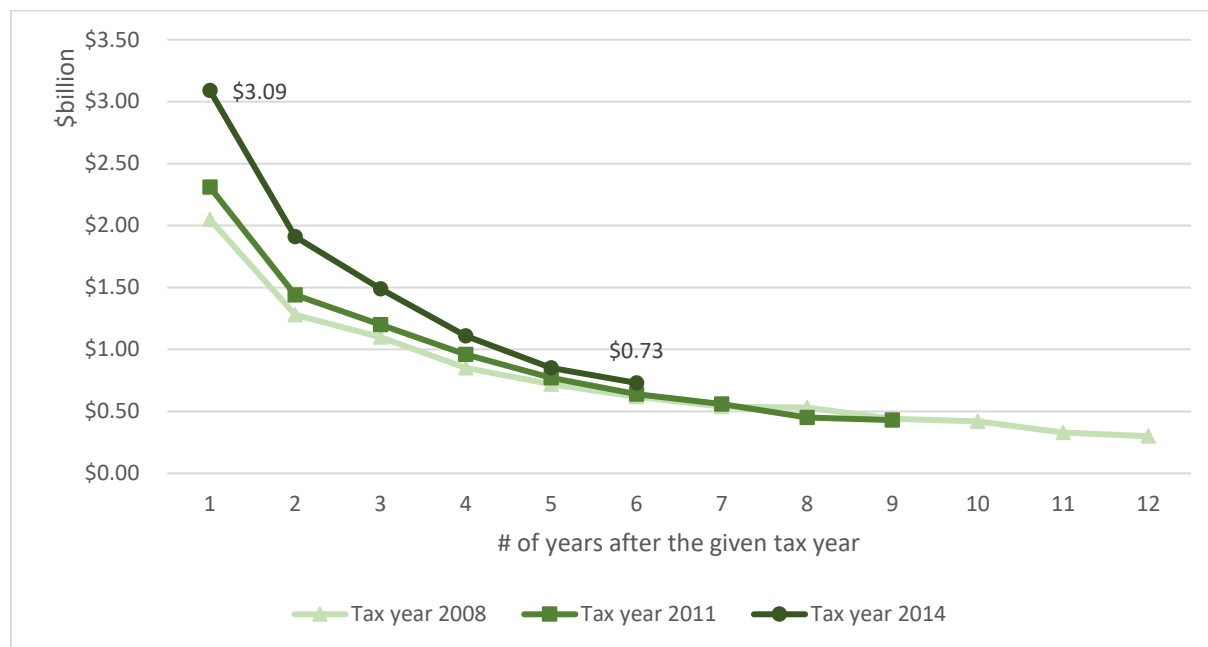


* Does not include non-residents. All amounts are in nominal dollars.
Source: Individual accounting system as of July 30, 2020.

It is important to emphasize that the payment gap is constantly changing. As taxfilers pay down their balance owing or the CRA takes compliance actions (e.g., audits resulting in additional taxes owed), the payment gap for any given tax year will fluctuate over time. Figure 2 provides a way to compare the evolution of the payment gaps between three tax years. In general, the individual payment gap is at its highest level after one year. Subsequently, the payment gap declines as taxfilers payoff their balance owing and the CRA begins its collection efforts. The payment gap will stabilize over time as a higher fraction of remaining amounts become uncollectible (i.e., write-offs).

¹⁶ In general, payments to the CRA are allocated to the oldest debt first. For more information, please visit: <https://www.canada.ca/en/revenue-agency/services/about-canada-revenue-agency-cra/when-you-money-collections-cra/personal-debt.html>

Figure 2: Evolution of the Individual Payment Gap*



* The amounts in this graph (except the payment gap as of 2020) are based on an estimation procedure to remove interest and penalties. Does not include non-residents. All amounts are in nominal dollars.
Source: Individual accounting system as of July 30, 2020.

For tax year 2014, the payment gap from individual filers was \$3.09 billion after one year (2015) before declining to \$0.73 billion as of 2020, a decline of 76%. Around 88% of the current individual payment gap (as of 2020) is due to unpaid taxes while 22% is due to repayable deductions and credits. The individual payment gap for tax year 2014 has decreased over time and is reaching similar levels to previous tax years (see Figure 2). As the CRA continues to take compliance actions to collect the outstanding balance where possible, the individual payment gap for tax year 2014 is expected to decline further.

3.1.2 Descriptive Analysis of Non-compliant Individuals for Tax Year 2014

As of 2020, approximately 197,530 individuals, or 0.7% of all individual filers, still contribute to the payment gap for tax year 2014. The median payment gap is \$780 per individual while the average payment gap is \$3,710 per individual. The large difference between the median and the average is due to a small number of individuals with high payment gaps. This difference was more pronounced for unpaid taxes compared to repayable deductions and credits (see Table 1). Additional characteristics of non-compliant individuals can be found in Annex 1.

Table 1: Summary of Individual Filers, Tax Year 2014 (as of 2020)*

All Individuals	
<ul style="list-style-type: none"> • Number of Filers: 28,136,040 • Number of Filers with a Payment Gap: 197,530 (0.7 %) • Total Payment Gap: \$0.73 billion • Median Payment Gap: \$780 • Average Payment Gap: \$3,710 	
Unpaid Taxes	Repayable Deductions & Credits
<ul style="list-style-type: none"> • Payment Gap: \$0.64 billion (88%) • Median Payment Gap: \$740 • Average Payment Gap: \$3,440 	<ul style="list-style-type: none"> • Payment Gap: \$0.09 billion (12%) • Median Payment Gap: \$1,610 • Average Payment Gap: \$2,040

* Figures may not correspond with similar published data due to different cut-off dates and the exclusion criteria considered in this study. Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.

Source: Individual accounting system and assessed T1 income tax returns as of July 30, 2020.

3.2 Corporations

Corporations resident in Canada are required to file a Corporation Income Tax Return (T2 return) every tax year whether or not there is any tax payable.¹⁷ In general T2 returns must be submitted no later than six months after the end of their fiscal year. For example, if a corporation's fiscal year ends on March 31, the filing deadline would be September 30. Most corporations pay income tax in monthly or quarterly instalments and the balance owing is due within either two or three months after the end of the corporation's reporting period. The reporting period can vary for each corporation. If corporations do not comply with CRA requirements, interest and/or penalties may apply.¹⁸ The CRA administers and collects corporate income taxes for the federal government and all provinces/territories except Quebec and Alberta, where corporations file separate provincial corporate tax returns.

3.2.1 Corporation Payment Gap

The corporation payment gap includes unpaid federal corporate income tax, unpaid provincial corporate income tax (except in Quebec and Alberta), and all uncollectable tax debt (i.e., write-offs). Corporations can range from small businesses to multinational corporations. Therefore, additional analysis was conducted for two different groups of corporations: small and medium-sized enterprises (SMEs) and large corporations.¹⁹

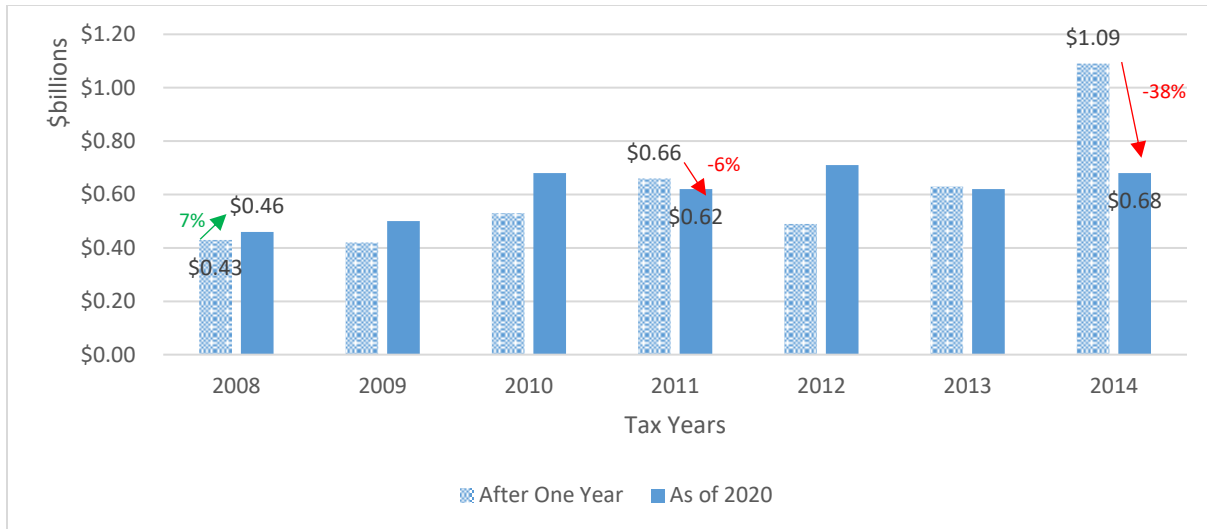
¹⁷ An exception to this rule are corporations that were registered as charities for the entire year. These corporations must file a Registered Charity Information Return.

¹⁸ For more information, visit: <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/corporation-payments/avoiding-penalties.html>

¹⁹ SMEs are defined as corporations with less than or equal to \$20 million in total gross revenues or up to \$50 million for certain industry sectors. Large corporations are defined as corporations with total gross revenues above the SME threshold.

As shown in Figure 3, the past and present corporate payment gaps do not follow a consistent pattern. For certain tax years for example, the payment gap is larger today (as of 2020) compared to the past (one year after the taxation year). This is mainly due to the CRA identifying additional taxes owed after multiple years of audits.

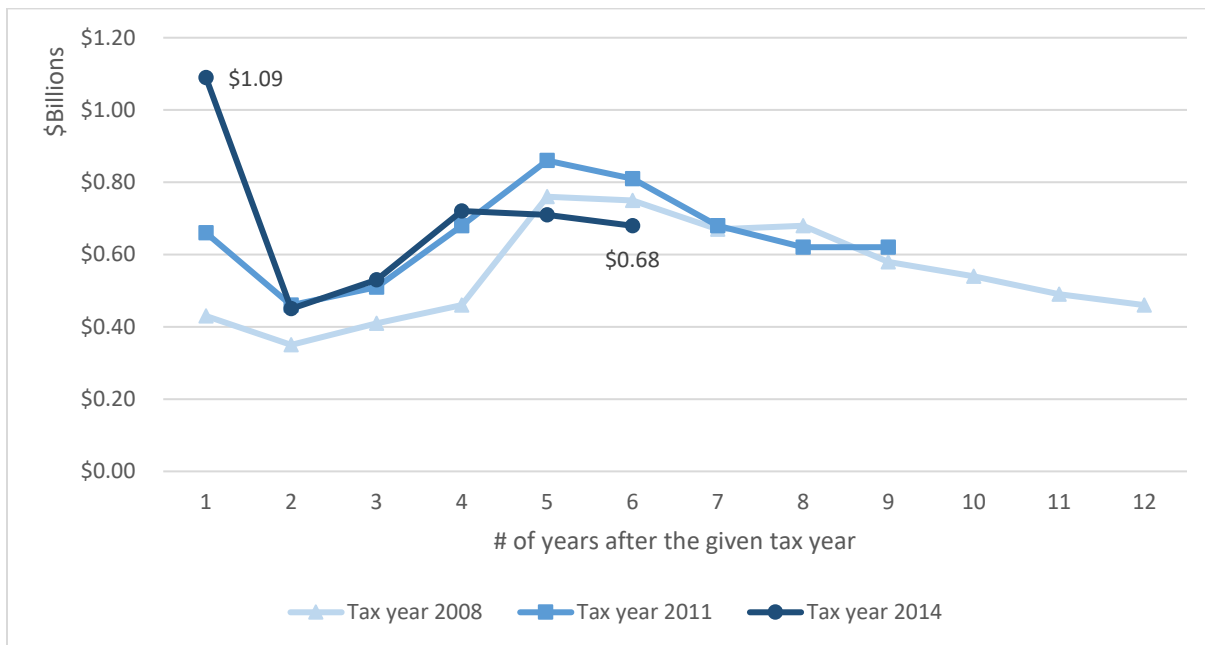
Figure 3: Corporate Payment Gap, Tax Years 2008-2014*



* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars. Source: Standardized accounting system for corporations as of July 30, 2020.

Similar to the individual payment gap, it is important to examine the corporation payment over multiple years. As shown in Figure 4, the corporation payment gaps for earlier tax years reached their highest level after the fifth or sixth year as complex audits with high adjustments were completed around that time. From there, the payment gap declined as corporations paid down their tax debt. Unlike previous tax years, the 2014 tax year saw its highest payment gap amount after one year. This was mainly due to outliers where a small number of corporations had a significant payment gap after one year. However, this was mostly resolved after the second year and the payment gap is now below the payment gaps for tax year 2008 and 2011 as shown in Figure 4. Material changes to the payment gap could be a result of reassessments including audits, objections, appeal, and taxpayer requests. Due the small number outliers, additional information on these corporations could not be disclosed in order to protect taxpayer confidentiality.

Figure 4: Evolution of the Corporation Payment Gap*



* Does not include non-residents. All amounts are in nominal dollars.
 Source: Standardized accounting system for corporations as of July 30, 2020.

For tax year 2014, the payment gap from corporations was \$1.09 billion after one year (2015) before falling to \$0.68 billion as of 2020, a decline of 38%. While SMEs accounted for 99% of all filers, both SMEs and large corporations accounted for approximately 50% of the corporation payment gap (see Table 2). The corporation payment gap for tax year 2014 has fluctuated over time in both directions as shown in Figure 4. For example, the payment gap for tax year 2014 decreased to \$0.45 billion as of 2016 but increased to \$0.71 billion as of 2018, mainly due to audits identifying additional taxes owing. Since that time, the corporation payment gap has declined to \$0.68 billion as of 2020. As the CRA continues to take compliance actions to collect outstanding debts where possible, the corporation payment gap is expected to further decline.

3.2.2 Descriptive Analysis of Non-compliant Corporations for Tax Year 2014

For tax year 2014, approximately 34,490 corporations, or slightly under 2% of all corporate filers, still contribute to the payment tax gap as of 2020. The median payment gap is \$1,715 per corporation while the average payment gap is \$19,750. The large disparity between the median and average amounts indicates that a small number of corporations had very large payment gaps for tax year 2014. This is particularly true for large corporations where the average payment gap is much higher than the median payment gap (see Table 2). Additional characteristics of non-compliant corporations can be found in Annex 2.

Table 2: Summary of Corporate Filers, Tax Year 2014 (as of 2020)*

All Corporations	
<ul style="list-style-type: none"> Number of Filers: 2,188,160 Number of Filers with a Payment Gap: 34,490 (2%) Total Payment Gap: \$0.68 billion Median Payment Gap: \$1,715 Average Payment Gap: \$19,750 	
SMEs	Large Corporations
<ul style="list-style-type: none"> Number of Filers: 2,161,740 (99%) Number of Filers with a Payment Gap: 34,100 (2%) Payment Gap: \$0.37 billion (54%) Median Payment Gap: \$1,725 Average Payment Gap: \$9,120 	<ul style="list-style-type: none"> Number of Filers: 26,420 (1%) Number of Filers with a Payment Gap: 380 (1%) Payment Gap: \$0.31 billion (46%) Median Payment Gap: \$ 30** Average Payment Gap: \$966,310

* Figures may not correspond with similar published data due to different cut-off dates and the exclusion criteria considered in this study. Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.

** Most large corporations had a small payment gap and, as a result, the median payment gap was negligible for tax year 2014. For example, some large corporations had less than \$2 in payment gap which is generally written-off by the CRA.

Source: Standardized accounting system for corporations and assessed T2 corporation income tax returns as of July 30, 2020.

3.3 GST/HST

The GST/HST is a consumption tax that applies to a broad range of goods and services in Canada. The CRA administers GST/HST for all provinces and territories except for Quebec. For the four Atlantic provinces and Ontario that have harmonized their provincial sales tax with the GST, the HST applies. British Columbia used to be a participating province and had HST from July 1, 2010, until March 31, 2013. Other provinces collect their provincial sales tax (PST) directly. The CRA also administers the sales tax for certain First Nations governments and financial institutions.²⁰

The GST/HST is a multistage tax that applies to goods and services at every stage of the production and distribution chain. In general, registered businesses are entitled to offset their GST/HST costs through input tax credits. Except for certain exemptions, these registrants collect and remit the GST/HST owing to the CRA. Registrants must file a GST/HST return and remit taxes regularly.²¹ The due date for the GST/HST return is determined by a registrant's reporting period. In general, registrants report their GST/HST sales on a monthly, quarterly, or annual basis. The payment deadline depends on the frequency of the reporting period.²² When GST/HST registrants do not pay their outstanding balance before the payment deadline, their

²⁰ The CRA administers the GST/HST and the Quebec Sales Tax (QST) for selected listed financial institutions.

²¹ In general, small suppliers are not required to file GST/HST returns. For additional information, visit: <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/2-2/small-suppliers.html>

²² For more information, visit: <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/complete-file-when.html>

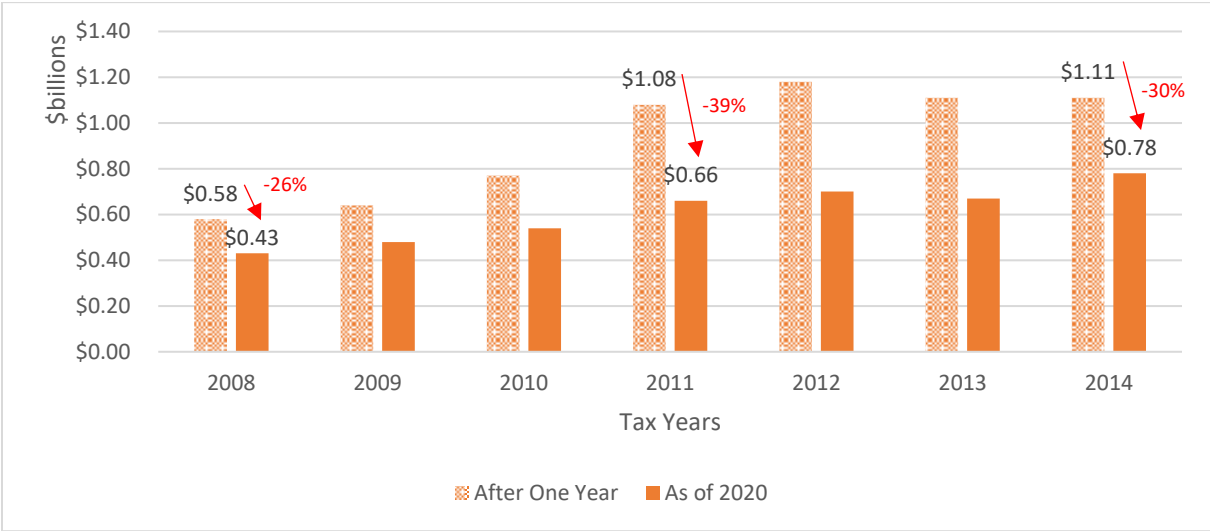
accounts are considered to be in arrears and contributes to the GST/HST payment gap. In addition, interest and/or penalties may apply.

3.3.1 GST/HST Payment Gap

The GST/HST payment gap includes unpaid GST (federal sales tax), unpaid HST (harmonized sales tax of relevant provinces), unpaid sales tax for First Nations governments, unpaid sales tax for certain financial institutions, and all uncollectable tax debt (i.e., write-offs).

The GST/HST payment gap increased in tax year 2011 as the CRA began collecting both federal and provincial sales taxes for Ontario and British Columbia when they harmonized their provincial sales taxes with the GST. In addition, tax gaps from earlier tax years are generally smaller than more recent tax years due to factors such as the tax base increasing over time and taxfilers having more time to pay their older debts. The only exception is for tax year 2013 which can be explained by the fact that British Columbia discontinued the HST and returned to the GST and PST system that year. Therefore, it is important to acknowledge that fluctuations in the tax gap are not always related to compliance levels. As shown in Figure 5, the GST/HST payment gap today (as of 2020) is smaller than in the past (one year after the taxation year) for all tax years.

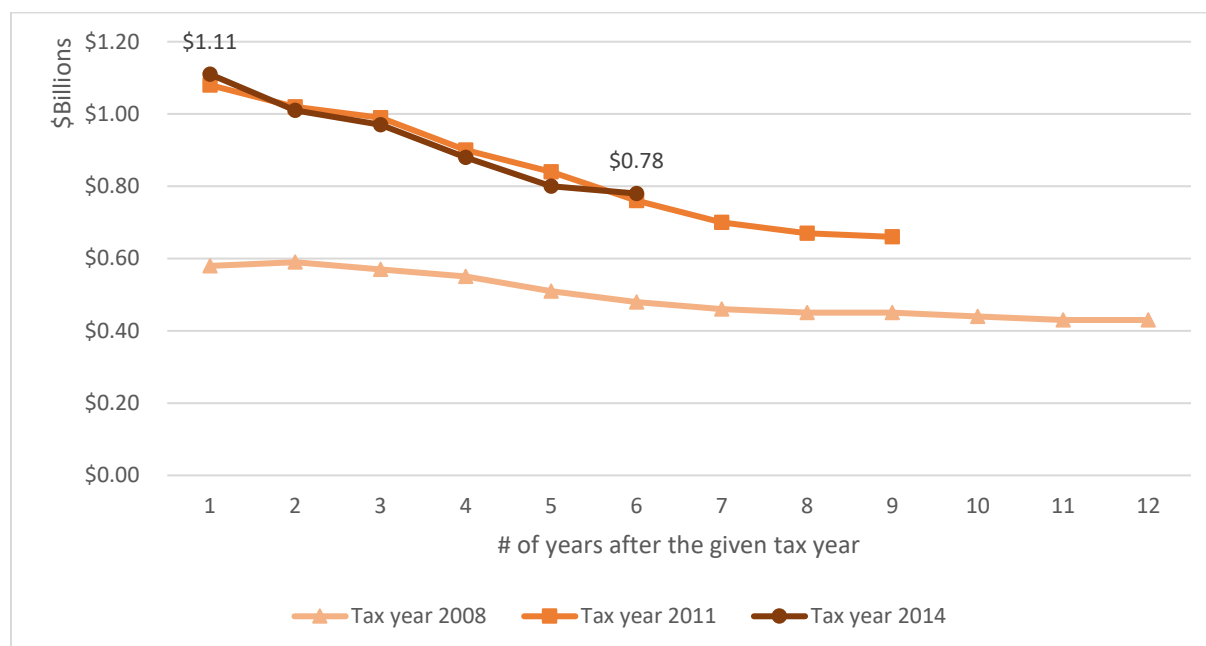
Figure 5: GST/HST Payment Gap, 2008-2014 Tax Years*



* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars. Source: Standardized accounting system for GST/HST taxpayers as of July 30, 2020.

Similar to the other payment gaps, the GST/HST payment gap for any given tax year can fluctuate over time. As shown in Figure 6, the GST/HST payment gap tends to be at its highest level after the first two years. From there, the payment gap starts declining as taxfilers payoff their outstanding tax debt.

Figure 6: Evolution of the GST/HST Payment Gap*



* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.
Source: Standardized accounting system for GST/HST taxpayers as of July 30, 2020.

For tax year 2014, the GST/HST payment gap was \$1.11 billion after one year (2015) before declining to \$0.78 billion as of 2020, a decline of 30%. Like other payment gaps, the GST/HST payment gap for tax year 2014 has declined over time and is consistent with tax year 2011. The GST/HST payment gap for tax year 2008 (i.e., triangle line in Figure 6) is lower than tax years 2011 and 2014, mainly because Ontario and British Columbia joined the HST regime in 2010. In other words, non-compliance related to Ontario and British Columbia provincial sales taxes would only be captured after 2010 as part of the HST. Similar to previous tax years, the declining trend of the GST/HST payment gap for tax year 2014 is expected to continue.

3.3.2 Descriptive Analysis of Non-compliant GST/HST Registrants for Tax Year 2014

For tax year 2014, around 3.3 million GST/HST returns were filed and 5% of filers still contribute to the GST/HST payment gap as of 2020.²³ The median payment gap is \$1,350 while the average payment gap is \$4,700. Similar to other tax types, a small number of GST/HST registrants tend to have concentrated levels of the payment gap.

²³ In general, small suppliers are not required to file GST/HST returns. For additional information, visit: <https://www.canada.ca/en/revenue-agency/services/forms-publications/publications/2-2/small-suppliers.html>

Table 3: Summary of GST/HST Registrants, Tax Year 2014 (as of 2020)*

GST/HST
<ul style="list-style-type: none">• Number of Filers: 3,344,640• Number of Filers with a Payment Gap: 165,470 (5% of filers)• Total Payment Gap: \$0.78 billion• Median Payment Gap: \$1,350• Average Payment Gap: \$4,700

* Figures may not correspond with similar published data due to different cut-off dates and the exclusion criteria considered in this study. Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.

Source: Standardized accounting system for GST/HST taxpayers and assessed GST/HST returns as of July 30, 2020.

3.4 Excise Duties and Taxes

Excise duties and taxes are specific levies that are applied on a limited range of commodities and services. Excise duties are imposed under the *Excise Act* and the *Excise Act, 2001* and apply to tobacco, alcohol, and cannabis. Excise taxes are imposed under the *Excise Tax Act* and apply mostly to fuel and gasoline. Excise duties and taxes are only levied after the product has been manufactured, packaged, or imported.

The producer or importer of the goods (referred to as excise licensees and registrants in this report) remits the excise duty or tax to the CRA. In general, the CRA collects excise duties and taxes for domestically-manufactured products while the Canada Border Services Agency (CBSA) collects them for imported products.²⁴ Licensees/registrants that remit excise duties and taxes are highly regulated and therefore are largely compliant. Excise duties and taxes are typically paid on a monthly or semi-annual basis.²⁵

3.4.1 Excise Payment Gap

The excise payment gap includes unpaid excise duties and taxes as well as all uncollectable tax debt (i.e., write-offs). Between tax years 2008-2012, the payment gap ranged from around \$0.04 billion to \$0.09 billion, the majority of which came from a very small number of licensees/registrants. When these outliers were no longer present, the excise payment gap was minimal for other tax years.²⁶ This was particularly true for tax year 2014 when the excise payment gap was negligible.²⁷ Given the small number of non-compliant licensees/registrants

²⁴ Since this report relied on CRA data, excise taxes and duties on imported products were not included in the analysis. Nevertheless, the excise payment gap from imported products are not expected to be significant. For example, in 2014-15, 86% of the revenue from excise taxes and duties came from CRA and 14% from CBSA.

²⁵ For more information, visit: <https://www.canada.ca/en/services/taxes/excise-taxes-duties-and-levies.html>

²⁶ For example, for tax year 2013, the excise payment gap was approximately 0.6% of the total payment gap.

²⁷ The excise payment gap for tax year 2014 was less than 0.1% of the total payment gap and therefore negligible.

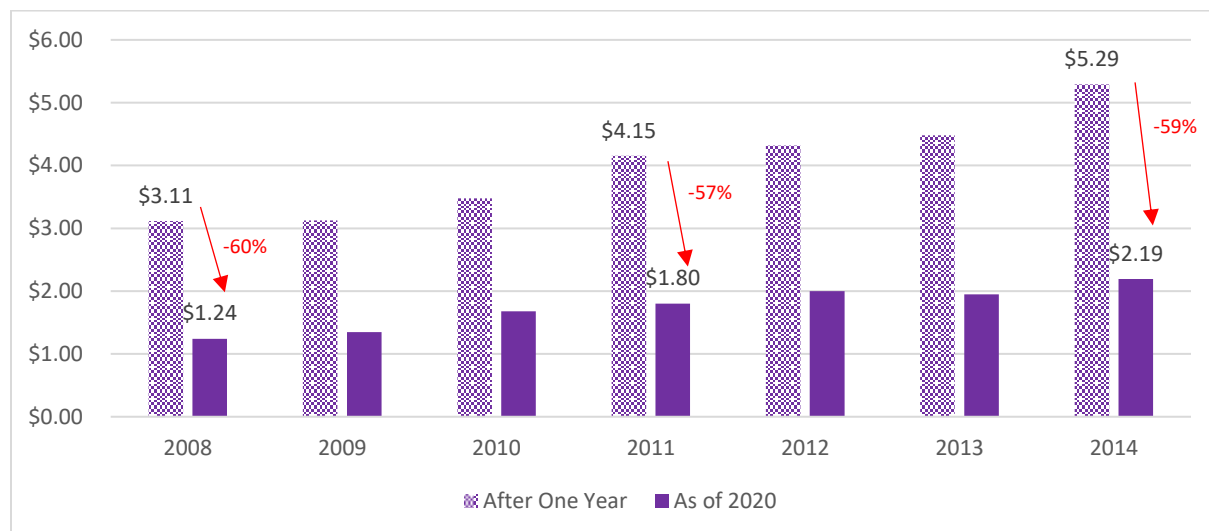
and the negligible payment gap, the exact amounts and descriptive statistics could not be reported to maintain taxpayer confidentiality.

Excise licensees/registrants are subject to regular audits and regulatory reviews by the CRA which have contributed to maintaining a high level of compliance for this group of taxfilers. Since excise licensees/registrants are highly regulated and compliant, the main source of excise non-compliance is generally related to illegal activities (e.g., contraband cigarettes). Additional information on the excise duty and tax gap can be found in CRA’s “Tax Gap for Federal Excise Duty on Cigarettes” report.

3.5 The Total Payment Gap

Combining the payment gaps from individuals, corporations, GST/HST registrants, and excise licensees/registrants, the total payment gap for each of the tax year is presented in Figure 9.²⁸ In general, the payment gaps today (as of 2020) are much smaller than in the past (one year after taxation year). This is mainly due to CRA’s collection efforts and taxfilers paying down their tax debt over time. One notable exception is for corporations where payment gaps tend to increase after complex audits are completed five to six years down the line. The total payment gap from earlier tax years tends to be smaller than more recent years for multiple reasons: the tax base has increased over time, tax rates have changed, and taxfilers have had more time to pay down their debt. Certain changes that are not related to compliance (e.g., British Columbia discontinuing the HST) may also impact the level of payment gap. Therefore, it is important to acknowledge that fluctuations in the payment gap are not always related to compliance levels. In addition, the declining rate of the total payment gap tends to slow down for older tax years as certain amounts are uncollectible (e.g. due to bankruptcies). This is one of the reasons why the tax gap can never be zero.

Figure 7: The Total Payment Tax Gap between Tax Years 2008 to 2014*



* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars.
Source: CRA’s accounting systems as of July 30, 2020.

²⁸ The excise duty and tax payment gap for tax year 2014 was negligible due to high levels of regulation and compliance. The exact tax gap amount is not reported to maintain taxpayer confidentiality.

As mentioned throughout this report, the payment gap for any particular tax year is constantly changing due to reassessments (e.g., audits and appeals) and payments by taxfilers. Therefore, it is important to look at the evolution of the total payment gap for multiple years (see Figure 8). To compare payment gaps from different tax years, it is important to look at the number of years after a given taxation year.

Figure 8: Evolution of the Total Payment Gap*



* Does not include non-residents. Totals may not add due to rounding. All amounts are in nominal dollars. Source: CRA's accounting systems as of July 30, 2020.

To be consistent with previous tax gap reports, additional analysis is provided for tax year 2014 (see Table 4 and Figure 9). In the past (as of 2015), the total payment gap was \$5.29 billion. Today (as of 2020) the payment gap has declined to \$2.19 billion, a decline of 59%. A breakdown of the total payment gap for tax year 2014 shows that the payment gap decreased at a faster rate for individuals (-76%) compared to corporations (-38%) and GST/HST registrants (-30%). For excise licensees/registrants, the payment gap was negligible due to high levels of regulation and compliance. Given that only a small number of excise licensees/registrants were non-compliant for any given tax year, the exact payment gap amounts could not be reported in this report.

Table 4: Breakdown of the Total Payment Tax Gap for Tax Year 2014*

Payment Gap Component	Payment Gap after One Year (\$billions)	Payment Gap as of 2020 (\$billions)	%Decline
Individuals	\$3.09	\$0.73	-76%
Corporations	\$1.09	\$0.68	-38%
GST/HST	\$1.11	\$0.78	-30%
Excise Duties and Taxes	\$ - **	\$ - **	-**
Total Payment Gap	\$5.29	\$2.19	-59%

* Totals may not add due to rounding. Does not include non-residents. All amounts are in nominal dollars.

** The excise duty and tax payment gap for tax year 2014 was negligible due to high levels of regulation and compliance. The exact tax gap amount is not reported to maintain taxpayer confidentiality.

Source: CRA's accounting systems as of July 30, 2020.

Figure 9: Evolution of Payment Gap Components for Tax Year 2014*



* Does not include non-residents. All amounts are in nominal dollars.

Source: CRA's accounting systems as of July 30, 2014

4. CRA's Collection Efforts

The CRA's mandate is to make sure Canadians pay the correct amount of taxes and receive their rightful share of benefits. In fulfilling its core responsibilities, the CRA administers Canada's tax laws and collects taxes on behalf of the federal government, provinces/territories, and certain First Nations. When taxfilers do not pay their assessed taxes, the CRA takes action to collect outstanding debts. This section briefly highlights CRA's collection efforts.

Box 3: What is Outstanding Debt?

In general, outstanding debt refers to collectible balance owing by a taxfiler including tax liabilities, interest, penalties, and other debt. Other debt includes reassessed credits that can increase or decrease the total debt. Because the focus is on *collectible debt*, outstanding tax debt does not include write-offs* (i.e., uncollectible debt) and includes interest and penalties. In contrast, the payment gap includes write-offs and does not include interest and penalties because the focus is on *tax liabilities*.

$$\text{Outstanding Debt} = \text{Payment Tax Gap} + \text{Interest \& Penalties} - \text{Writeoffs}$$

Therefore, CRA's collection efforts not only focus on reducing the payment gap where possible, but also ensures that other amounts owing are collected.

* Write-offs include amounts that are legislatively uncollectible such as the expiry of the collections limitation period and accounts that have an insolvency event under the Bankruptcy and Insolvency Act.

4.1 When you owe money – collections at the CRA

Paying the balance owing in full helps taxfilers avoid interest and other legal and financial consequences. When taxfilers cannot pay the full amount, the CRA works with them to resolve their tax debt. For example, a taxfiler can make partial payments over time or agree to another payment arrangement until they have fully paid off their tax debt. During that time, any interest and penalties that apply will continue to accrue on the debt. The CRA has discretion to cancel or waive penalties and interest when taxfilers cannot meet their tax obligations due to circumstances beyond their control.

If taxfilers disagree with an assessment or a reassessment, they can contact the CRA to discuss the matter. If it still cannot be resolved, they have the right to a formal review including filing an objection and subsequently filing an appeal. In certain circumstances, the CRA may still

collect taxes. For example, the CRA can start collecting 50% of assessed income tax for large corporations even if they have filed for an objection or an appeal.²⁹

If a taxfiler does not pay their debt or refuse to cooperate, the CRA may take legal action which could result in serious financial or legal consequences. The CRA may garnish income, garnish bank accounts, seize and sell assets, or use any other means permitted by law. In general, the CRA will not start legal action until 90 days after the mailing date of the notice of assessment or reassessment. Before starting legal action, the CRA must do the following:

- Make one attempt to give verbal legal warning by phone.
- Send one written legal warning letter.

In some cases, certain tax debt becomes uncollectable such as when a taxfiler goes bankrupt. Therefore, after the CRA has taken all reasonable collection action and exhausted all possible means of collection, uncollectible taxes are written-off (i.e., deleted from active inventory of accounts receivable).

During 2018–19, CRA measures resolved just under \$68 billion in outstanding tax debt for multiple taxation years, an increase of 17.6% over 2017–18. Of this total, \$64.7 billion was collected and \$3.3 billion was written-off. During 2019–2020, the CRA resolved just over \$65 billion in outstanding tax debt. Of this total, \$61.7 billion was collected and \$3.3 billion was written off by the Collections programs. The CRA continued to maximize its use of Budget 2016 funding by resolving an additional \$2 billion in outstanding tax debt.

4.2 Collections and Verification at the CRA

The Collections and Verification Branch (CVB) protects the integrity and fairness of Canada's tax system for all Canadians by delivering national validation, compliance, and collections programs that:

- foster taxpayer understanding of their tax obligations and promote voluntary registration, accurate and timely filing, and remittance;
- validate tax returns and benefit entitlements and enforce compliance with Canada's tax laws for filing, declaring, withholding, registering, and remitting;
- identify compliance risks and address non-compliance using advanced verification techniques and world class analytics; and
- collect outstanding debts owed to the Crown through progressive and targeted enforcement approaches.

²⁹ For more information, please visit: <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/after-you-file-your-corporation-income-tax-return/resolving-disputes.html>

4.2.1 Compliance and Collections

The CRA promotes compliance by supporting taxfilers who want to resolve their debt, working with those who cannot pay the full debt amount, and addressing non-compliance through enforcement interventions for a small minority of deliberate non-compliers.

The CRA is maximizing investments from Federal Budgets to modernize business approaches that will increase capacity to address a higher volume of collections, improve communication channels with taxpayers and third parties, and increase the focus to deter non-compliance. For example, the CRA is invested in applying behavioural economics to improve responsiveness to compliance interventions, such as letter campaigns or automated messages.

4.2.2 Service

Good service is key to promoting compliance within a tax system based on self-assessment. The CRA's objective is to provide quality services and interactions, including responsible enforcement, while offering a positive experience for all taxfilers. Therefore, the CRA is continually improving its services to ensure that the CRA is fairer, more helpful, and easier to interact with.

New programs and outreach activities aim to provide taxfilers with clear, accurate, and timely information and tools to make it easier to comply with tax laws. For example, through its numerous education/outreach and compliance activities, the CRA ensures laws are respected and taxpayers are given the information they need to be and stay compliant. This helps maintain a low level of payment non-compliance and improve public trust in the fairness and integrity of the CRA and the Canadian tax system.

4.2.3 Innovation

Encouraging innovation and new ideas is crucial to the ongoing growth and improvements of the CRA's compliance, collections, and verification efforts. Innovation enables the CRA to improve its programs and services to Canadians by pursuing greater efficiency and effectiveness in the way the programs are administered. Examining international and industry best practices, while strengthening partnerships with other tax administrations and stakeholders, allows the CRA to improve compliance methods and remain up-to-date with emerging techniques.

To remain innovative means to make smart use of new technologies, business intelligence, and data analytics. Therefore, the CRA seeks to improve research, better understand trends, identify risks, and predict taxpayer behaviour to enhance compliance processes. For example, the CRA experimented with the development of a new forecasting model to further understand the impacts that the Canadian economy has on the tax debt. The CRA will continue to use leading edge practices to modernize and improve compliance efforts while optimizing business operations to collect and manage the tax debt.

5. Conclusion

This report examined the payment tax gaps for individuals, corporations, GST/HST registrants, and excise duty and tax licensees/registrants for tax years 2008 to 2014. The payment gap amounts presented in this report include outstanding debt and write-offs, but exclude interest and penalties (see Box 1). In this report, certain provincial taxes were considered federal tax debt because the CRA always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed). The payment tax gap was calculated using CRA's accounting data and the tax gap results account for the latest reassessments (e.g., audits, appeals) as of 2020.

It is important to examine multiple years after each taxation year since the payment gap may fluctuate over time. For example, audits, objections, and appeals may increase the amount of outstanding tax liability and consequently the payment tax gap. This is particularly true for corporations since it can take multiple years to complete a comprehensive audit. Since it takes several years of data to analyze the evolution of the payment gap, tax year 2014 was the latest year of analysis in this report. More recent tax years will be examined in a future tax gap report.

For tax year 2014:

- **The individual payment gap** was \$3.09 billion as of 2015 and \$0.73 billion as of 2020, a decline of 76%.
- **The corporation payment gap** was \$1.09 billion as of 2015 and \$0.68 billion as of 2020, a decline of 38%.
- **The GST/HST payment gap** was \$1.11 billion as of 2015 and \$0.78 billion as of 2020, a decline of 30%.
- **The excise payment gap** was negligible because excise licensees/registrants were highly compliant.
- **Together, the total payment gap for tax year 2014 was \$5.29 billion as of 2015 and \$2.19 billion as of 2020, a decline of 59%.**

CRA's collection efforts have been instrumental in reducing payment non-compliance and are reflected in the overall trend of declining payment gaps.

- During 2018–19, the CRA resolved just under \$68 billion in outstanding tax debt for multiple tax years, which represents an increase of 17.6% over what was resolved in 2017–18.
- During 2019–2020, the CRA resolved just over \$65 billion in outstanding tax debt. Of this total, \$61.7 billion was collected and \$3.3 billion was written off by the Collections programs.

There are key features of the payment tax gap that makes it difficult to compare with CRA's previous tax gap estimates. Therefore, the payment gap cannot be directly added to previous tax gap estimates without special considerations. The CRA will continue studying the tax gap while engaging with stakeholders and external experts to further the Agency's work in this area. The CRA will also provide regular updates to Canada's tax gaps to ensure they remain relevant and include additional information such as the impact of audits in reducing the tax gap. Through

an ongoing effort to understand different components of Canada's tax gap, the CRA will continue to preserve the integrity of the tax system.

Annex 1: Individual Payment Gap

Methodology

In June 2017, the CRA published a report on the domestic personal income tax gap for tax year 2014 which included an estimate of the individual payment non-compliance. At that time, a specific methodology for calculating the payment gap was not fully established and therefore, an estimate of payment non-compliance was provided by looking at all outstanding tax debt at initial assessment by the CRA. Based on the 2014 tax year assessing and accounting data, 16% of the \$13.6 billion in debt at the Notice of Assessment stage remained outstanding. Accordingly, the payment non-compliance (including interest and penalties) amounted to \$2.2 billion for tax year 2014 (as of January 2017).³⁰

Since that time, the CRA has revised its payment tax gap methodology for individuals. This approach is more consistent with the definition of tax gap as it focuses on unpaid tax liabilities. In this report, the payment gap for individuals was calculated based on CRA's accounting system which tracks the balance of the outstanding debt, total write-offs, and reassessment amounts. The target population under analysis was all individual taxfilers who contributed to the payment gap for taxation years 2008 to 2014. Non-residents were excluded from the study to remain consistent with previously published tax gap reports. Given the change in methodology, the payment gap from the 2017 report cannot be compared to the individual payment gap in this report.

There are two main sources of the payment gap for individual filers: payment gap from unpaid taxes and payment gap from repayable deductions and credits (see Table A1). The individual payment gap in this report includes unpaid federal personal income tax, unpaid provincial personal income tax (except Quebec), unpaid First Nations personal income tax, repayable deductions and credits.

Table A1: Components of the Individual Payment Gap

Individual Payment Gap	
Unpaid Taxes	Repayable Deductions & Credits
<ul style="list-style-type: none">➤ Federal personal income tax➤ Provincial personal income tax (except Quebec)➤ First Nations personal income tax	<ul style="list-style-type: none">➤ Canada Pension Plan (CPP) contributions➤ GST credit➤ Canada child benefit➤ Social benefits➤ Other tax deductions & credits

³⁰ These outstanding amounts are the balance of funds owed to the CRA after the application of penalties, interest, payments, installments, and other credits available at the time of assessment. These amounts are calculated during the assessment process.

In addition to unpaid taxes and repayable deductions and credits, the individual payment gap includes all uncollectable tax debt called write-offs. Write-offs are amounts that were assessed as taxes payable but for various reason are deemed to not be collectible. For example:

- All collection efforts have been exhausted.
- The debt cannot be located.
- The debtor does not have the ability to pay (e.g., due to bankruptcy).

Write-offs are determined based on CRA’s investigations into debtors’ ability to pay, individuals’ associated accounts (e.g., GST or payroll accounts), and third-party assessments within legislated time limitations on collections. In general, tax debts are only written off once all collection efforts have been exhausted.³¹

Unlike the previous payment gap estimate in 2017, interest and penalties are excluded from the payment gap in this report because these amounts are not considered tax liabilities.³² It should be noted that interest and penalties are included under “outstanding debt” or “collectible balance” since they are collectible. In contrast, write-offs are generally excluded from outstanding debt since by definition, they are deemed uncollectible.³³ Outstanding debt amounts are often reported in other CRA public documents such as the Departmental Results Report.

Table A2: Summary payment tax gap and outstanding debt for individuals, 2008-2014; in billions of dollars

Tax Year	Outstanding Debt (as of 2020)		
	Payment Tax Gap (as of 2020)		
	Write-offs*	Unpaid Taxes, Credits and Deductions	Interest and Penalties
2008	\$0.18	\$0.12	\$0.15
2009	\$0.17	\$0.14	\$0.16
2010	\$0.18	\$0.19	\$0.18
2011	\$0.17	\$0.26	\$0.25
2012	\$0.16	\$0.34	\$0.27
2013	\$0.15	\$0.49	\$0.33
2014	\$0.11	\$0.62	\$0.38

Source: CRA’s T1 Accounting system as of July 30, 2020.

Note: the total amounts of payment tax gap and outstanding debt may not exact due to rounding. Does not include non-residents. All amounts are in nominal dollars.

* This write-off amount does not include interest and penalties written off.

³¹ Certain write-off amounts can be reinstated by the CRA.

³² Interest and penalties are not tax liabilities but rather amounts which are charged due to non-compliant actions.

³³ Some write-offs may be reinstated and become debt again under certain circumstances.

Payment Gap Results

Due to late-filing and the time it takes for compliance efforts to be completed, data on payment non-compliance becomes more complete over time. Therefore, the payment gap for each taxation year was calculated for multiple years (see Table A3).

Table A3: Evolution of the Individual Payment Gap, 2008-2014 Taxation Years (\$billions)*

Taxation Year	Number of Years after Tax Year												As of 2020
	1	2	3	4	5	6	7	8	9	10	11	12	
2008	\$2.05	\$1.28	\$1.10	\$0.85	\$0.72	\$0.62	\$0.54	\$0.53	\$0.44	\$0.42	\$0.33	\$0.30	\$0.30
2009	\$2.02	\$1.24	\$1.02	\$0.83	\$0.72	\$0.60	\$0.52	\$0.45	\$0.40	\$0.34	\$0.31		\$0.31
2010	\$2.08	\$1.28	\$1.10	\$0.89	\$0.75	\$0.63	\$0.56	\$0.48	\$0.38	\$0.37			\$0.37
2011	\$2.31	\$1.44	\$1.20	\$0.96	\$0.77	\$0.64	\$0.56	\$0.45	\$0.43				\$0.43
2012	\$2.55	\$1.61	\$1.32	\$1.02	\$0.82	\$0.69	\$0.55	\$0.51					\$0.51
2013	\$2.72	\$1.86	\$1.44	\$1.07	\$0.84	\$0.68	\$0.64						\$0.64
2014	\$3.09	\$1.91	\$1.49	\$1.11	\$0.85	\$0.73							\$0.73

* The amounts in this table (except the amounts as of 2020) are based on an estimation procedure to remove interest and penalties for each year after the original tax year. Does not include non-residents. All amounts are in nominal dollars.
Source: Individual accounting system as of July 30, 2020.

Analysis of Non-compliant Individuals for Tax Year 2014 (as of 2020)

In general, the demographic characteristics for non-compliant individuals varied based on whether they had a payment gap below or above \$1,000.

Non-compliant individuals with a payment gap under \$1,000 were more likely to be male and between 25 to 54 years old. In this population:

- Filers with an income under \$20,000 were responsible for 30% of the individual payment gap.
- Filers with an income between \$20,000 and \$30,000 accounted for 20% of the individual payment gap.

Non-compliant individuals with a payment gap over \$1,000 were even more likely to be male but slightly older, between 35 to 64 years old. In this population:

- Filers with an income of \$80,000 and over accounted for 45% of the individual payment gap.
- Filers with an income of under \$20,000 accounted for 10% of the individual payment gap.

Annex 2: Corporation Payment Gap

Methodology

The payment gap for corporations was calculated based on CRA's accounting system that tracks the balance of tax accounts, related payments and financial information reported by the taxfiler. The target population included all Canadian corporations³⁴ that contributed to the corporation payment gap for tax years 2008 to 2014. Non-resident corporations were excluded from the study to remain consistent with previously published tax gap reports.

The corporation payment gap includes unpaid federal corporate income tax and unpaid provincial corporate income tax (except in Quebec and Alberta). Similar to other payment gaps, uncollectable tax debt (i.e., write-offs) are included while interest and penalties are excluded. As of 2020, write-off amounts are highest for older tax years, particularly around the 2007-08 recession period.

Table A4. Summary payment tax gap and outstanding debt for corporations, 2008-2014; in billions of dollars

Tax Year	Outstanding Debt (as of 2020)		
	Payment Tax Gap (as of 2020)		
	Write-offs*	Outstanding Taxes	Outstanding Interest and Penalties
2008	\$0.17	\$0.29	\$0.34
2009	\$0.18	\$0.32	\$0.42
2010	\$0.28	\$0.40	\$0.55
2011	\$0.09	\$0.52	\$0.54
2012	\$0.09	\$0.61	\$0.59
2013	\$0.08	\$0.55	\$0.51
2014	\$0.05	\$0.63	\$0.49

Source: CRA's Standardize Accounting (SA) system as of July 30, 2020.

Note: Totals may not add due to rounding. Does not include non-residents. All amounts are in nominal dollars.

* This write-off amount does not include interest and penalties written off.

Payment Gap Results

Similar to other payment gaps, data on the corporation payment non-compliance becomes more complete over time. This is perhaps more relevant for corporations as complex audits for this population can take many years. Therefore, the corporation payment gap for each taxation year was calculated for numerous years (see Table A5). In general, the corporation payment gap reaches its highest level after five or six years.

³⁴ Canadian corporations are defined as corporations that are incorporated and filed their taxes in Canada. The tax gap estimates do not reflect the extent of tax non-compliance among non-resident corporations.

Table A5: Evolution of the Corporation Payment Gap, 2008-2014 Taxation Years (\$billion)

Taxation Year	Number of Years after Tax Year												As of 2020
	1	2	3	4	5	6	7	8	9	10	11	12	
2008	\$0.43	\$0.35	\$0.41	\$0.46	\$0.76	\$0.75	\$0.67	\$0.68	\$0.58	\$0.54	\$0.49	\$0.46	\$0.46
2009	\$0.42	\$0.37	\$0.40	\$0.55	\$0.73	\$0.88	\$0.75	\$0.68	\$0.62	\$0.52	\$0.50		\$0.50
2010	\$0.53	\$0.46	\$0.57	\$0.61	\$1.07	\$0.95	\$0.89	\$0.82	\$0.69	\$0.68			\$0.68
2011	\$0.66	\$0.46	\$0.51	\$0.68	\$0.86	\$0.81	\$0.68	\$0.62	\$0.62				\$0.62
2012	\$0.49	\$0.40	\$0.49	\$0.55	\$0.68	\$0.77	\$0.59	\$0.71					\$0.71
2013	\$0.63	\$0.46	\$0.49	\$0.52	\$0.84	\$0.75	\$0.62						\$0.62
2014	\$1.09	\$0.45	\$0.53	\$0.72	\$0.71	\$0.68							\$0.68

* Totals may not add due to rounding. Does not include non-residents. All amounts are in nominal dollars.

Source: Standardized accounting system for corporations as of July 30, 2020.

Analysis of Non-compliant Corporations for Tax Year 2014 (as of 2020)

Corporations can range from small businesses to multinational corporations. Therefore, analysis was conducted for two different groups of corporations: small and medium-sized enterprises (SMEs) and large corporations.³⁵

Non-compliant SMEs were most likely to be Canadian Controlled Private Corporations (CCPC).³⁶ These SMEs were more likely to be incorporated in the past 10 years and were overrepresented in the following sectors:

- Construction
- Professional, scientific and technical services
- Transportation and warehousing
- Administrative and support, waste management and remediation services
- Mining, quarrying and oil and gas extraction
- Accommodation and food services sector
- Other services

Large corporations with payment gaps were more likely to be Other Private Corporations, Public Corporations, or Controlled by Public Corporations.³⁷ Non-compliant large corporations were

³⁵ SMEs are defined as corporations with less than or equal to \$20 million in total gross revenues or up to \$50 million for certain industry sectors. Large corporations are defined as corporations with total gross revenues above the SME threshold.

³⁶ CCPCs are generally private corporations that are resident in Canada and were incorporated in Canada. CCPCs cannot be controlled directly or indirectly by one or more non-resident persons and no class of its shares can be listed on a designated stock exchange. A large portion of SMEs are CCPCs.

³⁷ Other Private Corporations, Public Corporations, or Controlled by Public Corporations are other classifications of corporations. For more information, please visit: <https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/corporations/type-corporation.html>

more likely to be incorporated in the past 20 years and have at least one subsidiary. These large corporations were overrepresented in the following sectors:

- Manufacturing
- Finance and insurance
- Mining, quarrying and oil and gas extraction
- Transportation and warehousing
- Real estate and rental and leasing
- Management of companies and enterprises
- Administrative and support, waste management and remediation services
- Arts, entertainment and recreation

Annex 3: GST/HST Payment Gap

Methodology

The GST/HST payment gap was calculated based on CRA's accounting data that tracks the balance of tax account and related payments. The target population was all Canadian filers with GST/HST accounts that filed a return for tax years 2008 to 2014. GST/HST registrants can include individuals, corporations, trusts, and partnerships. It is possible for one taxfiler to have multiple GST/HST accounts.

The GST/HST payment gap includes unpaid GST (federal sales tax), unpaid HST (harmonized sales tax of relevant provinces), unpaid sales tax for First Nations governments, and unpaid sales tax for certain financial institutions. Similar to other payment gaps, write-offs are included but interest and penalties are removed.

Table A6. Summary payment tax gap and outstanding debt for GST/HST, 2008-2014; in billions of dollars

Tax Year	Outstanding Debt (as of 2020)		
	Payment Tax Gap (as of 2020)		
	Write-offs*	Outstanding Taxes	Outstanding Interest and Penalties
2008	\$0.36	\$0.07	\$0.06
2009	\$0.36	\$0.12	\$0.08
2010	\$0.37	\$0.17	\$0.12
2011	\$0.37	\$0.29	\$0.17
2012	\$0.30	\$0.40	\$0.21
2013	\$0.22	\$0.46	\$0.21
2014	\$0.15	\$0.62	\$0.25

Source: CRA's Standardize Accounting (SA) system as of July 30, 2020.

Note: Totals may not add due to rounding. Does not include non-residents. All amounts are in nominal dollars.

* This write-off amount does not include interest and penalties written off.

Payment Gap Results

Similar to other payment gaps, data on the GST/HST payment non-compliance becomes more complete over time. Therefore, the payment gap for each taxation year was calculated for numerous years (see Table A7). In general, the GST/HST payment gap reaches its highest level after the first two years.

Table A7: Evolution of the GST/HST Payment Gap, 2008-2014 taxation years (\$billion)*

Taxation Year	Number of Years after Tax Year												As of 2020
	1	2	3	4	5	6	7	8	9	10	11	12	
2008	\$0.58	\$0.59	\$0.57	\$0.55	\$0.51	\$0.48	\$0.46	\$0.45	\$0.45	\$0.44	\$0.43	\$0.43	\$0.43
2009	\$0.64	\$0.62	\$0.61	\$0.59	\$0.56	\$0.53	\$0.51	\$0.50	\$0.49	\$0.48	\$0.48		\$0.48
2010	\$0.77	\$0.75	\$0.75	\$0.72	\$0.66	\$0.62	\$0.59	\$0.56	\$0.55	\$0.54			\$0.54
2011	\$1.08	\$1.02	\$0.99	\$0.90	\$0.84	\$0.76	\$0.70	\$0.67	\$0.66				\$0.66
2012	\$1.18	\$1.11	\$1.02	\$0.90	\$0.85	\$0.76	\$0.71	\$0.70					\$0.70
2013	\$1.11	\$1.00	\$0.87	\$0.82	\$0.75	\$0.69	\$0.67						\$0.67
2014	\$1.11	\$1.01	\$0.97	\$0.88	\$0.80	\$0.78							\$0.78

* Totals may not add due to rounding. Does not include non-residents. All amounts are in nominal dollars.

Source: Standardized accounting system for GST/HST taxpayers as of July 30, 2020.

Analysis of Non-compliant GST/HST Registrants for Tax Year 2014 (as of 2020)

In general, non-compliant GST/HST registrants were more likely to be from active and young businesses (five years or less). GST/HST registrants with payment gaps tended to have higher sales and revenue compared to compliant registrants for tax year 2014.

Similar to individual filers, the demographic characteristics for non-compliant GST/HST registrants were different based on whether they had a payment gap below or over \$1,000. GST/HST registrants with a payment gap under \$1,000 were more likely to be individuals and to be in the follow sectors:

- Construction
- Professional, scientific and technical services
- Real estate and rental and leasing
- Transportation and warehousing
- Other services
- Administrative and support, waste management and remediation services
- Accommodation and food services
- Arts, entertainment and recreation
- Information and cultural industries

In contrast, registrants with a payment gap over \$1,000 were more likely to be corporations and to be in the follow sectors:

- Construction
- Transportation and warehousing
- Administrative and support, waste management and remediation services
- Other services
- Accommodation and food services

Annex 4: Excise Payment Gap

Methodology

The excise payment gap was calculated based on CRA's accounting data that tracks the balance of tax account and related payments. The target population was all Canadian filers with excise duty and tax accounts that filed a return for tax years 2008 to 2014. Excise licensees/registrants can include individuals, corporations, trusts, and partnerships.

The excise payment gap includes all unpaid excise duties and taxes in Canada. Payment gap amounts for other specific levies were insignificant and therefore were excluded from the analysis. Similar to other payment gaps, write-offs are included but interest and penalties are removed.

Since this report relied on CRA data, excise taxes and duties on imported products (collected by CBSA) were not included in the analysis. Nevertheless, the excise payment gap from imported products are not expected to be significant.³⁸ Analysis of imported products may be examined in a future study.

Payment Gap Results

Between tax years 2008-2012, the payment gap ranged from around \$0.04 billion to \$0.09 billion, the majority of which came from a very small number of licensees/registrants. When these outliers were no longer present, the excise payment gap was minimal for other tax years. This was particularly true for tax years 2013 and 2014 when the excise payment gap was negligible.³⁹ Given the small number of non-compliant licensees/registrants and the negligible payment gap, the exact amounts and descriptive statistics could not be reported in order to maintain taxpayer confidentiality.

Other Excise Non-compliance

Products that are subject to excise duties and taxes are highly regulated and licensees/registrants are generally compliant with tax laws. This is particularly true for paying down debt as frequent payment deadlines encourage most licensees/registrants to pay amounts owing within the year. The CRA also has a broad mandate with respect to excise duties and taxes. Not only does the CRA collect excise revenue, but it also plays a key role in regulating domestic production. All licensees and certain registrants are subject to periodic audits by the CRA to verify, for example, reported quantities of goods manufactured, inventories, and/or sales. The CRA also conducts regulatory reviews of licensees/registrants such as checking whether the excise stamps are applied correctly to tobacco or cannabis products. In general, audits of licensees/registrants do not find high levels of non-compliance pointing to a highly compliant group of taxpayers.

³⁸ For example, in 2014-15, 86% of the revenue from excise taxes and duties came from CRA and 14% from CBSA.

³⁹ For example, for tax year 2013, the excise payment gap was approximately 0.6% of the total payment gap. The excise payment gap for tax year 2014 was less than 0.1% of the total payment gap and therefore negligible.

When it comes to excise non-compliance, illegal production/smuggling of cigarettes by unlicensed producers is regarded as the main source of revenue loss. Accordingly, the CRA has released a companion paper on estimating the tax gap related contraband cigarettes. The results and corresponding methodologies for this gap can be found in CRA's "Tax Gap for Federal Excise Duty on Cigarettes" report.

Glossary

Term	Definition
Appeal	<p>A taxfiler who disagrees with a CRA Notice of Assessment can file a Notice of Objection with the CRA. The review of the Notice of Objection will result in a reassessment, a confirmation, or a determination. If the taxfiler does not agree with the CRA, they may appeal to the Tax Court of Canada within 90 days.</p> <p>If the appeal proceeds to a court hearing, the appeal is resolved by having both parties appear in court to present their versions of the facts to a judge. The judge will then decide the appeal based on the evidence and arguments presented to the Court.</p>
Assessed Tax	<p>Tax that is determined to be payable based on assessed income. Usually indicated on a taxfiler's Notice of Assessment.</p>
Audit	<p>The examination of taxfilers' books and records to determine the taxes, interest, and penalties payable under the law.</p>
Notice of Assessment	<p>The notice sent to taxfilers explaining the results of the CRA's assessment of their tax returns.</p>
Notice of Reassessment	<p>The notice that is sent to a taxfiler if a previously filed return is reassessed as a result of either a taxfiler's request for an adjustment to an already assessed return, or when a return is changed as the result of a CRA review or audit.</p>
Outstanding Debt	<p>When there is a positive balance owing, a taxfiler must pay this amount to the CRA by the due date. Otherwise, the outstanding debt becomes part of the payment gap.</p>
Payment Gap	<p>Tax gap resulting from assessed taxes that are not fully paid by the payment deadline. A taxfiler can have a payment gap for multiple taxation years.</p>
Reassessed Tax	<p>When the CRA reviews already assessed tax returns and assesses a different amount of taxes owed by the taxfiler. For example, reassessments can result from audits, appeals, or taxpayer request.</p>
Tax Gap	<p>The tax gap represents the difference between the taxes that would be paid if all obligations were fully met in all instances, and the tax actually paid and collected.</p>
Tax Non-Compliance	<p>Tax non-compliance is a broad term that encompasses revenue loss by federal government from tax evasion and other factors that contribute to the tax gap, such as taxpayer error and unpaid debt.</p>
Write-offs	<p>Write-offs are amounts that were assessed as taxes payable but for various reason are deemed to not be collectible. Write-offs include amounts that are legislatively uncollectible such as the expiry of the collections limitation period and accounts that have an insolvency event under the Bankruptcy and Insolvency Act.</p>