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ASSISTANT DEPUTY MINISTER (REVIEW SERVICES)



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Audit of Tax Relief for Deployed Operations

May 2019

1259-3-0036 (ADM(RS))

Canada



Acronyms and Abbreviations

ADM(RS)	Assistant Deputy Minister (Review Services)
CA	Canadian Army
CAF	Canadian Armed Forces
CANSOFCOM	Canadian Special Operations Forces Command
CDS	Chief of the Defence Staff
CJOC	Canadian Joint Operations Command
DM	Deputy Minister
DND	Department of National Defence
MPAI	Military Pay Administration Instruction
MILPERSCOM	Military Personnel Command
OCI	Office of Collateral Interest
OPI	Office of Primary Interest
QA	Quality Assurance
RCAF	Royal Canadian Air Force
RCN	Royal Canadian Navy
SJS	Strategic Joint Staff
VCDS	Vice Chief of the Defence Staff



Statement of Conformance

The audit findings and conclusions contained in this report are based on sufficient and appropriate audit evidence gathered in accordance with procedures that meet the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The audit thus conforms to the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* as supported by the results of the quality assurance and improvement program. The opinions expressed in this report are based on conditions as they existed at the time of the audit and apply only to the entity examined.



Overview of the Enhanced Tax Relief Benefit

What: Canadian Armed Forces (CAF) members serving on deployed operations receive a tax-free salary during the period of deployment, up to the rate of pay for a Lieutenant-Colonel.

Why: As described in Canada's defence policy: *Strong, Secure, Engaged*, "This benefit is meant to acknowledge the considerable sacrifices CAF members and their families make in defence of Canada and its values, when deployed internationally."

Where: Eligible international operational missions, as determined by the Chief of the Defence Staff (CDS), as designated by the Minister of National Defence.

When:

- Announced on June 7, 2017.
- Retroactive to January 1, 2017.

Who:

- Over 8,000 members benefited in 2017.
- Over 5,000 members benefited in 2018 up to April 30, the end of the period of audit testing.
- More members expected to benefit as further operations are initiated (e.g. Operation PRESENCE – Mali).

How:

- Retroactive benefit for 2017 was provided through tax refunds.
- Beginning in 2018, benefits are provided through adjustments to payroll deductions.



Background

- Since 2004, CAF members have received tax relief while serving on international operations with a risk level of medium or high.
- Prior to 2017, a perceived lack of consistency in the application of tax relief was a source of dissatisfaction among CAF members.
- In 2017, this initiative on enhanced tax relief was announced to de-link tax relief from risk levels.
- An Interim Directive issued in November 2017 details this initiative and the criteria to determine eligibility. Key features of the Interim Directive are as follows:
 - Developed by Military Personnel Command (MILPERSCOM)
 - Issued by the CDS and the Deputy Minister (DM)
 - Identifies all operations eligible for tax relief for the 2017 calendar year
 - While the effective dates for tax relief were previously aligned with other allowances (based on arrival in the area of operations), this directive introduces new complexities to start and stop dates for periods of tax relief.
- Enhanced tax relief was implemented through an amendment to the *Income Tax Act*. This amendment received Royal Assent on June 21, 2018.
- Estimated cost of tax revenue forgone: \$167 million over 3 years (2017-2019).



Timeline

June 7, 2017	<ul style="list-style-type: none"> Enhanced tax relief announced as an initiative of Canada's defence policy: <i>Strong, Secure, Engaged</i>.
November 10, 2017	<ul style="list-style-type: none"> CDS/DM issues Interim Directive on "Criteria for Determining Deployed International Operational Missions for 2017."
December 2017	<ul style="list-style-type: none"> MILPERSCOM issues orders to inform CAF members of tax relief; the Royal Canadian Navy (RCN), Canadian Army (CA), and Royal Canadian Air Force (RCAF) issue further orders over the following months with information and instructions for their members.
December 2017 / January 2018	<ul style="list-style-type: none"> MILPERSCOM issues instructions to pay offices to outline the enhanced tax relief initiative and requirements for initial processing of tax relief. MILPERSCOM processes tax relief for 2017 through adjustments to T4 slips. MILPERSCOM processes bulk upload of members whose deployments continued over year-end in pay system to ensure they receive tax relief for the month of January.
Spring / Summer 2018	<ul style="list-style-type: none"> CAF members receive tax refunds as 2017 tax returns are filed based on adjusted T4 slips (Canada Revenue Agency administratively implements tax relief in anticipation of Royal Assent).
June 21, 2018	<ul style="list-style-type: none"> Royal Assent of legislation received.
Winter 2019	<ul style="list-style-type: none"> CDS/DM to issue Final Directive on tax relief.



Multiple Stakeholders Are Involved

Stakeholder	Role
Chief of the Defence Staff	<ul style="list-style-type: none"> • Designated by the Minister of National Defence to determine eligibility for tax relief. • Issues directives for new operations outlining the terms of members' deployments, including the operation's eligibility for tax relief.
Strategic Joint Staff	<ul style="list-style-type: none"> • Reviews eligibility for tax relief for new operations and activities, and recommends approval by CDS by including a statement on tax relief eligibility in the CDS directive for each new operation. • Coordinates the Operational Mission Adjudication Committee to adjudicate specific cases of tax relief eligibility.
Military Personnel Command	<ul style="list-style-type: none"> • Administers military pay and provides direct support to pay offices, including payroll support, guidance, training and oversight. • Developed the Interim CDS/DM Directive in respect of tax relief and is responsible for coordination of the Final Directive (expected to be released in Winter 2019).
Force Employers	<ul style="list-style-type: none"> • Operational level commanders responsible for the command, control and sustainment of allocated forces. • Include Canadian Joint Operations Command (CJOC), Canadian Special Operations Forces Command (CANSOFCOM) and allied nations. • Pay offices managed by force employers process tax relief for members on operations. CJOC processes tax relief for most members. Vice Chief of the Defence Staff (VCDS) pay offices process tax relief for members working with allied nations.
Force Generators	<ul style="list-style-type: none"> • Commanders responsible for organizing, training and equipping forces for force employment. • Include RCN, CA, RCAF and CANSOFCOM. • Pay offices managed by force generators process tax relief for their members.



General Application of Tax Relief*

Tax Relief Starts

Generally, tax relief starts upon departure from Canada following the transfer of operational command from the force generator (RCN, CA, RCAF) to the force employer (CJOC, CANSOFCOM, allied nations).



Pay office receives confirmation of the member's start of deployment and starts tax relief in the pay system by entering a start date in the member's pay ledger.

Tax Relief Stops

Generally, tax relief ceases upon arrival to Canada following the transfer of operational command from the force employer back to the force generator.



Pay office receives confirmation of the member's return from deployment and stops tax relief in the pay system by entering a cease date in the member's pay ledger.

* Service-specific scenarios introduce additional considerations in how tax relief is applied for CAF members deployed in different types of environments or activities.



Service-Specific Application of Tax Relief

CAF Members	Tax Relief Considerations
RCN	<ul style="list-style-type: none"> • Tax relief eligibility for members deployed on ships is based on the transfer of operational command between RCN and CJOC. However, this transfer may occur at some time after a ship's initial departure from Canada.
CA	<ul style="list-style-type: none"> • CA members typically follow the general application for tax relief, where the change of operational command coincides with the departure from and return to Canada.
RCAF	<ul style="list-style-type: none"> • RCAF members assigned to sustainment flights do not involve a change of operational command, but are eligible for tax relief upon departure from and return to the Wing of Assignment.
CANSOFCOM	<ul style="list-style-type: none"> • Commences upon departure from Canada; ceases upon return to Canada. As CANSOFCOM is both a force employer and force generator, there is no transfer of operational command.
Personnel not force generated from Canada	<ul style="list-style-type: none"> • Commences upon departure from assigned base in allied nation following transfer of operational command to the force employer; ceases upon return to assigned base and transfer of operational command back to the force generator.
VCDS Out-of-Canada Programme	<ul style="list-style-type: none"> • CAF members performing activities under Operation ORION are determined to be serving on an eligible mission for tax relief. Eligibility for each member is assessed and recommended on a case-by-case basis by VCDS and SJS for approval by the CDS.



Audit Objective, Criteria and Scope

Rationale – *This audit was requested by the VCDS to verify that processes are in place to ensure the successful implementation of enhanced tax relief, with consideration to maintaining institutional credibility, integrity of the benefit, and sustainability in its administration.*

Objective

To assess if enhanced tax relief is applied to eligible missions and members for the correct amount and at the right time in accordance with policy and directives.

Criteria

- Tax relief was provided for **eligible missions** and activities (2017, 2018).
- Tax relief was provided to **eligible members** (2017, 2018).
- Tax relief benefit was **accurate** with correct start/stop dates without exceeding thresholds (2017, 2018).
- Members received tax relief on a **timely** basis (2018: January 1 to April 30).
- Processes are in place to adequately **sustain** tax relief (2018).

Scope

- **Includes:** Processes and transactions for the tax relief benefit from January 1, 2017 to April 30, 2018.
- **Excludes:** Processes for pay and allowances not specific to the tax relief benefit (e.g. delegation of authorities, pay system controls, pay processing controls); costing of tax relief.



Methodology

- Conducted interviews with management and staff within VCDS, SJS, MILPERSCOM, CJOC, CANSOFCOM, RCN, CA, RCAF and Assistant Deputy Minister (Finance).
- Reviewed applicable legislation, policies, procedures and other relevant communications.
- Performed walkthroughs with personnel to observe processes and controls.
- Examined processes and instructions in place for monitoring and oversight of tax relief.
- Analyzed tax relief transactions by pay office and by mission code.
- Reviewed tax relief transactions and supporting documents.
 - Based on a non-statistical sample of 91 tax relief transactions posted in the pay system for members who received tax relief during the period from January 1, 2017 to April 30, 2018.
 - Samples were chosen judgmentally to ensure coverage of all pay environments and service-specific cases.
 - Annex B includes further details on the sampling methodology.

The examination phase was conducted from May to August 2018.



Summary of Findings

Tax relief benefits tested were provided to eligible members on eligible missions. Considering the scope of work, extent of stakeholders, and tight timeframes, benefits were generally processed in an accurate and timely manner. To ensure the ongoing integrity of the benefit, improvements are needed to define and meet service expectations for members and instructions to pay offices, and to develop and implement monitoring and reporting strategies.

●	<p>Eligibility of missions and members</p> <ul style="list-style-type: none"> Criteria for determining eligibility have been developed. The Directive could serve to further reinforce the intent of the tax relief benefit. Tax relief was provided only for authorized eligible missions. Tax relief was provided for eligible members.
◐	<p>Accuracy</p> <ul style="list-style-type: none"> Tax relief benefits tested were generally accurate. A limited number of transactions processed as part of the initial implementation of tax relief may contain errors. Requirements for supporting documentation are unclear. Start and stop dates for tax relief were applied inconsistently by pay offices.
◑	<p>Timeliness</p> <ul style="list-style-type: none"> The majority of members tested for 2018 had tax relief applied or terminated within a month of the start or end of deployment. Expectations for timeliness of tax relief have not been defined.
○	<p>Monitoring and oversight</p> <ul style="list-style-type: none"> Monitoring programs for tax relief have not been established. Reporting on tax relief has not been fully developed.

● Processes generally in place and operating effectively / ◐ Some deficiencies or areas for improvement / ○ Processes to be developed or implemented



Eligibility of Missions and Members

Criteria for determining eligibility have been developed.

- The *Income Tax Act*, as amended, provides for tax relief to members “...while serving on a deployed international operational mission (as determined by the Minister of National Defence or by a person designated by that Minister)...”
- Canada’s defence policy: *Strong, Secure, Engaged* specifies that, “...all troops deployed on any named international operations will be exempted from paying federal income tax on their salary to the level of Lieutenant-Colonel.”
- The Interim Directive outlines the criteria to determine eligibility of missions for tax relief.
 - Activities eligible for tax relief meet one of the following criteria:
 - directed by Cabinet;
 - approved by the Minister of National Defence;
 - requested by another federal government department;
 - in pursuit of Government of Canada objectives; or
 - an international operation by an allied nation.
- The development of a Final Directive on tax relief, led by MILPERSCOM, is expected to be finalized in Winter 2019. No changes are expected to the criteria and methodology for determining tax relief eligibility.
- The Operational Mission Adjudication Committee has been established, and is co-chaired by representatives of SJS and the Assistant Deputy Minister (Finance). This committee provides recommendations to the CDS where the application of eligibility criteria is unclear. While there have been limited referrals to the committee to date, the design and process for adjudication was reasonable.



Eligibility of Missions and Members (p.2)

The Directive could serve to further reinforce the intent of the tax relief benefit.

- Canada's defence policy: *Strong, Secure, Engaged* explains the rationale for the change to the tax relief benefit, in that “[a] more consistent application of this benefit will improve morale and recognize the burdens taken on by military members and their families in service of our country.”
- Members serving on the same deployed international operational mission may be assigned to perform tasks with varying risk profiles or outside of the area of operations.
- Through the issuance of the Final Directive, the shift from the previous provision of risk-related tax relief could be underscored by reinforcing the intent of the CDS that the provision apply to all deployed international operational missions.

Tax relief was provided only for authorized eligible missions.

- The Interim Directive included a list of eligible operations for 2017.
- Additional missions have been authorized for tax relief in 2018 based on assessment against criteria established in the Interim Directive.
- Missions for which tax relief was provided were tested to confirm that they met the established criteria and had been authorized by the CDS.



Eligibility of Missions and Members (p.3)

Tax relief was provided for eligible members.

- A sample of members receiving tax relief was examined to confirm their assignment to eligible missions.
 - All members tested were found to be eligible for tax relief.
 - Eligibility for members deployed through the VCDS Out-of-Canada Programme is determined through assessments of the specific circumstances of the deployment. The completion of these assessments was confirmed for the applicable members tested.
- In three instances reviewed, members deployed on a mission were provided with tax relief before the associated mission assessment table had been approved by the CDS. While the mission was ultimately eligible for tax relief, approval of the assessment table was delayed until several months after the deployments had occurred, affecting approximately 18 members. Despite issuance before approval, the benefit was correct.

Eligibility of Missions and Members – Recommendation

ADM(RS) Recommendation

1. It is recommended that MILPERSCOM ensure the approval and issuance of the Final Directive on tax relief, which should include a clear statement of the intent of the benefit.

OPI: MILPERSCOM



Accuracy

Tax relief benefits provided were generally accurate.

- Calculation of tax relief for 2017 was accurately processed and reported on T4 slips.
- Changes to the pay system to process enhanced tax relief were implemented and tested by MILPERSCOM.
- Tax relief was provided within the prescribed limit (to the salary level of Lieutenant-Colonel) for the members reviewed.

A limited number of transactions processed as part of the initial implementation of tax relief may contain errors.

- To ensure that tax relief was reflected directly in pay starting in January 2018, a one-time bulk transaction was processed to establish open-ended tax relief for members that had been eligible at the end of 2017. Pay offices were responsible for processing termination of tax relief upon the end of deployment periods.
- Termination of tax relief for these members was not always processed as required. Pay offices have made adjustments to member pay up to several months after the deployment period had ended in order to recover tax deductions. For three of the members examined in the audit, tax relief had not been ceased and were referred to management for correction.
- As of August 2018, an estimated 60 instances remain of tax relief without cease dates, which have been referred to management for further review to confirm deployment periods.



Accuracy (p.2)

Requirements for supporting documentation are unclear.

- MILPERSCOM issued a pay advisory to describe the five types of documentation that may be used to support tax relief effective dates. These documents may include conflicting dates with varying levels of reliability.
- The pay advisory does not address all scenario-specific applications of tax relief for particular organizations or activity types, which may require alternative supporting documentation.
- While not materially inaccurate, the precise effective date for tax relief could not be verified in 16 samples due to lack of sufficient supporting documents or inconsistencies in dates among the supporting documents provided.

Start and stop dates for tax relief were applied inconsistently by pay offices.

- The Interim Directive describes that tax relief should be applied based on “transfer of operational command,” “departure from Canada” and “return to Canada.” These terms may have differing interpretations or have different applications in various service-specific scenarios. For example:
 - CANSOFCOM applies tax relief based on arrival/departure in-theatre messages, rather than departure from/return to Canada. While not materially inaccurate, this application is inconsistent with the Interim Directive.
 - Inconsistencies were also observed in tax relief start and stop dates in supporting documents for one of five samples of members in the VCDS Out-of-Canada programme who deploy in support of an allied nation.
 - Five of ten samples for RCAF strategic airlifts in 2017 had start/stop dates in the pay system that did not agree with supporting documents, or the member did not receive tax relief for the flight at all. These cases were brought to the attention of management for further review.



Accuracy – Recommendations

ADM(RS) Recommendations

2. It is recommended that MILPERSCOM, in consultation with force generator and force employer organizations, confirm the validity and accuracy of the members without cease dates in the pay system that were processed as part of the initial implementation of tax relief.

OPI: MILPERSCOM

OCI: VCDS, CJOC, CANSOFCOM, RCN, CA, RCAF

3. It is recommended that MILPERSCOM publish and communicate administrative instructions to all pay offices including instructions for data entry of tax relief in the pay system, and clearly communicate acceptable supporting documentation.

OPI: MILPERSCOM



Timeliness

The majority of members tested for 2018 had tax relief applied or terminated within a month of the start or end of deployment.

- For 21 members, tax relief was processed over a month after start or end dates, resulting in pay adjustments up to several months after the effective dates to retroactively correct the tax deducted from pay.

Expectations for timeliness of tax relief have not been defined.

- Some organizations process tax relief on a delayed or periodic basis as a matter of practicality but these expectations have not been communicated to members.
 - For example, the RCAF processes tax relief on a quarterly basis for members assigned to sustainment flights. The RCAF has issued supplementary direction to address these scenarios.
- Unique application scenarios for particular organizations or activity types contribute to differences in the timing of pay processing for tax relief.



Timeliness – Recommendations

ADM(RS) Recommendation

4. It is recommended that SJS, in consultation with MILPERSCOM, coordinate with force generator and force employer organizations to develop targeted tax relief guidance and communicate service expectations for their pay offices and members outlining unique application scenarios in terms of start and stop dates and timeliness of processing.

OPI: SJS

OCI: MILPERSCOM, VCDS, CJOC, CANSOFCOM, RCN, CA, RCAF



Monitoring and Oversight

Monitoring programs for tax relief have not been established.

- A strategy for monitoring of tax relief is not yet in place. Monitoring may include ongoing and periodic reviews to ensure the continued integrity of benefit administration.
- Considerations may include elements such as automated controls or exception analysis on anomalous transactions, reconciliation of deployed members with related data, and confirmation of deployed members by force employers.
- The Quality Assurance Program for Regular/Reserve Member Pay (developed by MILPERSCOM in August 2016) does not include tax relief in its scope or risk assessment.
- Instructions and checklists for Staff Assistance Visits and Staff Inspection Visits do not currently include consideration of tax relief transactions.



Monitoring and Oversight (p.2)

Reporting on tax relief has not been fully developed.

- The tax relief benefit provides broad discretion to the Minister of National Defence or designate in the determination of eligible missions. Proactive disclosure of tax relief as part of a broader reporting strategy would improve transparency over the application of this benefit.
- The Interim Directive requires the submission of an annual report to the Minister of National Defence to list the missions determined to be eligible for tax relief. The requirement does not include reporting on other elements which may improve transparency and regular review of mission status such as the number of members receiving tax relief, their location, the nature of their activities or the tax revenue foregone.
- An updated list of eligible missions and activities is also needed to provide an authoritative reference to members and pay offices, and to improve visibility in the application of tax relief.
- Some tax relief transactions were processed using generic mission codes in the pay system. While not affecting the calculation of tax relief, this may impede the analysis and reporting of tax relief information, and may affect other benefits and entitlements (for example, catch-all “other” codes that are used for several different missions).



Monitoring and Oversight – Recommendations

ADM(RS) Recommendations

5. It is recommended that MILPERSCOM, in consultation with SJS, force generator and force employer organizations, develop and implement a strategy to monitor tax relief. Key considerations include the following:

- Development of automated controls and templated reports for analysis and validation; and
- Inclusion of tax relief as part of existing monitoring programs for military pay.

OPI: MILPERSCOM

OCI: SJS, CJOC, CANSOFCOM, RCN, RCAF, CA, VCDS

6. It is recommended that SJS, in consultation with MILPERSCOM, develop and implement a strategy for reporting on tax relief to ensure continued transparency. Key considerations include the following:

- Reporting periodically on the tax relief provided, including the missions eligible, number of members affected and the resulting fiscal impact; and
- Making available to pay offices and to CAF members a list of all missions (unclassified and classified) authorized for tax relief.

OPI: SJS

OCI: MILPERSCOM



Conclusion

DND/CAF has made substantial progress to implement tax relief to members on deployed operations. This is particularly notable considering the complexity of related processes, multiple stakeholders and the timelines involved.

Tax relief tested was appropriately administered to provide benefits to eligible members. It was generally accurate and, for the majority of cases, processed in a timely manner.

Additional work is needed to ensure a fully functioning control framework to promote consistency in application, communicate expectations, improve transparency, and establish monitoring controls and oversight. Consideration should be given to the following elements:

- issuing a Final Directive on tax relief, including a statement of policy objective or intent;
- reviewing tax relief transactions processed as part of initial implementation;
- providing clear and specific instructions to pay offices;
- communicating service expectations to members based on unique application scenarios;
- implementing mechanisms for ongoing and periodic monitoring; and
- reporting on authorized missions and tax relief activity.



Annex A—Management Action Plan

ADM(RS) uses recommendation significance criteria as follows:

- **Very High**—Controls are not in place. Important issues have been identified and will have a significant negative impact on operations.
- **High**—Controls are inadequate. Important issues are identified that could negatively impact the achievement of program/operational objectives.
- **Moderate**—Controls are in place but are not being sufficiently complied with. Issues are identified that could negatively impact the efficiency and effectiveness of operations.
- **Low**—Controls are in place but the level of compliance varies.
- **Very Low**—Controls are in place with no level of variance.



Annex A—Management Action Plan (p.2)

Eligibility of Missions and Members

ADM(RS) Recommendation (Low)

1. It is recommended that MILPERSCOM ensure the approval and issuance of the Final Directive on tax relief, which should include a clear statement of the intent of the benefit.

Management Action

The Final Directive is being finalized and will include a statement of the intent of the benefit. The goal remains to issue a CDS/DM Directive on tax relief by Winter 2019.

OPI: MILPERSCOM

Target Date: March 31, 2019



Annex A—Management Action Plan (p.3)

Accuracy

ADM(RS) Recommendation (Moderate)

2. It is recommended that MILPERSCOM, in consultation with force generator and force employer organizations, confirm the validity and accuracy of the members without cease dates in the pay system that were processed as part of the initial implementation of tax relief.

Management Action (to be revised by MILPERSCOM as applicable)

A query was done in the Central Computerized Pay System to determine those members who had tax relief implemented on the initial load effective January 1, 2018, and who still had tax relief running with a cease date of December 31, 9999 in which we identified 19 members. There have been 12 members that have already been resolved and there are currently 7 outstanding members that still need to be resolved.

The members' pay offices will need to be contacted to confirm the dates of members' tax relief, and then cease the tax relief transactions accordingly. The outstanding accounts should be taken care of by the end of 2018.

OPI: MILPERSCOM

OCI: VCDS, CJOC, CANSOFCOM, RCN, CA, RCAF

Target Date: December 31, 2018



Annex A—Management Action Plan (p.4)

Accuracy

ADM(RS) Recommendation (High)

3. It is recommended that MILPERSCOM publish and communicate administrative instructions to all pay offices including instructions for data entry of tax relief in the pay system, and clearly communicate acceptable supporting documentation.

Management Action (to be revised by MILPERSCOM as applicable)

This will be actioned by Military Pay Procedures Compliance when the Final Directive is written. If the Final Directive is written by early 2019 it is estimated that the Military Pay Administration Instruction (MPAI) could be published by end 2019.

The MPAI will include the following clearly defined types of information: appropriate documentation required to support tax relief, pay system instructions, definition of key dates and monitoring procedures.

Military Pay Administration Officer/Pay Manager will be responsible to run the applicable Report Management Distribution System report for Tax Relief monthly, ensure the listed personnel are still entitled to the benefit, and take action where necessary.

OPI: MILPERSCOM

Target Date: December 31, 2019



Annex A—Management Action Plan (p.5)

Timeliness

ADM(RS) Recommendation (High)

4. It is recommended that SJS, in consultation with MILPERSCOM, coordinate with force generator and force employer organizations to develop targeted tax relief guidance and communicate service expectations for their pay offices and members outlining unique application scenarios in terms of start and stop dates and timeliness of processing.

Management Action (to be revised by SJS as applicable)

In consultation with MILPERSCOM, force generator and force employment organizations, SJS will coordinate efforts to ensure the development of tax relief guidance and service expectations targeted to CAF pay offices and members to account for unique application scenarios in terms of start and stop dates and timeliness of processing, in keeping with the letter and spirit of the *Income Tax Act*, Treasury Board compensation principles and the CAF Final Directive on Income Tax Relief.

OPI: SJS

OCI: MILPERSCOM, VCDS, CJOC, CANSOFCOM, RCN, CA, RCAF

Target Date: Tax relief guidance and service expectations to be developed and issued to pay offices and members by March 31, 2020.



Annex A—Management Action Plan (p.6)

Monitoring and Oversight

ADM(RS) Recommendation (High)

5. It is recommended that MILPERSCOM, in consultation with SJS, force generator and force employer organizations, develop and implement a strategy to monitor tax relief. Key considerations include the following:

- Development of automated controls and templated reports for analysis and validation; and
- Inclusion of tax relief as part of existing monitoring programs for military pay.

Management Action

This will be actioned in part by the Military Pay Procedures and Compliance Quality Assurance (QA) Section. As per Pay Solutions, Tax Relief does not have a specific code on which to draw from for the random sample of pay transaction both High and Low Risk. (This is how the QA Program currently works). Therefore, annually it is suggested that the QA section have a special project to run the Tax Relief transactions for the year and randomly review the transactions based on stated criteria as per the Tax Relief MPAL (yet to be written). The QA section may require more resources to complete the review. The QA section is in its infancy so manning requirements long term have yet to be determined in relation to taking on additional special projects on an annual basis.

The Pay Offices currently run a monthly Report Management Distribution System report and review all of the transactions to ensure that members listed are still entitled to the tax relief benefit and take action when required. At this time the Military Pay Administration Officer (MPAO) would notice any unusual transactions and could refer to the paperwork submitted. This is where true problems are picked up quickly.

Tax Relief is reviewed as part of the Staff Assistance Visits (SAV) and Staff Inspection Visits (SIV) conducted by the Level 1 SAV Teams and DMPAP SIV Teams. The tax relief transaction is supported by a voucher (CF442) which is currently reviewed as part of the pay files.

OPI: MILPERSCOM

OCl: SJS, CJOC, CANSOFCOM, RCN, RCAF, CA, VCDS

Target Date: December 31, 2019



Annex A—Management Action Plan (p.7)

Monitoring and Oversight

ADM(RS) Recommendation (High)

6. It is recommended that SJS, in consultation with MILPERSCOM, develop and implement a strategy for reporting on tax relief to ensure continued transparency. Key considerations include the following:

- Reporting periodically on the tax relief provided, including the missions eligible, number of members affected and the resulting fiscal impact; and
- Making available to pay offices and to CAF members a list of all missions (unclassified and classified) authorized for tax relief.

Management Action (to be revised by SJS as applicable)

To ensure continued transparency and awareness of program costs, SJS will report annually on income tax relief.

SJS will meet the reporting requirement, currently in accordance with the Interim Directive, to annually produce for the Minister of National Defence, a list of all international operational missions that have been approved for the purpose of income tax relief. Additionally, SJS will work with MILPERSCOM to determine and report annually to the Minister, the total cost of the program, by either actual costs based on individual benefits received (if feasible) or by accurate estimation based on data from the Canadian Forces Tasks, Plans and Operations system and the Cost Factors Manual.

To ensure that pay offices and CAF members are aware of which missions have been approved for the purpose of income tax relief, SJS will provide MILPERSCOM a list of all such missions, while respecting the security requirements of classified operations, for MILPERSCOM's subsequent distribution as appropriate. Additionally, as soon as practicable after approval, SJS will advise MILPERSCOM of all new missions that have been designated by the CDS for the purpose of income tax relief.

SJS will ensure any further requirement for standing or ad hoc reports are met in a timely manner.

OPI: SJS

OCI: MILPERSCOM

Target Date: March 1 (annually, commencing in 2019), list of all eligible missions in the previous calendar year to the Minister of National Defence and MILPERSCOM, plus figures on program costs incurred over the previous calendar year to the Minister of National Defence. Immediately upon notification, list of new missions approved by the CDS for income tax relief to MILPERSCOM.



Annex B—Sampling Methodology

- Tax relief was provided to 8,831 members in 2017. Between January 1 and April 30, 2018, tax relief was provided to 5,157 members.
- Audit procedures were performed on a non-statistical sample chosen judgmentally of 91 tax relief transactions posted in the pay system from January 1, 2017 to April 30, 2018. The sample was chosen judgmentally to ensure inclusion of all environments which play a role in processing pay. Tax relief transactions could be for tax relief for the start of a deployment, termination of a deployment, a combination of both or an adjustment to a previously recorded transaction amount.
- Most of the sampled tax relief transactions were processed by pay offices managed directly by CJOC. The remaining samples were processed by force generator pay offices.
- 52 of the 91 samples reviewed were for deployments that began in the 2017 calendar year. The remaining 39 samples were for deployments for the period from January 1 to April 30, 2018.
- Testing was extended to validate both start and stop dates in cases where supporting documentation was provided. Both start and stop dates of the deployment were examined in 72 of the 91 samples. For the remaining 19 samples, only the start of the deployment was examined as the members' deployment extended beyond the testing period.

Sample composition	
Tax relief transactions processed by:	
CJOC	43
CANSOFCOM	11
RCN	17
CA	2
RCAF	13
Out-of-Canada programme	<u>5</u>
	91