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INTERNATIONAL COMPARISON OF THE CANADA REVENUE AGENCY'S PERFORMANCE

OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

This report compares Canada's tax administration performance with that of comparable countries with a set of indicators derived from the International survey on Revenue Administration (ISORA) 2020. ISORA is administered every two years, collecting data on the previous two fiscal years from over 150 national or federal tax administrations around the globe.

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Executive Summary

In recent budgets and fall economic updates, the federal government has pledged increased funding to the Canada Revenue Agency (CRA) to improve client services and strengthen its efforts in tackling aggressive tax avoidance and evasion. There has also been sustained interest from parliamentarians over the last several years for further increases in the CRA's compliance efforts. Given this interest, and recent additions to CRA's resources and the importance of its annual operating budget, this report aims at comparing Canada's tax administration performance with that of comparable countries with a set of indicators derived from the International Survey on Revenue Administration (ISORA) 2020.

Canada performed better than the average of comparable countries for about half of the indicators under study, and worse for the other half. In most cases, Canada is never quite far from the average, usually performing marginally better or marginally worse than the comparable countries. The areas where Canada significantly outperformed the comparable countries were in terms of the value of additional assessments for value added tax (VAT) and the number of audits conducted per auditor. This is expected since the CRA conducts a high volume of relatively less complex VAT audits.

Conversely, Canada performed relatively poorly in terms of arrears compared to the other countries, especially with respect to corporate income tax (CIT) and VAT arrears. The ISORA survey contains no details on the type of taxpayers owing these arrears (i.e., small vs large corporations).

Canada is among the worst performers regarding cost of collection ratios (total revenue collected divided by operating or salary expenses), outperforming only Germany. However, cost of collection ratios must be interpreted with caution. An underfunded tax administration is likely to present a high-performance ratio (as it collects revenue from self-compliant taxpayers) but might be losing a lot of potential revenue because it does not have the resources to conduct audits.

Even with all the funding announcements since Budget 2016, CRA's spending excluding transfer payments will not have increased significantly over the 2017 to 2024 period after accounting for inflation. Only some programs, such as international and large businesses compliance, will have seen an important increase in resources. It was noted that this program accounted for almost half of all additional assessments resulting from audits. Increasing its funding seems to be a good business practice from the tax administration's perspective, since the return on investment still appears relatively high.

In conclusion, as the government considers the provision of additional funding into the Agency, parliamentarians should continue to pay attention to its performance and outcome.

1. Introduction

In recent budgets and fall economic updates, the federal government has pledged increased funding to the Canada Revenue Agency (CRA) to improve client services and strengthen its efforts in tackling aggressive tax avoidance and evasion.[1] While the PBO has produced cost estimates for some of these proposals and found that there was a positive return on such investment[2], the most recent cost estimates published during the last electoral campaign warned that, given the significant increase in resources received by the CRA in the last decade, it was unclear that it could continue to absorb new cash inflows in an effective manner. Furthermore, the historical relationships of expenses and revenues may start to erode as more resources are devoted to compliance and enforcement.[3] Finally, there has been sustained interest from parliamentarians in enhancing CRA's compliance efforts in various areas as a means to raise additional revenues without increasing tax rates.

Much of the additional funding relating to compliance announced since Budget 2016 was aimed at increasing compliance for large corporations and wealthy taxpayers through programs such as the High Net-Worth Initiative (HNWI). This targeted spending also explained the high rate of return expected from the additional funding to the CRA.

Given the recent increases in funding to the CRA, the importance of its annual operating budget (projected to be 4.5 billion in 2021-22[4]) and workforce (42,526 planned Full-Time Equivalents in 2021-22[5], the second largest below the Department of National Defence at 93,745[6]), it is interesting to study how Canada's tax administration[7] is performing compared to other tax agencies around the world. Furthermore, as most political parties proposed a further increase to CRA's budget in the last electoral campaign, it would be worthwhile to see if the agency is using its current resources in a productive manner.

This report aims at comparing Canada's performance with that of comparable countries with a set of indicators derived from the International Survey on Revenue Administration (ISORA) 2020. Section 1.1 of this report describes the survey as a data source for most of the analysis in the report. Section 2 briefly explains the methodology used to select a subset of comparable countries. Section 3 presents the results on a set of 21 indicators and section 4 summarizes the results. Appendix A contains a summary of funding announcements for the CRA since Budget 2016 and the evolution of its operating budget by program over fiscal years 2017-18 to 2023-24. Appendix B presents the detailed methodology used to select comparable countries.

1.1. ISORA 2020

The International Survey on Revenue Administration (ISORA) is administered every two years, collecting data on the previous two fiscal years from over

150 national or federal tax administrations around the globe. The participation in the survey is voluntary. ISORA "surveys tax administration operations and other characteristics based on common questions and definitions agreed by four international organizations: the Inter-American Center of Tax Administrations (CIAT), the International Monetary Fund (IMF), the Intra-European Organisation of Tax Administrations (IOTA), and the Organisation for Economic Co-operation and Development (OECD)" (Crandall, Gavin, & Masters, ISORA 2018 : Understanding Revenue Administration, 2021).

The survey collects information on a breadth of topics ranging from revenue collected, to additional assessments based on compliance actions, and age profile of the staff. The survey questionnaire as well as the data collected through the survey are publicly available on the webpage of the IMF's Revenue Administration Fiscal Information Tool (RA-FIT).[8] ISORA data is used by the OECD in the preparation of their Tax Administration Series which provides in their latest edition some comparative information on 59 advanced and emerging economies. (OECD, 2021)

As the 2020 round of the survey collected data on fiscal years 2018 and 2019, the impact of the COVID-19 pandemic on tax administrations is not reflected in any of the data. In Canada, most of the audit work was suspended in the beginning of the pandemic, filing and payment due dates were extended for all taxpayers and the CRA was responsible, along with Employment and Social Development Canada, for administering COVID-related benefits.

2. Choice of Comparable Countries

Tax rates and rules differ greatly from one jurisdiction to another. Therefore, when conducting a benchmarking exercise of tax administrations, it is important to consider the different environments within which they operate. To provide for better comparison, the PBO has selected a subset of tax administrations similar to the CRA.

To select similar countries, the PBO created an indicator of weighted distance from Canada using revenue as a share of GDP, weighted by the relative importance of each revenue component in Canada. Countries were then ranked based on this indicator to pick a subset of those most similar. Additional exclusion rules were applied to remove countries where the tax administration is joint with customs[9], no large taxpayer program or office exists, the country is not considered as high-income according to the World Bank, or the population is less than one million. Appendix B explains the selection methodology in more detail.

Figure 2-1 presents the revenue structure of the selected comparable countries. As personal income tax (PIT) represents the most important source

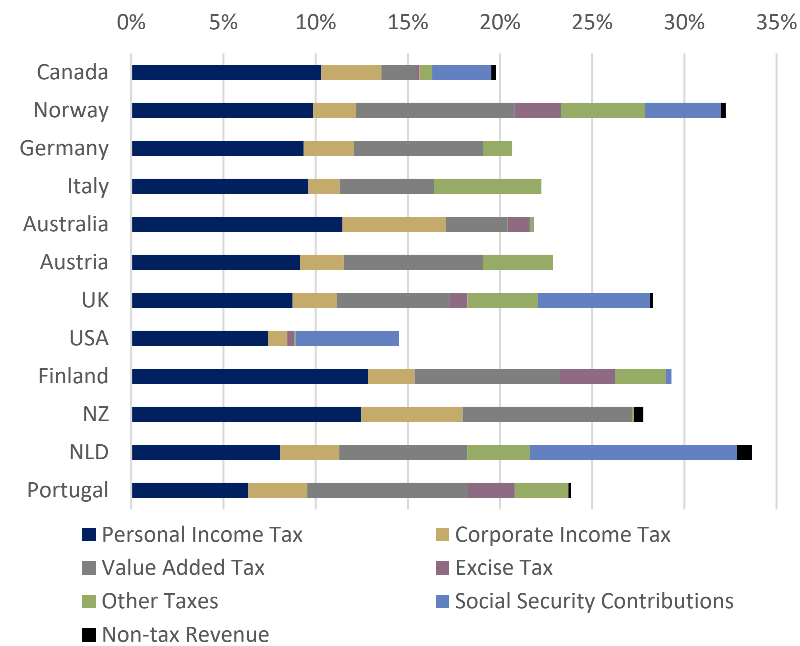
Value Added Tax (VAT)

A value added tax is a consumption tax that is levied at each stage of the supply chain where the value of a good or service has increased. In Canada, the Goods and Services Tax (GST) at the federal level is an example of a VAT.

of revenue administered by the CRA (52% of all revenue and 63% of tax revenue), it has the highest weight in the distance indicator, followed by corporate income tax (CIT). Consequently, even thought countries like Norway and Germany collect much more value added tax (VAT) revenue than Canada, their PIT and CIT revenue compared to the size of their economy is quite similar to that of Canada and are therefore included in our comparison.

Figure 2-1

Revenue collected as a share of GDP (2019)



Sources: ISORA 2020, World Bank GDP by country in local currency units and PBO calculations.

3. Performance Indicators

The indicators are separately analyzed below in four sections: cost of collection, payment compliance, audit performance, and organizational indicators. In general, the countries in the figures presented below are listed by descending order of performance for the most recent year of data (2019). This means that countries on the left side of the x-axis are usually performing above the average while countries toward the right side of the x-axis are performing below average. Note, however, that for some indicators such as the audit hit rate, it can be debated whether above or below average constitutes good performance (see section 3.3 for more details on this specific example).

Some countries do not appear in all figures, as they may not have provided data for a specific question in the survey. In all figures, the average presented is calculated only on the countries included in the figure and each country has an equal weight in the calculation.

3.1. Cost of Collection

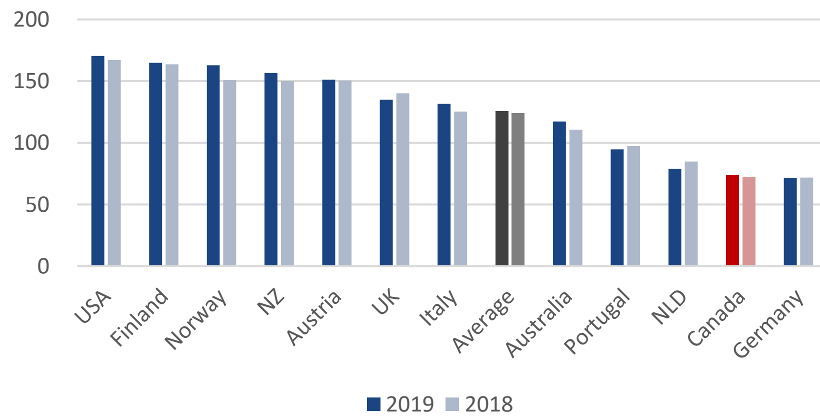
Cost of collection ratios usually measure the relationship between total revenue collected and the underlying costs incurred by the tax administration to collect this revenue. As explained in (Crandall, Gavin, & Masters, 2019) and (OECD, 2021), cost of collection ratios are to be interpreted with caution, especially when doing international comparisons. While a reduction in the ratio can be interpreted as an improvement in the efficiency to collect revenue by the tax administration, it may not necessarily be the case. For example, an increase in the tax rates or macroeconomic factors could increase tax revenue without increasing the costs incurred by the tax administration. This may give a false impression that efficiency has improved.

Furthermore, investments and capital expenditures are usually more volatile and can affect the denominator without immediately seeing improved efficiency. As such, it is recommended to remove these items from the denominator when doing international comparisons. Thus, this report presents both cost of collection ratios calculated using total expenditures as well as using salary expenditures only.

Lastly, cost of collection ratios only consider the actual amount of revenue collected but ignore potential tax revenue not collected (the tax gap). Therefore, two countries can have similar cost of collection ratios, but be at complete opposites in their ability to identify underreported income and collect all amounts due.

Figure 3-1

Total Net Tax Revenue Collected / Total Tax Administration Operating Expenditures



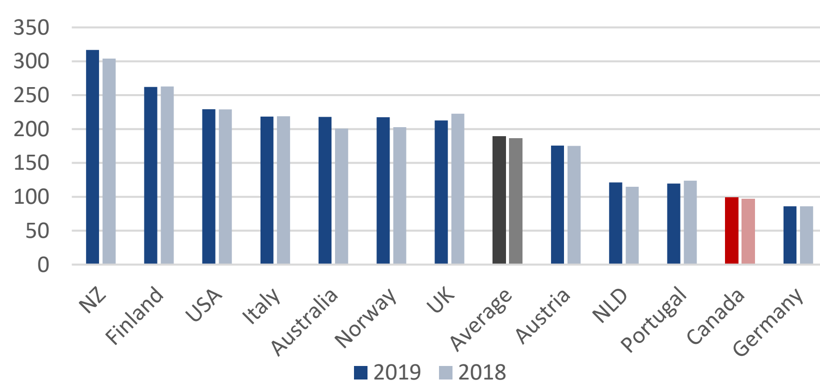
Sources: ISORA 2020 and PBO calculations.

Figure 3-1 shows the ratio of total revenue collected to total operating expenditures. For every dollar of operating expenses, Canada collected $74 in net tax revenue in 2019 and $72 in 2018. The international average is $126 and $124 for 2019 and 2018 respectively; Canada is thus well below most of its counterparts.

As mentioned in the beginning of the section, capital expenditures can be volatile, so comparing the cost of collection on salary expenses only may be a better indicator. Figure 3-2 shows the ratio of total revenue collected to total salary expenses. Canada collected $100 in 2019 and $98 in 2018 for every dollar spent on wages. The country is again well below the average of $190 in 2019 and $187 in 2018.

Figure 3-2

Total Net Tax Revenue Collected / Salary Expenses



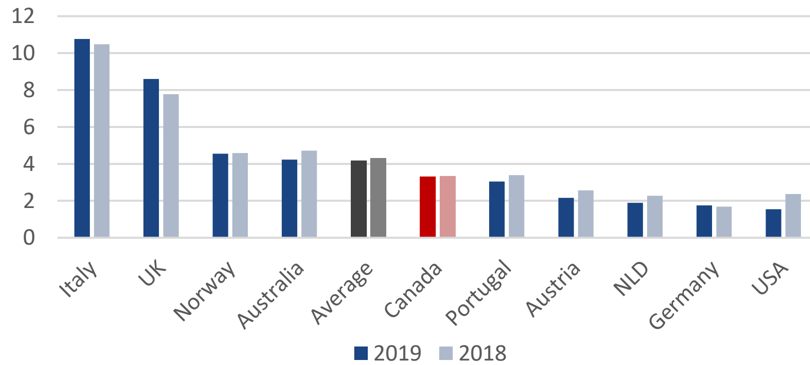
Sources: ISORA 2020 and PBO calculations.

Figure 3-3 presents similar information, but this time with respect to additional assessments resulting from audits.[10] The figure suggests that Canada collected 3.3 times its operating budget in 2019 and 3.4 times in

2018. These results are just below the international average for both years, which was 4.2 and 4.3 for 2019 and 2018 respectively.

Figure 3-3

Value of Additional Assessments / Total Tax Administration Operating Expenditures

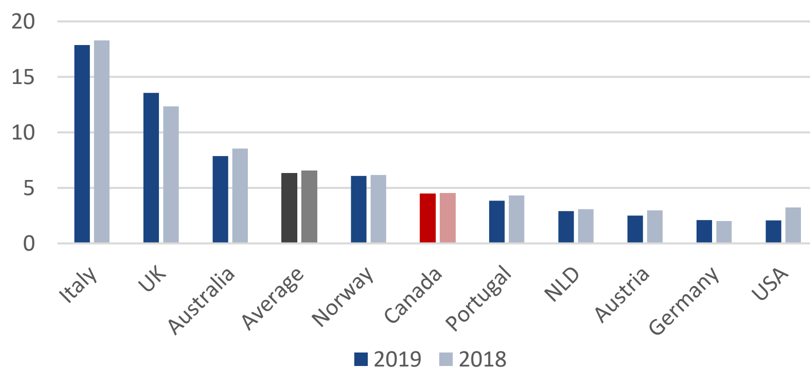


Sources: ISORA 2020 and PBO calculations.

Lastly, Figure 3-4 shows the ratio of additional assessments to salary expenses. Canada's distance from the average is slightly higher when considering salary only. However, in terms of ranking there is no significant change.

Figure 3-4

Value of Additional Assessments / Salary Expenses



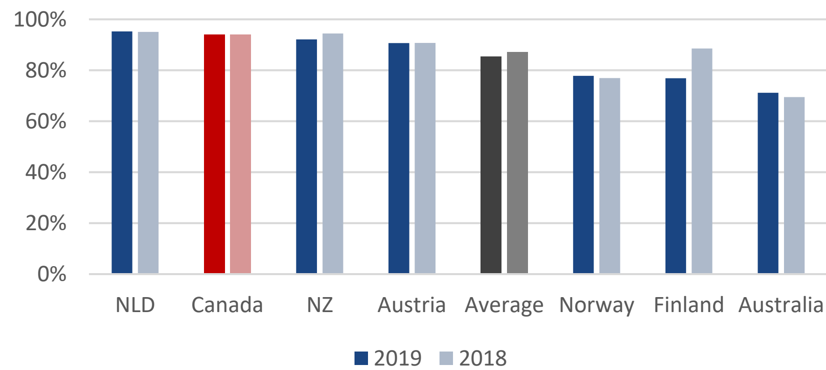
Sources: ISORA 2020 and PBO calculations.

3.2. Payment Compliance

Figures 3-5 and 3-6 show the percentage of tax filers paying on-time their amount due, for PIT and CIT respectively. As can be seen, for 2019, Canada is above average for PIT (94% vs an average of 85%) and slightly below average for CIT (87% vs an average of 89%). Canada's performance for CIT has slightly increased from 2018 where it was at 86% compared to a higher average of 92%. The higher average was due mostly to New Zealand's far better performance in 2018.

Figure 3-5

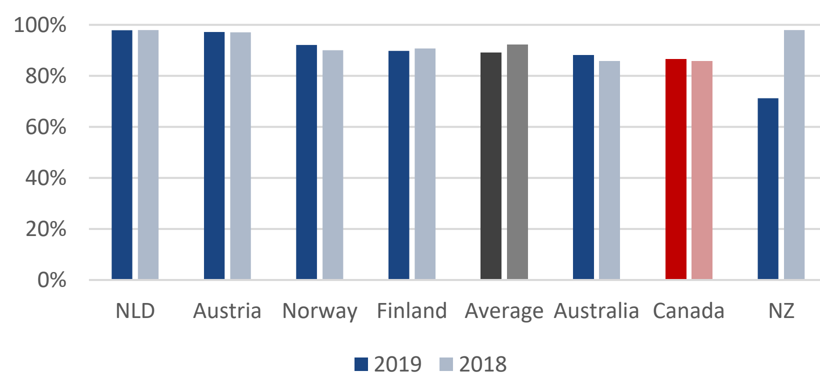
On-time Payment Rate (PIT)



Sources: ISORA 2020 and PBO calculations.

Figure 3-6

On-time Payment Rate (CIT)



Sources: ISORA 2020 and PBO calculations.

A high compliance in payments on-time can directly stem from the tax administrations' actions and outreach initiatives. However, it can simply come from a generally favourable attitude in the population to abide by the rules. It can also be sparked by punitive measures such as penalties and interests, which can vary in severity across countries.

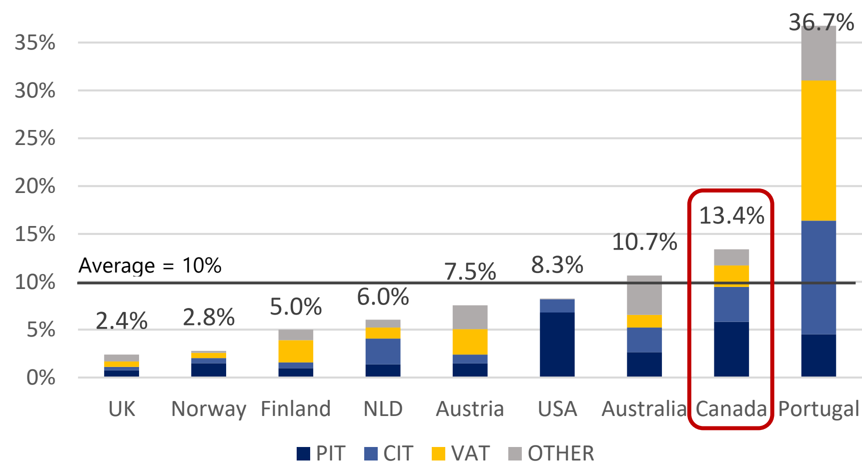
Furthermore, payment due dates might vary across countries. In Canada, individuals are taxed on a calendar year basis and the payment due date is generally April 30th of the following year (or the next business day if April 30th falls on a weekend). For corporations, the payment due date is generally two months after the end of the fiscal year (three months for some smaller corporations). Hence, if some countries allow for a longer period before the payment is due, this will likely improve their compliance rate and does not imply better performance of the tax administration.

Figures 3-5 and 3-6 do not give a sense of the importance of the amounts that remain unpaid at the due date, but Figure 3-7 presents the value of all arrears at year end as a percentage of all revenue collected. Based on this metric, Canada appears worse than most countries with a value of 13.4%, above the average of 10%. This average is largely driven by Portugal (at 36.7%) and would amount to 7% if Portugal was not included.

As a percentage of total revenue, PIT arrears in Canada are the largest component representing 6%, while CIT arrears represent 4% and VAT and other amounts each represent about 2% of total revenue. However, in percentage of their corresponding revenue source, CIT and VAT arrears amount to 22% and 23% respectively, while PIT arrears only represent 11% of PIT revenue, as shown in Figure 3-8.

Figure 3-7

Closing Stocks of Arrears as a Percentage of Total Revenue Collected (2019)

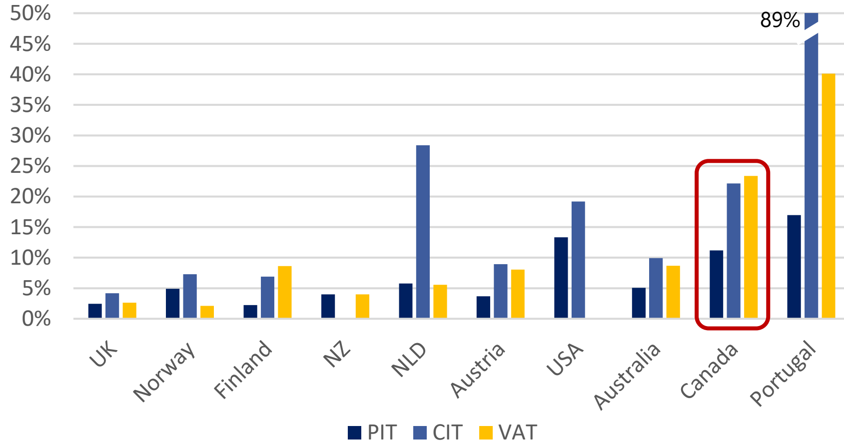


Sources: ISORA 2020 and PBO calculations.

Many countries rely on withholding taxes at source by third parties to improve payment compliance. Canada is no exception as employers must collect and remit periodically to the CRA the amounts of income tax and social security contributions withheld on their employees' salaries.[11] Similarly, self-employed individuals and corporations must pay monthly or quarterly tax installments which are usually based on their previous year's tax liability. In addition, financial institutions must withhold taxes on investment income (mostly interests and dividends) distributed to their clients. Lastly, businesses must collect and remit periodically[12] the GST/HST amounts on every taxable sale they make.

Figure 3-8

Closing Stocks of Arrears as a Percentage of Corresponding Tax Revenue Collected (2019)



Sources: ISORA 2020 and PBO calculations.

One could assume that, with most of these tax bases covered by third party withholding or tax installments, payment non-compliance would be relatively low. One explanation could be that some of these amounts might arise from additional assessments that are disputed by taxpayers. The payment arrears might accumulate over time until the objections are resolved, if the internal review process takes a lot of time.[13] Similarly, if the review of a taxpayer objection is resolved in favour of the tax agency, the taxpayer still has the right to appeal before the Tax Court of Canada.[14] Again, if it takes a long time for the taxpayer to get a court hearing, the disputed amount remains in the arrears, although the taxpayer will have to pay 50% of the disputed amount during the appeal process, which can be recovered if the court settles in favour of the taxpayer.

Payment Tax Gap

The payment tax gap measures the amount of tax liability that has not been paid or collected after taxes have been assessed by the CRA. It includes outstanding tax debt and write-offs but excludes interest and penalties since they are not considered tax liabilities.

Note that the CRA has published in 2020 estimates for the payment tax gap of the three main components (PIT, CIT, GST/HST) for tax year 2014.[15] Their results confirm what is seen in Figure 3-7, that PIT accounts for the highest nominal amount of tax gap, followed by CIT and VAT. However, the CRA also found that the payment tax gap for a given tax year significantly decreases over time as payments trickle in, particularly for PIT where it was reduced by 76% in 2020, compared to 38% for CIT and 30% for GST/HST (Canada Revenue Agency, 2020).

3.3. Audit Performance

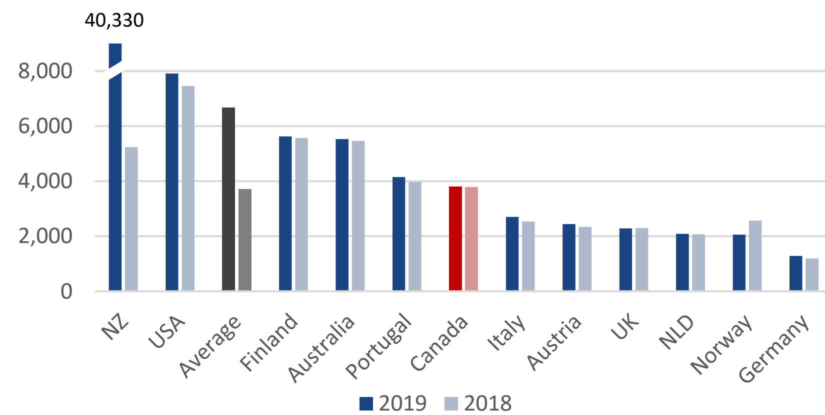
An important function of tax administrations is to conduct audits to ensure taxpayers comply with all the relevant laws. As mentioned previously, for some of the indicators in this section, it is not always clear if a higher value should be considered as a better or worse performance. For example, Figure

3-9 shows the number of taxpayers per auditor (in terms of full-time equivalents or FTEs for all types of taxes). A high number of taxpayers per auditors could be an indication of high efficiency of the audit staff being able to conduct many audits per year.

However, it could also indicate that the tax agency is underfunded and understaffed and cannot undertake audits in situations that would warrant further examination of a taxpayer. It could be a sign of better compliance in the population, thus reducing the need for resources dedicated to audits. As can be seen in the figure 3-9, Canada is right in the middle of the pack for this indicator. It should be noted that the average is heavily influenced by an outlier in 2019 - New Zealand and its 40,330 taxpayers per auditor.[16]

Figure 3-9

Number of Taxpayers per FTE on Audits

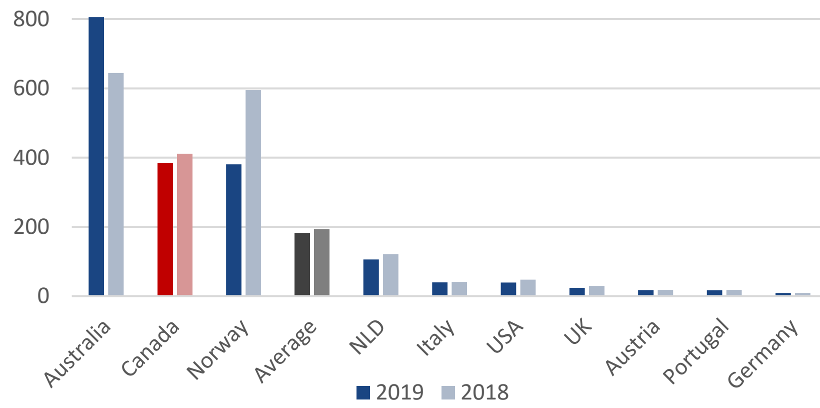


Sources: ISORA 2020 and PBO calculations.

It is interesting to note that a high number of taxpayers per auditor does not necessarily correlate with a high number of audits conducted per auditor. It can be seen in Figure 3-10 that Australia and Canada, which were both in the middle of the pack in terms of taxpayers per auditor, are the two countries with the higher number of audits per auditor. It is also interesting to see that the United States which had a large number of taxpayers per auditor actually conduct relatively few audits per auditors. This could be a sign that the IRS is indeed understaffed as the National Taxpayer Advocate has pointed out recently.[17]

At the opposite end, Norway is among the lowest in terms of taxpayers per auditors but conducts about the same number of audits per auditor than in Canada. One should note that a high number of audits is not necessarily a desirable outcome of a tax agency as it might put an unnecessary burden on compliant taxpayers.

Figure 3-10 Number of Audits per FTE on Audits

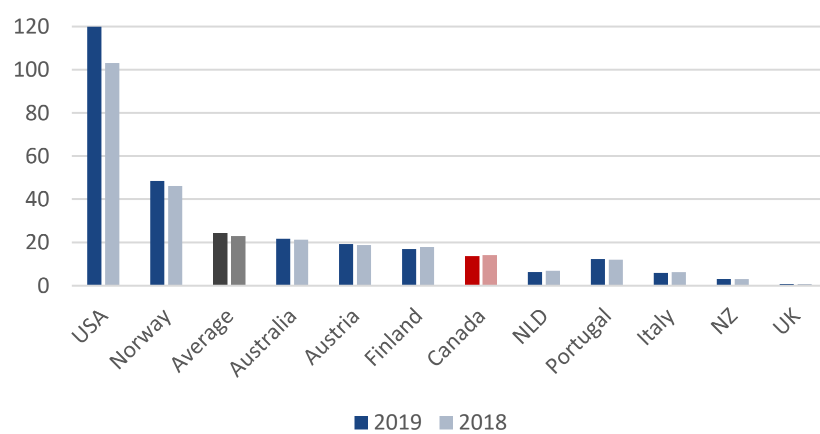


Sources: ISORA 2020 and PBO calculations.

Audit volume does not speak to the complexity of such audits. In Canada, the CRA conducts a large volume of low complexity audits of GST/HST registrants. Since the United States does not have a federal VAT under the administration of the IRS, it could explain the lower number of audits conducted per auditor.

Figures 3-11 and 3-12 show the number of corporate taxpayers per auditor in the Large Taxpayer Office/Program (LTO/P) and the average number of audits conducted by these auditors. The numbers are much lower as Canada counts about 14 taxpayers per auditor while the average is 24 in 2019 and 23 in 2018 (the average is strongly influenced by the United States). Canadian auditors conduct between two and three LTO/P audits per FTE while the average for comparable countries is around eight.

Figure 3-11 Corporate Taxpayers per FTE in the LTO/P



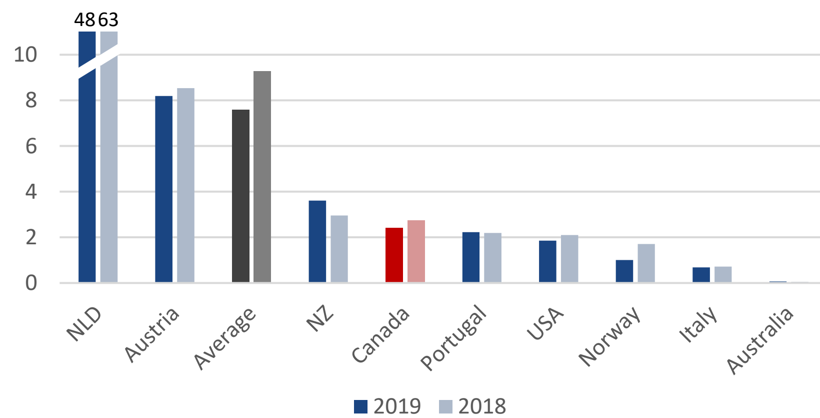
Sources: ISORA 2020 and PBO calculations.

The teams of auditors working in LTO/P generally deal with complex corporate structures of multinationals engaged in cross-border transactions.

The lower numbers of audits are expected, and Canada is in the same range as most of the comparable countries, the Netherlands being a clear outlier in this category. Again, high numbers could be a sign that a tax agency has a high production capacity, allowing it to better ensure compliance with tax laws. However, they may also be the result of a lack of compliance with tax laws. Whereas low numbers would mean the opposite, they would signal more exhaustive, complex, and high-quality analyses. In short, these statistics must be taken with caution; moreover, in some countries the LTO/P is responsible for audits of corporations as well as high-net worth individuals. The latter is a separate function at the CRA.[18]

Figure 3-12

Number of Audits per FTE on Audits in the LTO/P

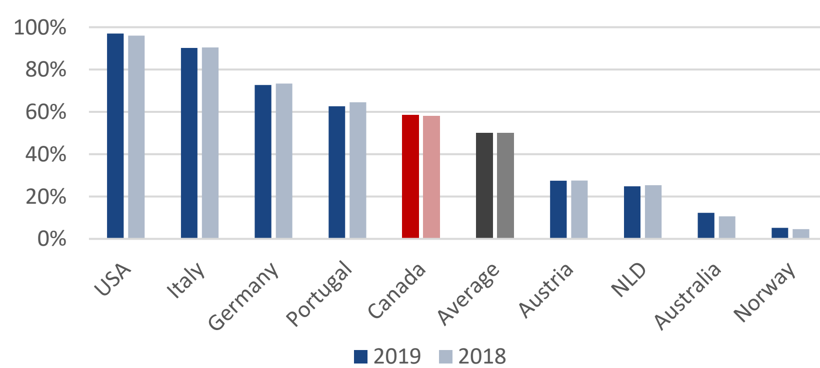


Sources: ISORA 2020 and PBO calculations.

Figure 3-13 displays the audit hit rate, which is the percentage of audits resulting in an audit adjustment. For two consecutive years, the rate for Canada is above the average, close to 60 per cent. A higher audit hit rate is generally seen as positive, demonstrating that audits are more efficient at identifying non-compliant taxpayers.

Figure 3-13

Audit Hit Rate



Sources: ISORA 2020 and PBO calculations.

On the other hand, some tax administrations conduct random audits. These audits of randomly selected taxpayers obviously result in less frequent additional assessments, which can explain lower audit hit rates in some countries. Nonetheless, random audits can provide valuable insights to a tax administration and help improve the algorithms used to determine the risk of non-compliance of each taxpayer.

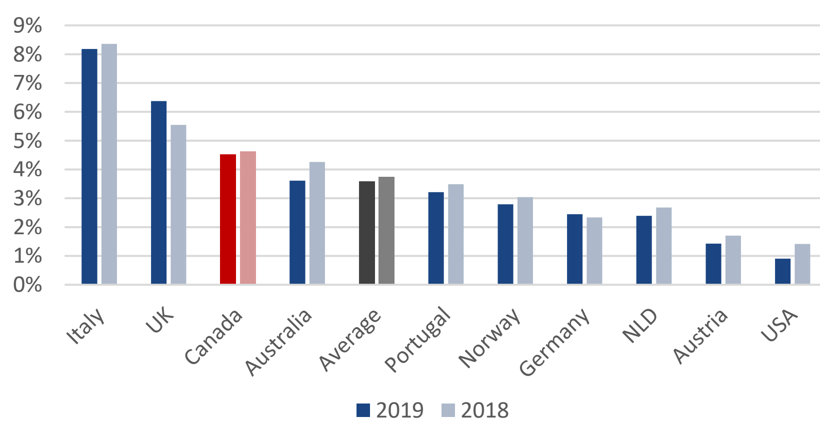
Lastly, a very high audit hit rate can be a result of very targeted audits, but also a reflection of resource limitations which compel the tax administration to only pursue "low hanging fruits". This is probably what explains the high success rate of the United States.

Value of Additional Assessments

The following figures examine the value of additional assessments established as a result of audits conducted.[19] Figure 3-14 begins by presenting the value of additional assessments as a percentage of total tax revenue collected. In Canada, they represent almost 5 per cent of total revenue, which is slightly better than the average. Note that in all the following figures, additional assessments also include penalties and interest related to the audits.

Figure 3-14

Value of Additional Assessments from all Audits as a Percentage of Total Tax Revenue Collected

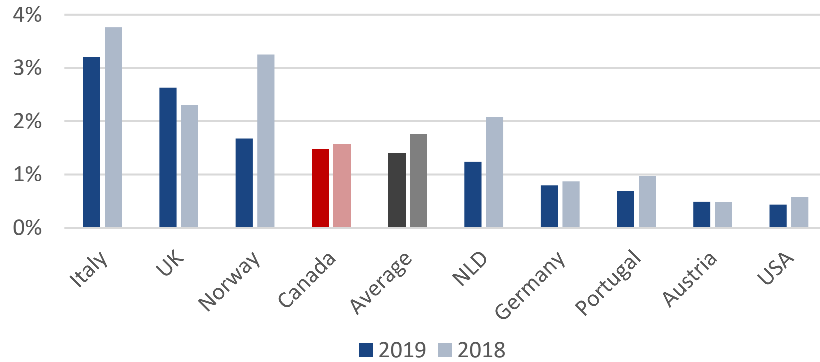


Sources: ISORA 2020 and PBO calculations.

The following three figures (3-15 to 3-17) present a breakdown for the three major tax components in Canada: PIT, CIT, and VAT. In each case, the figure displays the value of additional assessments from audits conducted on these specific taxpayers, as a percentage of the tax revenue collected from these same taxes. Of note, additional assessments for PIT represent a much smaller percentage of revenue: about 2% versus 10% each for CIT and VAT. For all these indicators, Canada is slightly above the average, but does not particularly stand out. Italy ranks first in all three indicators, which confirms an already well documented problem of low tax compliance in that country.[20]

Figure 3-15

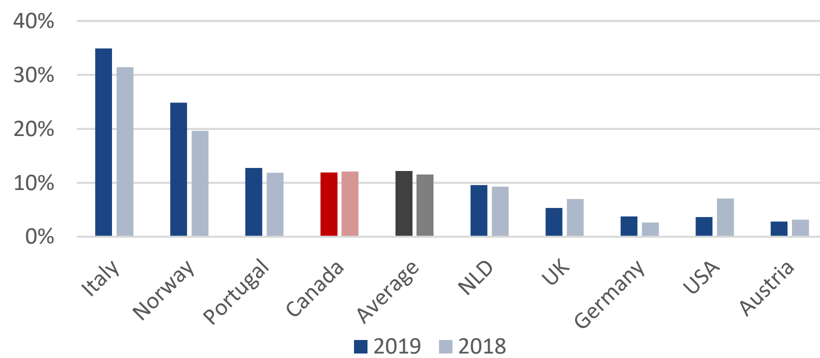
Value of Additional PIT Assessments as a Percentage of PIT Revenue



Sources: ISORA 2020 and PBO calculations.

Figure 3-16

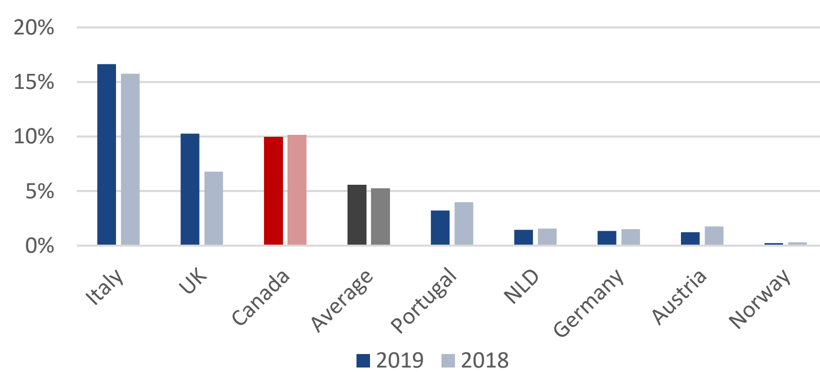
Value of Additional CIT Assessments as a Percentage of CIT Revenue



Sources: ISORA 2020 and PBO calculations.

Figure 3-17

Value of Additional VAT Assessments as a Percentage of VAT Revenue



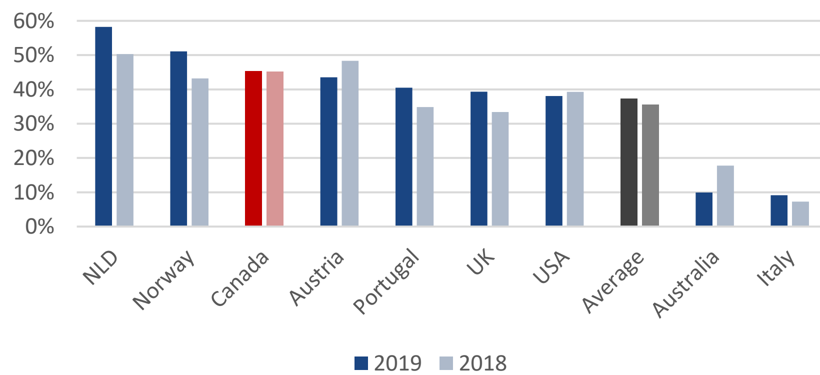
Sources: ISORA 2020 and PBO calculations.

Finally, Figure 3-18 shows the value of additional assessments originating from the LTO/P as a percentage of all additional assessments. For most countries in our sample, the audits from the LTO/P represent 40% or more of the value of all additional assessments. Canada stands at 45%, slightly above the average of 37%, and just behind the Netherlands at 58% and Norway at 51%.

As previously mentioned, in Canada the LTO/P only deals with corporations. Therefore, the value of additional assessments by the LTO/P in 2019 accounts for 86% of additional adjustments related to CIT. This suggests that the remaining 14% come from small and medium corporations. While this could be evidence against the perception that the CRA only goes after the smaller corporations, it is important to note that the number of LTO/P audits accounts for about 0.1% of all audits conducted.

Figure 3-18

Value of Additionnal Assessments from LTO/P as a Percentage of all Additional Assessments



Sources: ISORA 2020 and PBO calculations.

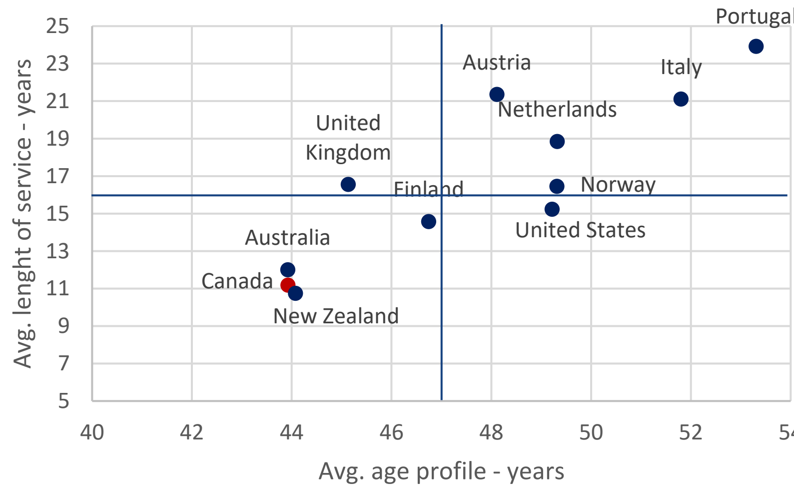
At the other end of the figure, Australia and Italy stand out as being the only countries in 2019 where additional assessments from the LTO/P represent 10% or less of all additional assessments. The previous figures showed that Italy ranked first in terms of the value of additional assessments compared to corresponding tax revenue for each of the major taxes. Seeing that it collects relatively little additional assessments from the LTO/P further confirms that non-compliance is widespread among many different types of taxpayers.

3.4. Organizational Indicators

This last section presents indicators relating to the staff composition of the tax agencies and their investment in technology. Figure 3-19 shows the average age profile and length of service of the employees. There is obviously a positive correlation between age and length of service.

With respect to this indicator, Canada is almost identical to Australia and New Zealand, with the average age of employees being 44 years old and the average length of service at 11 years. It is somewhat below the averages of comparable countries, which are 47 years old and 16 years of service. The length of service is not a perfect indicator of relevant experience as some employees might have had experience in the private sector (such as in the big accounting firms) prior to joining the ranks of the tax administration.

Figure 3-19 **Average Length of Service vs. Average Age Profile (2019)**

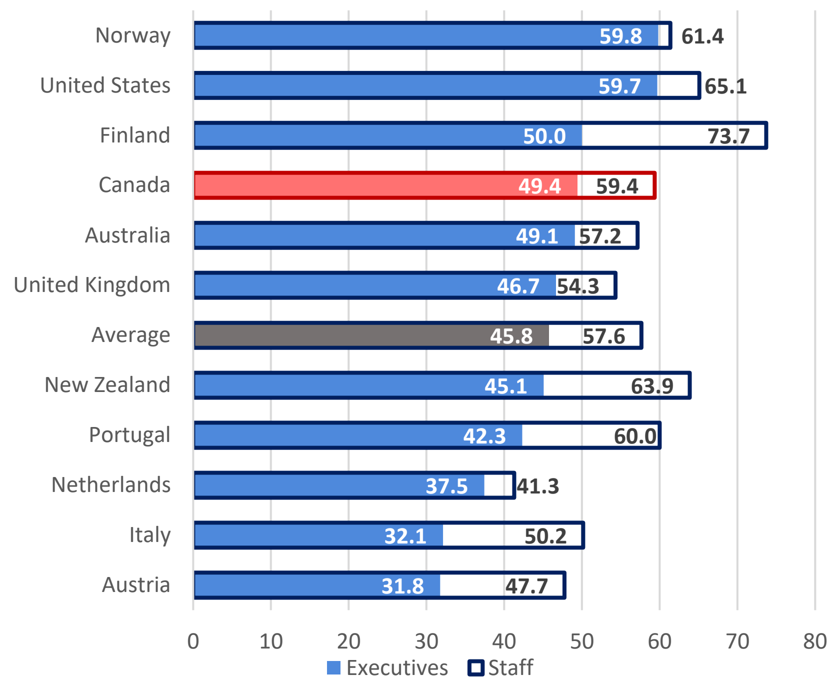


Sources: ISORA 2020 and PBO calculations.

Figure 3-20 breaks down the composition of the total staff and the executives by gender. Most countries are at or above parity in terms of total staff, except for the Netherlands at 41 per cent of female employees. In terms of female executives, Canada, along with Finland and Australia, is among the countries at parity. Norway and the United States are at the top of the pack with close to 60% of their executive positions being held by females.

At the bottom of the pack, Italy and Austria have about one female out of three executives. Note that the gender composition of the working age population (15 to 65 years old) in all these countries is between 49% and 52% of female for 2019.[21]

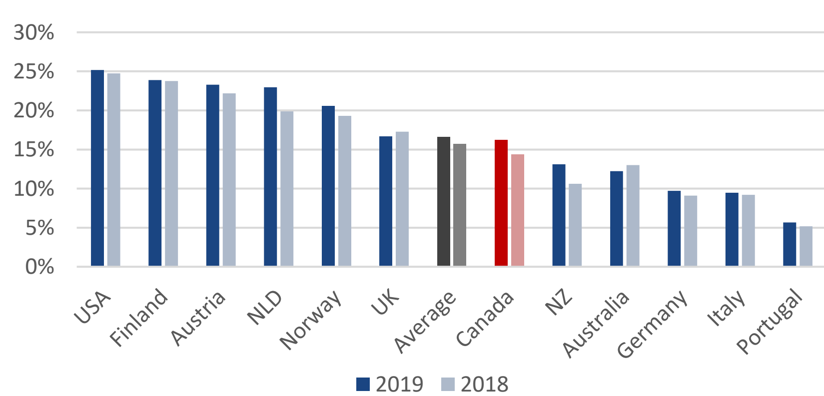
Figure 3-20 Percentage of Females (2019)



Sources: ISORA 2020 and PBO calculations

Lastly, Figure 3-21 shows the value of information and communication (ICT) technology spending as a percentage of total operating expenditures. This can be considered as a proxy for electronic readiness, as more taxpayers converge towards the use of electronic filing and new technologies. In 2019, Canada was barely below the average of comparable countries. The results of the next ISORA survey round will likely be much different as the pandemic will probably have accelerated the pace of ICT investments in most countries.

Figure 3-21 ICT Spending as a percentage of Total Operating Expenditures



Sources: ISORA 2020 and PBO calculations

4. Conclusion

Canada performed better than the average of comparable countries for about half of the indicators, and worse for the other half. However, for six of the audit performance indicators where Canada is performing better, it can be debated whether being above or below average indicates a better performance by the CRA and optimal outcomes for Canadians.

In most cases, Canada is never quite far from the average, usually performing marginally better or marginally worse than the rest of the comparable countries (especially since, for some indicators, the average is driven by outliers). The only areas where Canada significantly outperformed the comparable countries were in terms of the value of additional assessments for VAT and the number of audits conducted per auditor. This is understandable since the CRA conducts a high volume of relatively less complex VAT audits.[22]

Conversely, Canada performed relatively poorly in terms of arrears compared to the other countries, especially with respect to CIT and VAT arrears. The ISORA survey contains no details on the type of taxpayers owing these arrears (i.e., small vs large corporations). However, Canada's performance could be indicative of, for example, a preference from the tax administration to not pursue aggressively certain types of taxpayers.

Canada is among the worst performers regarding cost of collection ratios for total revenue collected, outperforming only Germany. As detailed in that section, cost of collection ratios must be interpreted with caution. An underfunded tax administration is likely to present a high-performance ratio (as it collects revenues from self-compliant taxpayers) but might be losing a lot of potential revenue because it does not have strong compliance mechanisms.

It was noted that for Canada the LTO/P generates most of the additional assessments' revenue resulting from audits. Most of the funding announcements by the federal government since 2016 have targeted large corporations and high net worth individuals because "having the means to avoid paying one's fair share should not mean that one can".[23] This seems to be a good business practice from the tax administration's perspective, since the return on investment still appears relatively high. At the same time, it improves perceptions of fairness of the tax system.

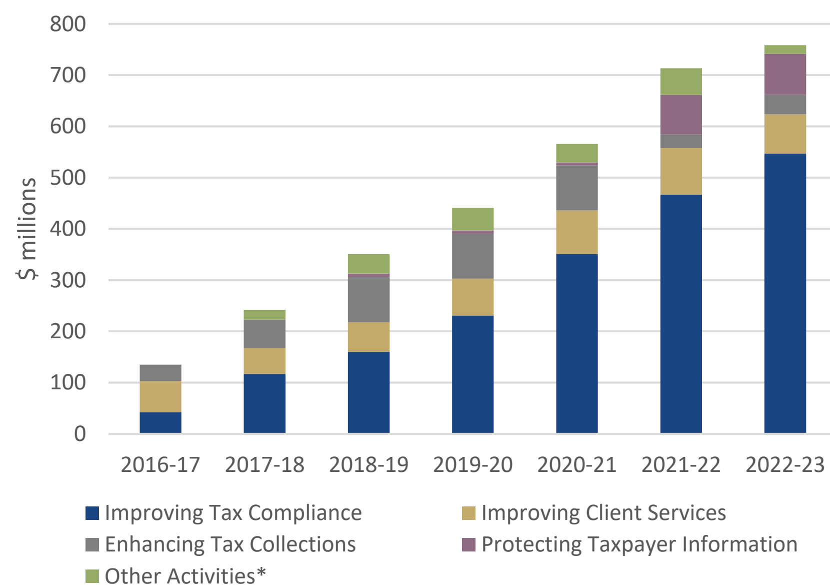
However, as explained in Appendix A, even with all the funding announcements since Budget 2016, CRA's spending (excluding transfer payments) will not have increased significantly over the 2017 to 2024 period after accounting for inflation. Only some programs, such as international and large businesses compliance, will have seen a significant increase in their resources.

In conclusion, the overall performance of the CRA is comparable to that of similar countries. This does not mean that there is no room for improvement, as the Office of the Auditor General has pointed out in some of the reports published over recent years.[24] As the government considers additional funding for the Agency, parliamentarians should continue to pay attention to its performance and outcome.

Appendix A: CRA's Operating Budget

All federal budgets tabled since the 2015 general election, as well as the 2020 Fall Economic Statement, have included additional funding for the Canada Revenue Agency (CRA). This additional funding can be included in five major categories presented in Figure A-1. As announced budgets are usually over a five-year period and often skewed towards the end of that five-year window, we can see the cumulative additional funding increases each year. For example, the total amount for fiscal year 2021-22 includes the amounts promised: in five years in Budget 2016, in four years in Budget 2017, in three years in Budget 2018, and so on.

Figure A-1 Additional Funding to CRA since Budget 2016



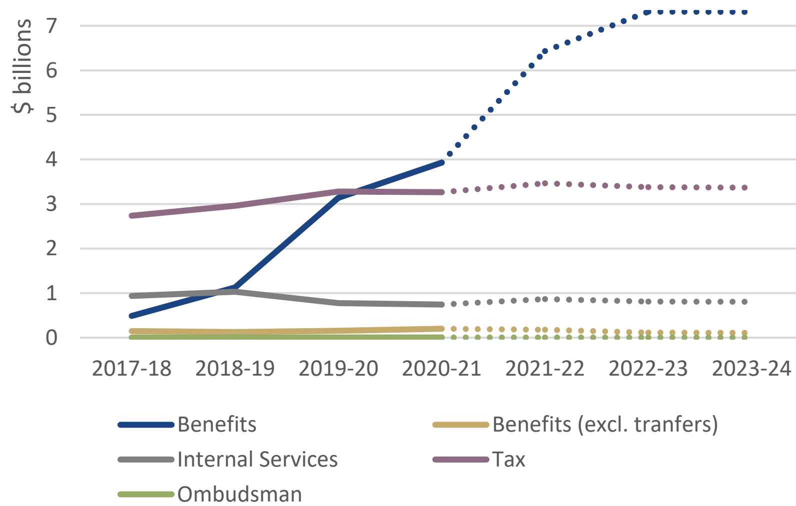
* Other activities include: introducing a taxation regime for cannabis, the federal carbon pollution pricing backstop, ensuring proper reassessments for public servants affected by Phoenix, e-payroll solution to help businesses.

Source: PBO calculations based on Budget 2016, Budget 2017, Budget 2018, Budget 2019, Fall Economic Statement 2020, and Budget 2021.

Most of the additional funding has been dedicated to improving tax compliance, but significant amounts have also been devoted to improving client services and enhancing tax collections in order to recover outstanding taxes due. To understand how this translates into CRA's operations, Figure A-2 presents the actual spending by core responsibility of the Agency for fiscal years 2017-18 to 2020-21 and the projected spending for 2021-22 to 2023-24.

Starting in 2021-22, a clear dichotomy is observed in Figure A-2 between planned expenditures allocated to benefits and the rest of CRA's core responsibilities. The benefits program becomes the most expensive program by far, which is explained by the fact that CRA is responsible for the administration of the fuel charge in jurisdictions that do not meet the federal carbon pricing benchmark. This includes the delivery of the Climate Action Incentive (CAI) payment which returns the proceeds of the federal pollution pricing to households in the province in which the proceeds are raised. The value of CAI payments is projected to reach $6.8 billion in 2022-23.[25]

Figure A-2 CRA Expenditures by Core Responsibility



Note: Solid lines represent actual spending and dotted lines represent planned spending.

Sources: CRA Departmental Results Report (2018 to 2021), CRA 2021-22 Departmental Plan, Public Accounts of Canada, Volume II (2018 to 2021) and PBO's calculations.

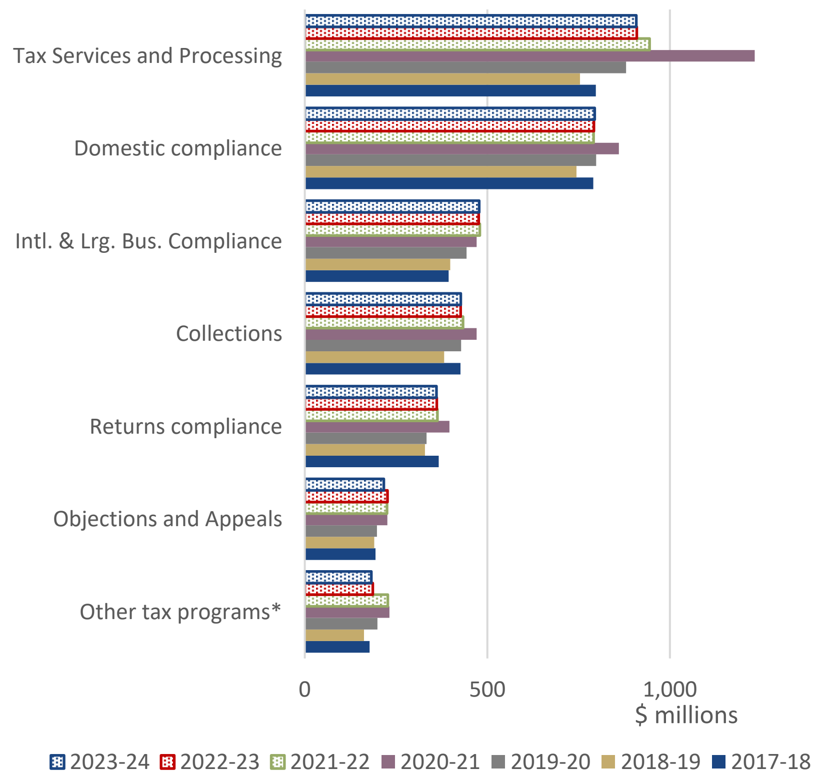
When the value of these transfer payments is excluded from the benefits spending (leaving only operating and capital expenditures), it is the second least expensive program with an average annual expenditure of $150 million, just above the Taxpayer's Ombudsman (which is negligible at $3.6 million). Tax is the most important core responsibility, representing three-quarters of all spending (excluding transfer payments), and its budget will have increased by 23 per cent by 2023-24 (from $2.7 billion in 2017-18 to $3.4 billion in 2023-24).

A further breakdown of spending by program within the tax core responsibility is depicted in Figure A-3. As can be seen, tax services and processing is the most expensive program, closely followed by domestic compliance. Fiscal year 2020-21 is the most expensive year for almost all tax programs. This is explained by collective bargaining adjustments as well as the administration of measures associated with the Government's response to COVID-19.

With respect to compliance, the planned spending for domestic compliance is in line with the amounts of the previous years (it will have only increased by 0.5 per cent between 2017-18 and 2023-24). However, the spending on international and large businesses compliance has increased every year and will stabilize in 2022-23 at a level that is 21 per cent higher than in 2017-18.

This is coherent with most of the funding announcements to crack down on more complex tax avoidance and evasion.

Figure A-3 Spending by Program within the Tax Core Responsibility



Note: Solid bars represent actual spending and dotted bars represent planned spending.

Sources: CRA Departmental Results Report (2018 to 2021), CRA 2021-22 Departmental Plan, Public Accounts of Canada, Volume II (2018 to 2021) and PBO's calculations.

Tax services and processing will also see an increase in their resources, going up 14 per cent in 2023-24 compared to their 2017-18 amount. This is likely the result of the additional funding aimed at improving client services. Lastly, objections and appeals will also witness a 12 per cent increase over the same period. In this case it is to reduce the processing time of objections, which the Auditor General flagged as an area for improvement in a 2016 report.

All other tax programs have not seen a significant change in their spending over this seven-year horizon. While each budget draws attention to the funding announcements to CRA, spending in all tax programs will have only increased by an annual average rate of 3.5 per cent over this period. For the Agency as a whole, if we exclude the value of transfer payments, the average annual growth in spending will only be of 1.9 per cent over the same period. This keeps up with inflation measured between 2017 and 2021, which means in real terms there hasn't been much of an increase in resources to the Agency, but rather a reallocation of these resources within programs and core responsibilities.

Appendix B: Selection Methodology

As a first step, countries were ranked based on an indicator of weighted distance from Canada using revenue as a share of GDP, weighted by the relative importance of each revenue component in Canada. This indicator is measured using the following formula:

$$WD_j = \sum_i \left(\omega_i * \left| \frac{REV_{i,j}}{GDP_j} - \frac{REV_{i,CAN}}{GDP_{CAN}} \right| \right)$$

$$\text{where: } \omega_i = \frac{REV_{i,CAN}}{\sum_i REV_{i,CAN}}$$

Subscript j represents the countries while subscript i represents the different types of revenue administered (personal income tax, corporate income tax, value added tax, excise, other taxes, social security contributions and non-tax revenue).

Table B-1 presents the weights applied to each revenue component, which is the share of each revenue source in the total revenue under the administration of the Canada Revenue Agency (CRA). As most provinces have tax collection agreements with the CRA, the revenue under administration includes federal revenue for all components as well as provincial and territorial revenue except for personal income tax (PIT) collected at the provincial level in Quebec, corporate income tax (CIT) collected at the provincial level in Quebec and Alberta, the federal component of GST in Quebec (which is administered by Revenu Québec under an agreement between the federal and Quebec governments) and provincial sales tax revenue in British Columbia, Saskatchewan, Manitoba and Quebec (note that Alberta, Yukon, the Northwest Territories and Nunavut have no provincial or territorial sales tax).

Table B-1 Revenue sources administered by the CRA

Revenue Source	Share of Total Revenue
Personal Income Tax (PIT)	52%
Corporate Income Tax (CIT)	16%
Value Added Tax (VAT)	10%
Excise Taxes (EXC)	1%
Other Taxes (OTH)	4%
Social Security Contributions (SSC)	16%
Non-tax Revenue (NT)	1%
TOTAL	100%

Sources: ISORA 2020 and PBO's calculations.

Countries were then ranked based on this indicator to pick a subset of those most similar. Additional exclusion rules were applied to remove countries in one or more of these situations:

- the tax administration is joint with customs (this would bias most of the indicators based on operating expenditures and full-time equivalents);
- no large taxpayer program or office (LTO/P) exists (multiple indicators used in this report are related to LTO/P);
- the country is not considered as high-income according to the World Bank classification (it is expected that revenue agencies in high income countries perform better and thus comparing performance with lower income countries will not provide relevant insight);
- the population is less than one million (these countries are also usually small in surface and thus the tax administration is likely not facing similar challenges as more populated countries).

Table B-2 below presents the closest 24 countries to Canada ranked according to the weighted distance indicator. The shaded countries were excluded based on one or more of the additional exclusion rules discussed above. The income level is from the World Bank classification which is based on gross national income (GNI) per capita in US$, and can take the following values:

- H (high income): GNI per capita greater than $12,535;
- UM (upper middle income): GNI per capita between $4,046 and $12,535;
- LM (lower middle income): GNI per capita between $1,036 and $4,045; and
- L (low income): GNI per capita below $1,036.

Table B-2 List of Similar Jurisdictions

Rank (WD)	Country	WD	Customs are Separate	LTO/P	Income Level	Population (millions)
0	Canada	0.0%	Y	Y	H	37.6
1	Norway	1.3%	Y	Y	H	5.3
2	South Africa	1.5%	N	Y	UM	58.6
3	Germany	1.6%	Y	Y	H	83.1
4	Italy	1.6%	Y	Y	H	60.3
5	Belgium	1.7%	N	Y	H	11.5
6	Australia	1.7%	Y	Y	H	25.4
7	Austria	1.9%	Y	Y	H	8.9
8	United Kingdom	1.9%	Y	Y	H	66.8
9	Luxembourg	2.1%	Y	N	H	0.6
10	Ireland	2.3%	N	Y	H	4.9
11	Nauru	2.4%	Y	Y	H	0.0
12	United States	2.5%	Y	Y	H	328.2
13	Namibia	2.6%	Y	Y	UM	2.5
14	Finland	2.6%	Y	Y	H	5.5
15	New Zealand	2.7%	Y	Y	H	4.9
16	Spain	2.9%	N	Y	H	47.1
17	Lesotho	2.9%	N	Y	LM	2.1
18	Iceland	3.0%	Y	N	H	0.4
19	Netherlands	3.1%	Y	Y	H	17.3
20	Malta	3.1%	Y	Y	H	0.5
21	Armenia	3.1%	N	Y	UM	3.0
22	Lithuania	3.1%	Y	Y	H	2.8
23	Georgia	3.3%	Y	Y	UM	3.7
24	Portugal	3.3%	Y	Y	H	10.3

Sources: ISORA 2020 and PBO's calculations.

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Notes

[1] From Budget 2016 to Budget 2021, the federal government announced over $3 billion in additional funding to the CRA, over the 2016-17 to 2025-26 fiscal years, for multiple initiatives with nearly $2 billion specifically for compliance activities. Appendix A provides more details on these announcements.

[2] PBO (2020): Estimating the Return of Additional Federal Spending on Business Tax Compliance (https://www.pbo-dpb.gc.ca/en/blog/news/RP-2021-026-S--estimating-return-additional-federal-spending-business-tax-compliance--rendement-estime-depenses-federales-additionnelles-observation-fiscale-entreprises) and PBO (2021): Strengthening Tax Compliance (https://www.pbo-dpb.gc.ca/en/blog/legislative-costing-notes--notes-evaluation-cout-mesure-legislative/LEG-2021-067-S--strengthening-tax-compliance--renforcer-conformite-aux-regles-fiscales).

[3] Election Proposal Costings #465563 and 468437 (Enhancing Tax Compliance) of the 44th General Election, Parliamentary Budget Officer (2021).

[4] This figure excludes the value of transfer payments to households, which are projected at $6.3 billion for 2021-22. See: GC InfoBase, Infographic for the Canada Revenue Agency. https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#infographic/dept/46/financial

[5] Ibid.

[6] GC InfoBase, Infographic for National Defence. https://www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#infographic/dept/133/financial

[7] Throughout the report, the terms "tax administration" and "revenue administration" are used interchangeably to designate an organisation with the responsibilities to collect taxes, conduct audits and in some cases collect social security contributions and administer transfer payments to individuals and businesses.

[8] https://data.rafit.org/

[9] About 35 per cent of ISORA participants are organizations where tax administration and customs administration are combined. Therefore, the questionnaire asks if the respondents can identify tax administration only FTEs and expenditures. If not, an estimate will be done for tax administration. For our exclusion rule, we have not excluded countries that could provide tax administration only data, such as Her Majesty's Revenue and Customs (HMRC) in the United Kingdom.

[10] The value of additional assessments is the sum of both positive and negative audit outcomes. A negative audit outcome (from the tax administration's perspective) is a situation where a taxpayer has actually paid more tax liability than warranted and receives a tax refund after the audit.

[11] Depending on its average monthly withholding amount, an employer must usually remit source deductions to the CRA on a quarterly or monthly basis. However, large employers must remit the amounts up to four times a month. For more details see: https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/payroll/remitting-source-deductions/how-when-remit-due-dates.html

[12] GST/HST remittances are due either monthly, quarterly or annually based on the volume of sales. For more details see: https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/pay-when.html

[13] In Report 2 (Income Tax Objections) of the 2016 Fall Reports of the Auditor General of Canada, the Auditor General found that the average time to process an objection was 747 days, but the average was much higher at 1,424 days for objections originating from audited returns.

[14] The OAG (2016) found that about 66% of the objections filed were allowed in full or in part to the benefit of the taxpayer. With respect to the total amount in dispute, 40% was allowed in favour of the taxpayer.

[15] The report mentions in the concluding section that more recent tax years will be examined in a future report.

[16] There is a sharp contrast in the number of FTEs on audits in New Zealand between 2018 and 2019, where they went from 747 FTEs to 136 in the latter year (a reduction of 611 FTEs), which explains the large difference in taxpayers per auditor between the two years. It is not clear what happened to these auditors, as the total number of FTEs in the tax administration only dropped by 247. There was also a reduction of 667 FTEs in the registration, taxpayer services, returns and payment processing function, while the function of enforced debt collection saw an increase of 581 FTEs and the residual category "other functions" saw an increase of 450 FTEs.

[17] https://www.irs.gov/newsroom/national-taxpayer-advocate-delivers-annual-report-to-congress-focuses-on-taxpayer-impact-of-processing-and-refund-delays

[18] All comparable countries in the sample have a high-net-worth individuals (HNWI) program, except for Austria and Norway. In the remaining countries the HNWI program is part of the LTO/P except for Canada, Finland, Italy and the United Kingdom.

[19] As explained in endnote 10, this is the net value of additional assessments.

[20] See for example (D'Attoma, 2018).

[21] According to the World Bank Population estimates and projections for 2019, the country with the lowest percentage of females in the working age population is Norway at 48.6% while Portugal is the highest with 51.7% of females.

[22] Based on results presented in CRA's 2017-18 and 2018-19 Departmental Results Reports, GST/HST audits seemed to account for about two-thirds of all audits conducted.

[23] Department of Finance Canada, Budget 2021, p.307.

[24] See OAG (2014, 2016, 2017, 2018, 2019).

[25] See Note 10 of CRA's 2021-22 Departmental Plan (https://www.canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/departmental-plan/2021-22-departmental-plan.html#tc7)