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**Executive Summary**  
**UNDERGROUND ECONOMY IN CANADA IN**  
**TODAY'S POST-PANDEMIC ENVIRONMENT**

Prepared for  
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**Canada** 



Canada Revenue Agency  
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## Underground Economy in Canada in Today's Post-Pandemic Environment

### Executive Summary

**Prepared for:** Canada Revenue Agency

**Supplier Name:** The Strategic Counsel

April 2023

This public opinion research report presents the findings from 38 triads conducted by The Strategic Counsel on behalf of Canada Revenue Agency. The research study was conducted with 80 small and medium sized enterprises (SMEs) and 42 tax intermediaries between January 30 and February 21, 2023.

Cette publication est aussi disponible en français sous le titre: *L'économie clandestine au Canada dans l'environnement post-pandémie d'aujourd'hui*

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## Executive Summary

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### A. Research Purpose and Objectives

#### 1. Research Purpose

Reducing participation in the underground economy (UE) has been, and continues to be, a priority for the Canada Revenue Agency (CRA). The 2022+ Underground Economy Strategy is the CRA's fourth published guiding document on the topic since 2014, detailing the CRA's response to the UE and its efforts in reducing UE-related tax non-compliance. This version of the strategy includes an update to the definition of UE and adoption of an evergreen approach for the UE strategy.

While the over-arching questions surrounding the UE continue to be part of the CRA's Annual Corporate Research (ACR), dedicated public opinion research (POR) on the UE has not taken place since 2009. As a result, CRA identified a need to conduct a directed UE research study to observe trends in the perceived composition and size of the UE and monitor public perceptions of the CRA's actions in this area.

The findings from this research study will:

- Help close the gap in the CRA's information needs about changes in the UE environment, identify trends in the size and type of activities that are part of the UE, as well as identify the ongoing effects of the COVID-19 pandemic on taxpayer behaviours and perceptions;
- Assist in the design and tailoring of communication campaigns for both small and medium-sized enterprises and tax intermediaries where information gaps exist;
- Enhance the CRA's compliance tools in ways that can help minimize tax non-compliance in the UE; and
- Help assess the impact of planned or in-progress tactics to identify, prevent and address UE activity as the CRA embarks on an evergreen approach to address the UE. Through periodic public opinion research (POR) the goal would be to better understand public receptivity to these tactics and modify or implement any future tactics accordingly. The results of future POR would also help measure the degree of success of CRA's tactics and approaches in reducing UE related tax non-compliance.

#### 2. Study Objectives

This research aimed to cover several broad topic areas which when combined, provide an overview of the UE in Canada, and seek to identify any immediate areas of concern. The study was designed to:

- Better understand the effect of the COVID-19 pandemic on UE – including identifying any trends that could be attributed to the pandemic, understanding the influence of COVID-19 on the likelihood of participation in the UE (and the industries or sectors that are more/less likely to engage) and to establish factors affecting voluntary compliance;



- Map the relationship between small and medium-sized enterprises (SMEs) and tax intermediaries – including understanding the role that tax intermediaries play in terms of the advice and assistance they provide and any correlation between the engagement provided by tax intermediaries and the results they achieve for SMEs (i.e., likelihood of reassessment);
- Offer direction regarding communications – collecting information to help improve communications, outreach and education programs which are designed to increase voluntary compliance among SMEs and to obtain feedback on existing communications methods to help the CRA further tailor products and increase their effectiveness; and
- Evaluate tactical approaches – including gathering feedback about broad tactical approaches to reducing participation in the UE that are currently in use in order to gain an early sense of receptivity to these initiatives and any fine tuning which might be necessary to achieve maximum effectiveness.

## B. Summary of Key Findings

### **Most SMEs have a vital and trusted relationship with tax intermediaries. They are viewed as a valued and essential resource when preparing and filing their business tax returns.**

- Many SMEs commented that tax intermediaries offer significant value, allowing business owners and operators to focus on their day-to-day business operations, profitability, and growth. Despite the perceived high fees for accounting services, SMEs felt that tax intermediaries provided some reassurance of the accuracy of their filings, thereby reducing the perceived likelihood of a reassessment or audit.
- For some, the preference for outsourcing the preparation and filing of business tax returns was also a factor of their general lack of business-related financial skills and familiarity with the tax system, given its perceived complexity. At the same time, even if the tax system were simplified, most SMEs said they would likely continue to engage the services of tax intermediaries. SMEs do not feel they have sufficient knowledge or expertise to ensure they could identify and benefit from the range of tax credits and deductions for which they may be eligible.

### **SMEs and tax intermediaries disputed the premise that Canada’s tax system is based on voluntary compliance but did describe it as an ‘honour-based’ system which assumes the willingness of taxpayers to submit tax returns that are an accurate reflection of their income. There was, however, a strong degree of empathy for the challenges facing small businesses in Canada operating under what is perceived to be a difficult economic environment and a heavy tax burden.**

- Tax compliance was not necessarily viewed as a moral obligation but rather a requirement under the law which, if breached, could result in interest or penalties and possibly legal action.
- SMEs and tax intermediaries noted that the main motivation for filing accurately and on-time was to avoid negative consequences that could then become a distraction for business owners and operators, taking their time and attention away from those activities required to ensure the sustainability of their business over the long-term.
- While some saw tax compliance as important to funding necessary programs and services which benefit all Canadians, and several were concerned about any reputational risk to their business associated with non-compliance, these were not of paramount concern for most.



**There is a belief that UE activity is pervasive across Canada, but likely more prevalent in Ontario and Quebec, the two largest provincial economies. Among SMEs, UE activity is thought to be intentional in nature and is most often associated with trade in illegal or illicit goods and services with heavy involvement by organized crime. As such, the tax implications of UE activity for those businesses involved in the trade of legal products and services (e.g., underreporting or not reporting revenues/income) are not necessarily top-of-mind.**

- Many were of the impression that UE activity had likely increased through the pandemic with the imposition of public health measures, the temporary or permanent shutdown of some businesses, and layoffs of personnel. There was a perception that the impact of COVID-19 combined with inflationary pressures may have shifted some economic activity towards the shadow economy as individuals and businesses attempted to make up for lost income.
- In terms of broader environmental trends or forces in the marketplace which might affect UE activity, either increasing it or decreasing it, few could think of any on an unprompted basis other than the impact of cryptocurrency. Some were of the opinion that bitcoin and other cryptocurrencies have made it relatively easy for anyone to access or participate in the UE. Several expressed an expectation that more widespread adoption of cryptocurrencies could potentially increase UE activity going forward. Conversely, others commented on the recent collapse of crypto exchanges as well as the significant sell-off in the cryptocurrency market and subsequent losses incurred, speculating that this may have a cooling effect on UE participation. Regardless, participants were of the opinion that the market for cryptocurrency would likely continue to be a factor in UE activity and that this area merited continued attention from the CRA.
- When asked about trends such as the digitization of commerce and electronic payment systems, these were seen as likely leading to a curtailing of UE activity. This was primarily due to the digital record left by these transactions, which participants saw as enhancing CRA's ability to monitor these activities.

**Participants felt they lacked a sufficient understanding of UE activity to be able to offer substantive and accurate insights on where and in what sectors this was happening. Nevertheless, there was a consensus across most groups that UE activity is more predominant among industries and businesses where cash transactions continue to be a regular practice or where options exist to pay in cash.**

- Most often, participants pointed to the construction sector (e.g., trades, contractors, landscaping, renovations, etc.) and to personal services (e.g., salons, pet care, cleaning services, daycare/childcare, personal training, etc.) as key areas where much of the UE activity is occurring. Others felt that UE activity would be pervasive where bartering is a more acceptable practice (e.g., online marketplaces, craft markets, peer-to-peer transactions). Outside of these, there were also a few mentions of areas such as dental practices which may be engaging in UE activity. There was a perception that some dentists and/or oral surgeons may be providing services on a cash-only basis. Some also felt that there may be more bartering taking place between individuals who need dental services but are unable to pay for them, and dental providers. Participants linked this to the COVID-19 pandemic which they felt had created challenging financial situations for both dentists and patients.
- The profile of business owners and operators who were thought to be participating in this type of activity cut across demographic groups – some felt CRA should be targeting younger business owners and/or those starting up a new business who may lack an understanding of their tax



obligations, while others believed more mature businesses would be a more appropriate target. Businesses operating in rural areas were also mentioned as well as those owned by newcomers who may not have had much experience with rigorous bookkeeping and yearly tax filing prior to arriving in Canada.

#### **Survivability was seen as a key motivating factor influencing SME participation in the UE.**

- Secondary motivators included pressure from customers and, less often, from other vendors to the business as well as inflationary pressures.
- General disillusionment with government and a perceived lack of transparency or accountability regarding government expenditures were also cited as possible motivators.

#### **Views were split regarding the importance of tackling UE activity and CRA stepping up its efforts to strengthen compliance and enforcement. While some felt CRA should address what is viewed as an unfair playing field between law abiding and non-compliant businesses, others were of the view that the ‘business case’ may not be strong enough to support the expenditure of funds and resources on this issue.**

- Many participants, SMEs and tax intermediaries alike, commented that CRA’s efforts might be better spent focusing on larger corporations which they felt are more able to take advantage of tax loopholes or opportunities to reduce the amount of corporate taxes paid. They also felt that this approach might yield more in terms of lost tax revenues.
- Some also referenced the recent media focus on CRA’s decision not to go after ineligible recipients of billions of dollars in CERB payments. They questioned how CRA would have the resources to address the UE if the business decision had been made not to recover payments that were ruled by CRA to be ineligible following an internal audit.
- In terms of how CRA should address this issue, most felt that preventive measures aimed at more education and reducing the social acceptability of UE activity would be most effective, although less so among those individuals and businesses who undertake these activities intentionally. SMEs and tax intermediaries believed that a combination of education, audits and penalties was necessary. There was, however, some concern that this would lead to more widespread audits among SMEs which many viewed as unfair and costly for the business.

#### **A multi-channel approach to connecting with SMEs and tax intermediaries was recommended by participants, with heavier reliance on digital tools including social media and advertising on digital platforms.**

- Very few liked the idea of webinars, which were seen as too time consuming, or regular mail/e-mail, given the volume of mail received by SMEs and tax intermediaries. Accountants recommended that information be shared via their professional associations (e.g., CPA).
- In terms of messaging that might resonate, there was a general consensus that CRA should emphasize the impact of UE activity such as focusing on what government is unable to accomplish as a result of lost tax revenues or what more it could do to improve Canadians’ quality of life if these lost revenues were recovered (e.g., funding and building ‘x’ number of hospitals, etc.). Messaging underscoring the fact that UE activity puts more pressure and tax burden on those who are compliant was also reasonably well received.



## C. Methodology

A total of 38 triads were conducted from January 30<sup>th</sup> to February 21<sup>st</sup>, 2023, across 5 regions of Canada (Atlantic, Ontario, Quebec, Prairies, Pacific). Twenty-four triads were conducted with SMEs and 14 triads with tax intermediaries. Triads with SMEs were primarily segmented by business sector and those with tax intermediaries were primarily segmented by the size of businesses they typically serve, measured by the number of employees.

Participants were recruited in their official language of choice using a hybrid telephone and online approach. In total, 148 participants were recruited and 122 participated. Each triad was conducted online via Zoom, lasting approximately 90 minutes in length. Both SMEs and tax intermediaries received an honorarium of \$200 in appreciation of their time. A total of 28 triads were conducted in English and 10 in French.

## D. Note to Reader

Qualitative research involves the collection, analysis and interpretation of data that are not easily reduced to numbers. These types of studies yield valuable and rich insights into the attitudes, motivations and behaviours of specific target audiences as reflected by their own ‘voices.’ However, the semi-structured nature of focus group discussions combined with the limited number of participants engaged in the research means that findings should be considered more directional in nature. They should not be considered statistically projectable to the broader population of small and medium-sized business owner/operators or tax intermediaries across Canada.

## E. Contract Value

The contract value was \$122,345.10 including any applicable taxes.

### MORE INFORMATION

Supplier Name:	The Strategic Counsel
PWGSC Contract Number:	<b>46637-23-7700/CY</b>
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To obtain more information on this study, please e-mail [PABPOPRESG@cra-arc](mailto:PABPOPRESG@cra-arc).



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## F. Statement of Political Neutrality

### Statement of Political Neutrality

I hereby certify as Senior Officer of *The Strategic Counsel* that the deliverables fully comply with the Government of Canada political neutrality requirements outlined in the *Communications Policy* of the Government of Canada and Procedures for Planning and Contracting Public Opinion Research. Specifically, the deliverables do not include information on electoral voting intentions, political party preferences, standings with the electorate or ratings of the performance of a political party or its leaders.

Signed:

A handwritten signature in black ink, appearing to read "Donna Nixon", written over a horizontal line.

Donna Nixon, Partner