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PERCEPTIONS OF TAX OBLIGATIONS AND RELATED NON-COMPLIANCE IN THE REAL ESTATE SECTOR: QUALITATIVE RESEARCH

Executive Summary

Prepared for Canada Revenue Agency

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Canada 

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This public opinion research report presents the findings from 12 focus groups and 20 in-depth interviews conducted by The Strategic Counsel on behalf of Canada Revenue Agency. The study was conducted with 85 individual taxpayers and 20 real estate professionals between February 21st and March 20th, 2023.

Cette publication est aussi disponible en français sous le titre: **Perceptions des obligations fiscales et de l'inobservation connexe dans le secteur immobilier : Recherche qualitative.**

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Executive Summary

A. Background and Objectives

1. Background

The real estate landscape has become more complex in recent years with a perceived lack of housing affordability and other potential barriers to entry into the real estate market occurring with increasing frequency. As such, the Government of Canada is committed to addressing the issue of housing affordability for Canadians. Factors affecting affordability in the housing market have included price increases, high volumes of transactions, investor participation, and rising inflation. These factors have also contributed to increased opportunities for tax non-compliance.

The Canada Revenue Agency (CRA) utilizes a combination of tools and data to detect and address tax non-compliance by taxpayers across all sectors, including real estate. Specific to real estate, the CRA employs risk-appropriate interventions that include outreach and communications, targeted letters, a leads program, and audits. Through audits, the CRA has identified the following key areas of concern related to the real estate sector:

- Reported income that does not reflect a purchaser's lifestyle;
- Property flipping;
- Unreported capital gains on the sale of property;
- Unreported capital gains tax on property sold by a non-resident;
- Unreported worldwide income;
- Unreported goods and services tax/harmonized sales tax (GST/HST) on the sale of a new or substantially renovated home; and
- Tax rebates available to builders and/or purchasers.

It is against this backdrop that the Minister of National Revenue has been mandated to “strengthen the work of the CRA to improve its capacity to audit real estate transactions”.

The CRA is working to ensure that taxpayers involved in the disposition of real estate properties are informed of their tax rights and obligations. It is also recognized that individuals are more likely than other taxpayer segments to have limited awareness on this matter. As such, it has been the CRA's experience that education and outreach efforts targeting individuals (especially those who do not fully understand their obligations) have been influential in impacting their behaviours. Additionally, this approach has been successful in positioning these individuals to be less likely to miss out on deductions, tax credits, rebates, or be subject to unnecessary penalty and interest charges.

2. Study Objectives

The purpose of this research is to collect opinion-based information on existing risks related to the real estate sector. This information is derived from the perceptions of individual taxpayers who have recently participated in the real estate market, as well as professionals in the general business of real estate, property management, and renovations.

The objectives of this study include:

- Exploring factors that contribute to non-compliant behaviour as it relates to real estate transactions and taxation;
- Understanding how non-compliant behaviour has evolved over the years, including any effects from the COVID-19 pandemic;
- Ascertaining the role that Canadians expect the CRA to play with respect to record profits being earned in this sector; and
- Gauging reactions to current and/or future strategies to address non-compliant behaviour in the real estate sector.

The results of this research will be used in the development of strategies targeted towards the real estate sector as well as to inform related public communication campaigns. This research will complement traditional data sources and, in the event it leads to new insights, may inform risk assessment and support targeted compliance activities.

B. Methodology

A total of 12 focus groups comprised of individual taxpayers and 20 in-depth interviews with real estate professionals were conducted between February 21st and March 20th, 2023. The groups and interviews were segmented across five regions – Atlantic Canada, Quebec, Ontario, the Prairies, and British Columbia, with additional segmentation by city to ensure representation of key real estate markets.

Participants were recruited in their official language of choice using either a random digit dialing (RDD) or hybrid telephone and online approach. In total, 116 participants were recruited and 105 participated. All groups and interviews were conducted online via Zoom, with focus groups lasting approximately 90 minutes in length and interviews 45 minutes in length. Individual taxpayers received an honorarium of \$125 for their time and professionals working in real estate received \$200. A total of 10 focus groups and 17 interviews were conducted in English. All focus groups and interviews in Quebec were conducted in French (2 focus groups and 3 interviews).

Qualitative research is exploratory in nature and involves the collection, analysis and interpretation of data that is not easily reduced to numbers. These types of studies yield valuable and rich insights into the opinions of specific target audiences as reflected by their own ‘voices’. However, the semi-structured nature of focus group discussions and interviews, combined with the limited number of participants engaged in the research, means that findings should be considered directional in nature. They should not be considered statistically projectable to the broader population of individual taxpayers or professionals working in the real estate sector across Canada.

C. Key Findings

Most individual taxpayers utilize the services of accountants when it comes to filing their taxes and have low awareness of their tax obligations related to real estate transactions.

- Several commented that the process of filing returns, especially with regards to real estate transactions, has become increasingly complex in recent years, making it difficult for them to complete their tax return on their own. Some participants discussed issues related to the CRA website being challenging to navigate and understand, while others mentioned that it has been difficult to keep up with the many new changes to tax requirements for real estate transactions.
- While an accountant was viewed as the primary source for many individuals to seek advice from when filing taxes for real estate transactions, other professionals participants relied on included lawyers, notaries, mortgage brokers, and mortgage agents. A few reported asking their real estate agent for guidance, however most believed real estate agents to generally be less knowledgeable when it comes to the taxation aspects of real estate transactions.
- Real estate professionals had greater knowledge and were generally better informed about real estate taxation compared to the average taxpayer. However, providing advice or information on tax obligations to their clients was not viewed as a common practice among professionals. Outside of tax intermediaries, most did not feel it was their role or responsibility to do so and several viewed this as a risky activity which could expose them to potential liabilities.

Participants were generally unaware of the types of activities that might be considered non-compliant. There was, however, a belief that non-compliance in real estate is prevalent throughout Canada and is likely more widespread than many are aware of. Views among individual taxpayers were mixed as to whether this type of behaviour was thought to be intentional or unintentional. Meanwhile, professionals working in the real estate sector believed the majority of non-compliance to be intentional in nature.

- Participants expressed a range of views when it came to the motivating factors driving intentional non-compliance. Some felt these behaviours were driven primarily by greed or an opportunity to make 'easy money'. Professionals specifically viewed non-compliance as more likely to be undertaken by those in larger real estate markets (such as the GTA and GVA) and by those with more experience in the industry (e.g., contractors or individuals who were involved in developing, building, renovating, or flipping homes). Additionally, it was felt that in recent years a growing number of Canadians had begun engaging in intentional non-compliance due to increasing financial pressures resulting from inflation and the rising cost of living.
- Those undertaking non-compliant behaviours unintentionally were generally viewed as not being well informed about their tax filing requirements when it comes to real estate transactions.

There was a perception that the COVID-19 pandemic and recent interest rate increases by the Bank of Canada had served to disrupt real estate markets and had negatively impacted the ability of Canadians to correctly file real estate transactions in recent years.

- It was suggested that due to the rise in prices of houses during the COVID-19, individuals may have been reactionary in terms of purchasing and selling property without fully understanding the tax implications of these transactions.
- Throughout the pandemic many experienced significant financial pressures (due to loss of employment/income) and, as such, were thought to be more likely to have either not reported or under-reported real estate transactions out of concerns that they would not be able to afford the

resultant taxes. A similar consequence may be felt throughout 2022-23 due to continued interest rate increases by the Bank of Canada.

Awareness of fraudulent activity occurring in the real estate sector was low among individual taxpayers, but more well known among professionals. While most viewed this type of activity as criminal, many did not make a clear connection between fraudulent activity and non-compliance vis-à-vis tax implications.

- Among those who were aware, most discussed the concept of title fraud, which they had heard about through various channels in recent years. Some professionals were also knowledgeable about mortgage fraud; however, they did not believe this was a significant issue at present due to the stricter rules and processes in place concerning mortgages.

Key motivating factors influencing participation in non-compliance in the real estate sector were price increases in the market value of homes and record profits on the sale of properties.

- Issues related to affordability and inflation, as well as a lack of awareness or knowledge of one's tax obligations were seen as secondary motivators.
- Other motivators, which arose unprompted, included a sense of disillusionment with the federal government (e.g., some did not feel like the money they paid in taxes was being used effectively) and a recent rise in viewership of home renovation shows, which were seen as motivators for people to take on renovations/flipping without fully understanding the tax implications of doing so.

Almost all viewed the CRA's role in tracking non-compliant activity in the real estate sector and increasing efforts to strengthen compliance as important. This was seen as an effective way of ensuring greater accountability and fairness across the tax system and as a way to avoid a heavier burden being placed on those taxpayers who were fully compliant.

- Many believed that the CRA should focus its efforts primarily on targeting the larger players in the real estate sector (such as high net-worth individuals/organizations who are undertaking multiple transactions). Most felt that targeting the average homeowner would not have a significant impact on addressing this issue.
- There was low awareness in terms of any specific activities being undertaken by the CRA to address non-compliance in the real estate sector and many thought the CRA should be doing more on this front.
- Describing actions the CRA could take to address this issue, most believed that audits (accompanied by interests and/or penalties) would have the most impact, particularly for those who are intentionally engaging in these behaviours. Efforts to increase awareness, education, and outreach were also viewed as important, especially in terms of decreasing unintentional non-compliance.

A multi-channel strategy, using online and traditional approaches to reach people at points in time where they are undertaking real estate transactions, was seen as the most effective way for CRA to share information with individual taxpayers. Among professionals, it was felt that the best way to reach those in their industry was through professional or industry associations. Several also suggested that this

information should be incorporated as part of their continuing education and the license renewal process.

- Discussing ways to utilize online platforms, many individual taxpayers suggested running an educational campaign on social media or delivering updates through the CRA website or CRA My Account. It was also suggested that efforts could be made to inform those undertaking real estate transactions about their tax obligations via pamphlets or packages provided through financial institutions, tax intermediaries, or real estate agents. Other suggestions included communicating relevant information through letter mail (alongside other tax documents), hosting workshops, and running booths at trade or home shows.
- Professionals in the real estate sector believed that an effective way to reach those in their industry was through online videos or webinars, especially those that were pre-recorded and could be watched at any time. Several thought that it would also be helpful to have access to more basic information from the CRA (like a tax calculator) that they could share directly with their clients.
- The use of email and telephone to communicate this type of information was discouraged by many. This was primarily due to mistrust stemming from the prevalence of email and phone scams.
- There was also a desire for CRA to be more proactive in providing information related to tax obligations in real estate and it was felt that the CRA had a responsibility to inform Canadians regarding actions they could take to decrease non-compliance. It was the preference of many for the CRA to take an approachable, helpful tone in these types of communications.

Participants tended to favour statements/information from the CRA that are clear and easy to understand, provide taxpayers with new information, and are applicable to a wide audience.

- Messaging that reinforced both resident and non-residents responsibilities for knowing their tax rights and obligations was seen as useful and important.
- Informing participants of their requirement to declare their principal residence was also viewed as valuable, as many were unaware of this requirement and the potential associated penalties.

D. Contract Value

The contract value was \$93,899.61 including any applicable taxes.

MORE INFORMATION

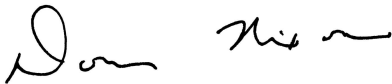
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To obtain more information on this study, please e-mail cra-arc.media@cra-arc.gc.ca.

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Signed: 

Donna Nixon, Partner