4.1 Internal Audit – Disability Tax Credit

Final Report

Audit, Evaluation, and Risk Branch

Audit, Finance and Risk Committee

March 23, 2026

Canada Revenue Agency | Agence du revenu du Canada

Canada

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Executive summary

The Canada Revenue Agency's (CRA) mandate is to administer tax, benefits, and related programs, and to ensure compliance on behalf of governments across Canada. The CRA's core responsibility for benefits and credits is to ensure that Canadians obtain the support and information they need, know what benefits or credits they may be eligible to receive, receive their benefit payments or tax credits in a timely manner, and have avenues of redress when they disagree with a decision on their benefit or credit eligibility[1].

Within the Assessment, Benefit, and Service Branch (ABSB), the Disability, Indigenous, and Benefits Outreach Services Directorate strives to ensure Canadians in need receive the tax benefits and credits they are entitled to with ease and in a timely manner. The Disability Benefits Division provides functional direction, modernization, and external representation of the CRA's Disability Program, including supporting the Minister's Disability Advisory Committee.

The disability tax credit (OTC) is a non-refundable tax credit administered by the CRA that helps reduce the income tax for people with severe and prolonged physical or mental impairments, or their supporting family members. The person with the impairment may claim the OTC on their tax return or transfer the amount to a supporting family member once the CRA has approved their eligibility and entitlement.

The CRA's service standard for the OTC application process is to issue a Notice of Determination advising whether the eligibility has been allowed or disallowed within eight weeks of the form being received. The CRA's target is to meet this standard 95% of the time.

The objective of the internal audit was to provide the Commissioner, CRA management, and the Board of Management with assurance that the OTC application process is timely and effective in ensuring that only eligible individuals are approved for the credit.

Overall, the internal audit concluded that there are documented policies, procedures, and guidelines in place to effectively assess OTC applications. However, improvement is required for performance reporting, monitoring, and risk assessment of the processing of OTC applications.

The internal audit found the following:

- The formula for calculating the externally reported service standard result does not represent the program's performance or the taxpayer experience with the OTC application process

[1] Summary of the Corporate Business Plan 2025-26 with perspectives to 2027-28 - Canada.ca

- [redacted]
- [redacted]

Summary of recommendations

- The ABSB should ensure reported service results are accurate and reflect the taxpayer service experience.
- [redacted]
- [redacted]

Management response

The ABSB agrees with the recommendations in this report and has developed related action plans. The Audit, Evaluation, and Risk Branch has determined that the action plans appear reasonable to address the recommendations.

Introduction

The Disability Benefits Division of the Assessment, Benefit, and SeNice Branch (ABSB) at the Canada Revenue Agency (CRA) determines eligibility for the disability tax credit (OTC) based on the requirements in sections 118.3 and 118.4 of the *Income Tax Act.* Eligibility for the OTC is based on the severity of the effects the impairment has on the person with disability. An individual may be eligible for the OTC if they have an impairment in physical or mental functions that is severe and prolonged, resulting in a marked restriction.

To apply for the OTC, applicants must fill out Form T2201, via a paper for Disability Tax Credit Certificate or a digital form, which is a two-step process. First, the person with the impairment or their legal representative must fill out Part A. Then, a medical practitioner who can certify the effects of the impairment must fill out Part B. Both Parts A and B must be submitted to the CRA.

The application is then processed at one of three tax centres: Sudbury, Winnipeg, or Jonquiere. The Medical Practitioner Validation team reviews a proportion of Part B submissions by calling or sending a letter to the medical practitioner's office confirming the completion of the form before sending the files to the eligibility determination team. The CRA then issues a Notice of Determination advising whether the eligibility has been allowed or disallowed within eight weeks of receiving the T2201 form. The CRA aims to meet this standard 95% of the time.

The launch of the Canada disability benefit on June 20, 2025, has likely increased the number of applications for the OTC program at the CRA because a OTC certificate is needed to apply for the Canada disability benefit. To qualify for the Canada disability benefit, an application for the OTC must be approved. The Canada disability benefit is administered by Employment and Social Development Canada.

Focus of the internal audit

This internal audit was included in the 2024-2025 Risk-Based Assurance and Advisory Plan, which was approved by the Board of Management (Board) in September 2024. The Assignment Planning Memorandum was approved by the Commissioner on June 18, 2025.

Importance

This internal audit is important because it provides assurance that key controls are in place and working as intended within the OTC program to efficiently and effectively determine the eligibility of applicants to receive the credit.

The internal audit supports the ABSB's overarching strategic objective of continuously improving tax and benefits programs and processes and the application of appropriate

rigour to programs and services to maintain the confidence of individuals, businesses, and client governments.

The efficiency and effectiveness of the OTC application process has notable service impacts on other programs in CRA. In the calendar years 2023 and 2024, CRA contact centres received 189,000 and 152,000 calls respectively related to the OTC.[2] In the 2025 federal budget, the government reaffirmed its intention to lower barriers to access the Canada disability benefit by helping to offset the costs of applying for the OTC with proposed funding of $115.7 million over four years, beginning in fiscal year 2026 to 2027, and $10.1 million per year ongoing.

Objective

The internal audit objective was to provide the Commissioner, CRA management, and the Board with assurance that the OTC application process is timely and effective in ensuring that only eligible individuals are approved for the credit.

Scope

The internal audit covered the policies, processes, and procedures in place to monitor and determine the eligibility of OTC applications.

The internal audit covered OTC applications received between April 1, 2024, and March 31, 2025. However, where possible, data analytics was leveraged to analyze trends, detect anomalies, and assess program performance using data from fiscal years 2023 to 2024 and 2025 to 2026.

The entitlement determination and claiming of OTC on personal tax returns was outside of the scope of this internal audit.

Internal audit criteria and methodology

The internal audit criteria and methodology can be found in Appendix A.

The examination phase of the internal audit took place from May 2025 to August 2025.

The internal audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing, as supported by the results of the quality assurance and improvement program.

[2] 2024 Fifth Annual Report of the Disability Advisory Committee - Canada.ca

Findings, recommendations, and action plans

The recommendations presented in this report address issues of high significance or mandatory requirements.

The ABSB agrees with the recommendations in this report and has developed related action plans. The Audit, Evaluation, and Risk Branch (AERB) has determined that the action plans appear reasonable to address the recommendation.

The DTC program's published service standard

The formula for calculating the externally reported service standard result does not represent the program's performance and the taxpayer experience with the OTC application process.

Background

The CRA's service standards publicly state the expected level of performance under normal circumstances, in addition to promoting transparency and accountability. This connects public expectations to the stated performance levels and ensures accurate and transparent reporting of performance results. In addition, the CRA's service standards support quality service delivery and drive continuous improvements[3]. As such, the monitoring of program performance allows the CRA to identify gaps in program delivery, and supports actions taken to improve both CRA programs and service to the public.

The internal audit team expected to find that the externally reported service standard is supported by an established and reliable methodology that accurately measures the OTC program's performance and reflects the taxpayers' service experience. The current service standard consists of the CRA issuing a OTC eligibility assessment within 8 weeks of receiving the application, 95% of the time.

Findings

The OTC program reported meeting the service standard 78% of the time in fiscal year 2023 to 2024. However, the internal audit team found that the reported result does not accurately represent the actual performance.

The OTC program measures its performance in relation to the service standard by analyzing a sample of applications completed during one month per quarter in a fiscal

[3] Service Standards 2025-2026 - Canada.ca

year. The internal audit team found that the percentage of cases meeting the service standard fluctuates significantly each month, from less than 5% to over 90%. The internal audit team re-calculated the service standard using a different methodology that took into account the entire population of applications, rather than a sample, and found that the service standard was only met 26% of the time.

In addition, while the service standard measures the time from receiving the application to the CRA's issuance of a determination of whether OTC eligibility is allowed or disallowed, the sample used by the OTC program also included cases unrelated to eligibility determination. The current method for calculating the service standard also excludes applications where additional information was requested from the applicant or their medical practitioners. For fiscal year 2023 to 2024, 7% or 21,431 of the applications required additional information, and in these cases, the service standard was only met 17% of the time.

Why it matters

This finding is important because without accurate reporting of program performance, as reflected by the service standard, the OTC program is unable to:

- state the level of performance the public can reasonably expect when submitting a OTC application
- promote transparency in support of the CRA's commitment to openness and accountability[4]
- ensure that processes are efficient, and that the public's experiences are consistent, fair, and timely
- identify service delivery gaps for continuous improvement

Inaccurate reporting of service standard results may lead to misaligned expectations by applicants and unintended consequences, such as increased calls to CRA contact centres and loss of public trust.

Recommendation #1

The ABSB should ensure reported service results are accurate and reflect the taxpayer service experience.

Management response:

The ABSB currently employs monitoring and reporting practices that align with broader service standard guidelines. The current methodology for measuring the OTC program's performance is based on a sample of applications taken at quarterly intervals with the cumulative total reported on an annual basis. The ABSB agrees to ensure the accuracy

[4] Service Standards in the CRA - Canada.ca

of reported results by reviewing and tailoring the OTC program's service standard methodology to align it with the applicant's service experience.

Action Plan #1

The ABSB will review the methodology used to calculate the OTC service standard results to develop and implement a methodology that accurately measures and reports the OTC program's performance against its service standard using the entire population of applicants rather than a sample.

The revised methodology will be piloted, with adjustments made based on pilot results and stakeholder feedback. Results from this pilot will be used to determine whether service standards are meaningful across different scenarios, such as cases where additional information was requested versus cases where determinations were suspended due to special circumstances beyond the CRA's control. Following the determination, proposed changes will be developed, shared with stakeholders for feedback, piloted, and evaluated before rolling-out the new methodology.

In addition, in collaboration with stakeholders, the ABSB will develop a standardized reporting framework that incorporates automation to minimize errors and enhance transparency. Creating a OTC-specific reporting framework will better capture the intricacies of the program and its distinct client experience.

The target completion date for this action plan is April 2027.

The DTC program's quality assurance

[redacted]

Background

[redacted]

[redacted]

Findings

[redacted]

Why it matters

[redacted]

Recommendation #2

[redacted]

Management response:

[redacted]

Action Plan #2

[redacted]

The DTC program's risk management

[redacted]

Background

[redacted]

- [redacted]

Findings

[redacted]

[redacted]

Why it matters

[redacted]

Recommendation #3

[redacted]

Management response:

[redacted]

Action Plan #3

[redacted]



Acknowledgement

The AERB would like to acknowledge and thank the Disability Benefits Division of the ABSB and the Jonquiere, Sudbury, and Winnipeg tax centres for the time dedicated and the information provided during the course of this engagement.

Appendices

Appendix A: Internal audit criteria and methodology

Internal audit criteria

Based on the AERB's risk assessment, the following internal audit criteria and sub-criteria were identified:

Criteria	Sub-criteria
1. The OTC eligibility assessment process is effective in assessing applicants appropriately and consistently.	1.1 Application assessment guidance and approaches are consistent across tax centres.
	1.2 Quality control measures are in place to minimize incorrect approvals or denials, and there is a feedback mechanism in place to incorporate process improvements.
	1.3 OTC applications are processed within established service standards, and complex or exceptional cases are handled within reasonable timeframes.
2. There is a robust process in place to prevent and detect risks related to the application process, ensuring program integrity and compliance with legislation.	2.1 The OTC program has risk management processes in place to identify misrepresentation or non-compliant applications and to report results to senior management.
	2.2 Compliance activities to identify potential misrepresentations or ineligible applications are effective in identifying high-risk applications, and the methodology is reviewed and updated as needed.

Internal audit methodology

- **Documentation review:** Reviewed documentation from the ABSB and the Jonquiere, Sudbury, and Winnipeg tax centres to verify that policies, processes, and procedures are documented, communicated, and followed.
- **Data analytics:** Analyzed data obtained from the Disability Benefits Division and various data tables within the CRA data marts.
- **Interviews:** Conducted interviews with select staff within the ABSB and the Jonquiere, Sudbury, and Winnipeg tax centres.

Appendix B: Glossary

Term	Definition
Disability tax credit	A non-refundable tax credit that helps people with disabilities, or their supporting family member, reduce the amount of income tax they may have to pay. It aims to offset some of the costs related to the impairment.
OTC program mandate	The OTC program, which is within the Disability, Indigenous and Benefits Outreach Services Directorate (DIBOSD), strives to ensure Canadians in need receive the tax benefits and credits they are entitled to with ease and in a timely manner. The Disability Benefits Division within the DIBOSD aims to continually improve access to the OTC for vulnerable Canadians and their supporting family members, especially those with severe and prolonged cognitive or physical impairments by fostering partnerships with federal, provincial, and territorial departments, stakeholders and persons with lived experiences to better understand their challenges in accessing the OTC.
Impairment	The state or quality of having a physical or mental condition that limits a specified function. The specified function for the OTC includes: - having a severe and prolonged impairment in one of the following categories (walking, mental functions, feeding, eliminating, hearing, speaking, vision, life-sustaining therapy), or - significant limitations in two or more categories stated above, or - receiving therapy to support a vital function. **Note:** The OTC eligibility process is based on the impairment resulting from a condition and the effects of that impairment on the individual with the disability.

Medical practitioners who can certify the OTC as per the *Income Tax Act*	Medical doctors Nurse practitioners Optometrists Audiologists Occupational therapists Physiotherapists Psychologist Speech-language pathologists
Part A of Form T2201, Disability Tax Credit Certificate	The person with the impairment or their legal representative fills out Part A of the updated Form T2201, Disability Tax Credit Certificate.
Part B of Form T2201, Disability Tax Credit Certificate	The medical practitioner answers questions and completes only the impairment section(s) that apply to their patient.
Persons with disability	A person who has a long-term or recurring physical, mental, sensory, psychiatric, or learning impairment.
Service Standards	Publicly state the level of performance that citizens can reasonably expect to encounter under normal circumstances. The CRA has developed these standards as part of its ongoing commitment to quality client service.
Service standard for the Disability Tax Credit Certificate	A timeliness service standard for processing a Disability Tax Credit Certificate (Form T2201) submitted by a taxpayer or their representative. Once a form is received, the goal is to issue a Notice of Determination advising whether the eligibility has been allowed or disallowed. The standard does not apply in situations where contact must be made for more information. This service standard was modified in fiscal year 2020 to 2021. The CRA's goal is to issue a Notice of Determination of eligibility within eight weeks of receiving a Disability Tax Credit Certificate. The CRA aims to meet this standard 95% of the time.