

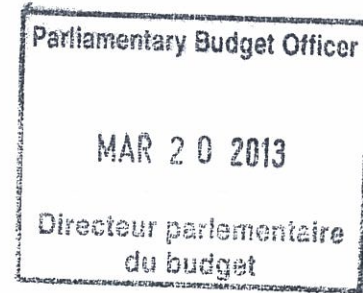


Canada Revenue Agency Agence du revenu du Canada

Commissioner Commissaire

Ottawa, Canada
K1A 0L5

MAR 20 2013



Mr. Kevin Page
Parliamentary Budget Officer
Library of Parliament
Parliamentary Buildings
Ottawa ON K1A 0A9

Dear Mr. Page:

I am replying to your letter dated January 22, 2013, requesting data from the Canada Revenue Agency (CRA) to support an independent estimate of the Tax Gap by the Parliamentary Budget Office (IR00102).

Broadly defined, the tax gap is the difference between the taxes that would be paid if all obligations were fully met in all instances and those that are actually received and collected. As you know, the CRA does not generate information or data on the tax gap and there is much debate about the precision, accuracy and utility of any methodology to calculate a tax gap. An OECD report from June 2008 notes that “given the widely varying types of non-compliance behaviours that comprise the overall tax gap, it will be apparent that measuring its overall size is a difficult, costly and (some would say) inevitably quite imprecise undertaking”. In a March 2012 report on the tax gap, the U.K. Treasury Committee expressed concern that the use of the tax gap risked focusing the tax administration away from ensuring that all taxpayers pay the correct amount of tax. The Committee noted that it was “not, however, convinced that the process of calculating, publishing and publicizing an aggregate figure for the tax gap is a sensible use of HMRC’s limited resources.”

The CRA does not measure the tax gap and the data you requested on the difference between reported and assessed income for a sample of T1 and T2 filers is not available. Creating such a sample would be a very significant and costly endeavour. However, our most recent Annual Report to Parliament, for 2011-2012, contains the CRA’s estimates of overall compliance with registration, filing and payment requirements. The Annual Report states that 94% of individuals and 90% of corporations paid their reported taxes on time, and 94% of businesses were registered for GST/HST. The Annual Report also contains other information that relates to tax compliance in Canada, including the results of our activities to identify and address non-compliance.

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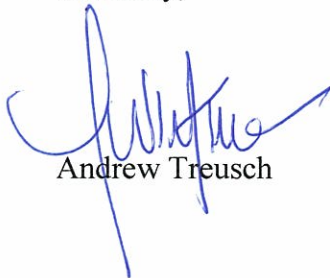
Canada

The CRA adopts a risk based approach to audit selection, which means that we focus our audit workload on instances where there is a high risk of non-compliance. The Annual Report provides the change rate for our audit activities – that is, the percentage of audits that lead to a change in the original assessment. In 2011-2012, the change rate for international and large business audits was 90%; the change rate for audits related to the underground economy was 80%. Please note that while this indicates the number of incorrect returns detected through audit, it cannot be regarded as an indicator of the rate of compliance in the general population, given that the audits were selected based on an assessment of high risk of non-compliance.

As noted above, at least 90% of individuals and corporations pay their reported taxes on time, including payments resulting from reassessments due to compliance actions. Our collections activities are aimed at early resolution when payment is not made on time.

In summary, while the CRA does not measure the tax gap due to the concerns highlighted in this letter, the Agency does employ tools that enable us to effectively identify and address reporting and payment non-compliance.

Sincerely,



Andrew Treusch