

Legislative Costing Note

This is an independent cost estimate of a budgetary measure contained in the federal government's Fall Economic Statement 2020 (FES 2020). A list of the PBO's cost estimates of components of the FES 2020 can be viewed on [its website](#).

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Short Title: Strengthening Tax Compliance

Description: Starting in 2021–2022, the government will invest an additional \$606 million over five years to allow the Canada Revenue Agency (CRA) to combat tax evasion and aggressive tax avoidance. Specifically, the CRA will hire additional offshore-focused auditors to focus on individuals who avoid taxes by hiding income and assets offshore. It will enhance the audit function targeting higher-risk tax filings, including those of high-net worth Canadians, and strengthen its ability to fight tax crimes such as money laundering and terrorist financing.

Data Sources:	Variable	Source
	Additional amount outlined in the Fall Economic Statement 2020, by compliance program and year	Canada Revenue Agency (CRA)
	Additional investments since Budget 2016, by compliance program and year	CRA
	Additional tax revenues resulting from additional investments (actual 2016–2020; forecast 2021–2024)	CRA
	Dollar amount of reassessments involving objections or appeals, by compliance program and year (2011–2019)	CRA ¹
	Percentage of disputed tax amounts decided in favour of the taxpayer for audited returns (2011–2016)	Report 2 of the 2016 Fall Reports of the Auditor General of Canada ²

Estimation and Projection Method: Using historical data on the performance of certain CRA compliance programs, which were allocated additional funding in Budget 2016 and subsequent budgets, a performance profile for additional investments was established. More specifically, using advanced statistical methods, the PBO developed a model forecasting additional revenues based on additional investments over several years. Some tax audits can take several years, meaning there is a delay between the initial investment and the additional tax revenues. By inputting the additional investment amounts outlined in the Fall Economic Statement 2020 in the

¹ Historical data was obtained from Information Request IR0440 (https://www.pbo-dpb.gc.ca/web/default/files/Documents/Info%20Requests/2019/IR0440_CRA_Taxes_request_e.pdf). The CRA marked the data as confidential and therefore it cannot be published.

² https://www.oag-bvg.gc.ca/internet/English/parl_oag_201611_02_e_41831.html

forecasting model, the PBO was able to generate a profile of potential tax revenues over five years.

Next, historical data on the percentage of amounts contested during the objection and appeal process (and on the percentage of disputed amounts decided in favour of the taxpayer) were used to estimate what percentage of potential tax revenues would in fact be collected. Revenues from interest and penalties were not taken into account in the PBO's calculations.

Source of Uncertainty: Given the short period of historical data to which the PBO had access (from 2016 to 2020), it is difficult to predict with certainty the relationship between additional investments and additional tax revenues resulting from this investment. Furthermore, it is not possible to determine how taxpayers will react to additional investments. On the one hand, it may act as a deterrent, which would encourage taxpayers engaging in tax evasion to declare a larger portion of the income they are hiding offshore. On the other hand, they may instead develop new methods of tax evasion that are harder to detect during audits. Lastly, with more resources allocated to audits, the number of notices of reassessment issued should increase accordingly. That in turn will lead to more objections and appeals, which could mean the additional tax revenues are collected later than shown in the projections below. Furthermore, due to the pandemic, the CRA suspended its audit activities for part of 2020, and the Tax Court of Canada did not sit either. The Chief Justice anticipates a deluge of appeals will be filed in late 2021.³

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Cost of proposed measure

\$ millions	2020–2021	2021–2022	2022–2023	2023–2024	2024–2025	2025–2026
Total cost	-	-1	-72	-186	-252	-271

Notes

- Estimates are presented on an accruals basis as would appear in the budget and public accounts.
- Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
- "-" = PBO does not expect a financial cost.

³ Remarks made during a webinar held on 9 February 2021 by the Canadian Tax Foundation, entitled "Update from the Tax Court of Canada with Chief Justice Eugene Rossiter."