



March 2, 2013

The Honourable Percy E. Downe
The Senate of Canada
Room 702, Victoria Building
140 Wellington Street
Ottawa, Ontario
K1A 0A4

Dear Senator Downe:

I am writing in response to your correspondence of October 2012 requesting my office prepare a cost estimate to the federal treasury of tax evasion: illegal and intentional actions taken by individuals or firms to avoid paying their due tax.

Following our meeting in December 2012, my staff submitted two information requests to the Canada Revenue Agency (CRA) to obtain the data and information we believe are required to address your query (attached). Unfortunately, CRA has informed us that they are unable to share the relevant data with my office. As such, we are unable to fulfill your request.

Notwithstanding this, my staff has prepared a methodology that could be used to prepare a cost estimate in the future, should the data become available. It is presented below.

Methodology

The concept used by many jurisdictions among the Organisation for Economic Co-operation and Development (OECD) to estimate tax evasion is known as the "tax gap". The "tax gap" describes the difference between the total theoretical tax liability that ought to have been assessed by a tax system (*i.e.* total anticipated revenue based on rates, brackets and bases) and what is actually collected by the Tax Administration Authority (*e.g.* the Canada Revenue Agency).

According to a 2010 OECD survey on Tax Administration, almost half (14) of OECD jurisdictions prepare periodic estimates of the "tax gap".¹ Table 1 presents several estimates of aggregate "tax gaps" in selected jurisdictions.

¹ <http://www.oecd.org/tax/taxadministration/47228941.pdf>. Accessed January 2013.

Table 1. Tax Gap Estimates in Selected Jurisdictions

Jurisdiction	% of Total Tax Liability	Year Estimated	Total Value
United States ²	14.5	2006	385 billion USD
United Kingdom ³	6.7	2010-11	32 billion GBP
California ⁴	11	2006	6.5 billion USD
Sweden ⁵	10	2005	133 billion SEK

As outlined in a recent methodology paper issued by the U.K. Treasury and the Internal Revenue Service (IRS), the overall gap is generally comprised of many individual calculations for specific taxes and taxpayers, depending on the information available.⁶ For example, the U.K. Treasury relies on 30 discrete techniques to prepare its annual estimate of the overall “tax gap”. That said, all estimation techniques tend to fall within two general categories:

- “Bottom-Up”: Relying on random sampling of actual tax returns and follow-up reassessments/audits by the Tax Administration Authority (*i.e.* comparing what taxpayers originally file compared to the liability actually assessed).
- “Top-Down”: Relying on either benchmark analysis for similar tax liabilities in other jurisdictions, and/or other data sources from the national statistical agency (*e.g.* comparing actual revenues from a consumption tax to reported consumption among households).

During discussions with your office, you confirmed your interest in one specific component of the overall “tax gap”: *employment, capital gains, dividend and/or interest income* not disclosed by T1 and T2 tax filers from both domestic and international sources. Based on approaches used in the U.S. and U.K., we believe that a “bottom-up” method would provide the most credible estimate. The specific data required to calculate a value would include four key components:

1. A random sample of T1 and T2 tax filers; in the case of the latter, preferably segmented by firm size.
2. The value of additional revenue assessed as a result of the audit of the relevant types of income reported on these files (*e.g.* initial filing and audited assessments of employment, capital gains, dividend and interest income).
3. Estimates regarding the “collectability” of resulting reassessments.

² http://www.irs.gov/pub/newsroom/overview_tax_gap_2006.pdf. Accessed January 2013.

³ <http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2012.pdf>. Accessed January 2013.

⁴ <https://www.ftb.ca.gov/aboutFTB/TaxGapStratPlan.pdf>. Accessed January 2013.

⁵ http://www.skatteverket.se/download/18.225c96e811ae46c823f800014872/Report_2008_1B.pdf. Accessed January 2013.

⁶ <http://www.hmrc.gov.uk/statistics/tax-gaps/mtg-2012.pdf>;

http://www.irs.gov/pub/newsroom/summary_of_methods_tax_gap_2006.pdf. Accessed January 2013.

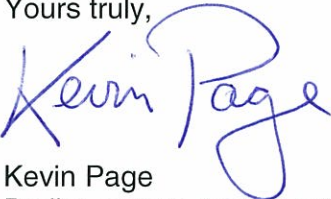
4. Estimates regarding the rates of “non-detection” of incorrect returns through audit.

Next Steps

As mentioned, I sent an information request to CRA in December seeking their estimates of the Canadian federal “tax gap”. CRA responded that this work had not been done. Following this, I sent a further request to CRA in January seeking the data necessary to prepare an estimate of the “tax gap” associated with the types of tax evasion you describe. I also indicated that I was open to CRA’s recommendations regarding the best method by which these data could be shared with my office to maintain privacy and confidentiality. CRA has yet to respond to our request for data.

If the required data were to become available, my office would be pleased to undertake this work on your behalf.

Yours truly,



Kevin Page
Parliamentary Budget Officer

Attachments 3



January 22, 2013

Mr. Bill Jones
Deputy Commissioner of Revenue Acting as Commissioner of Revenue
Office of the Commissioner
555 MacKenzie Avenue, 7th Floor
Ottawa, Ontario K1A 0L5

Re: PBO Information Request IR0102: Tax Gap Estimates

Dear Mr. Jones:

Bill

Last month I wrote to you requesting any estimates prepared by the Canada Revenue Agency regarding the Canadian Federal Tax Gap, in support of a project we have been requested to undertake for a parliamentarian.

Following-up on your response that Tax Gap estimates are not prepared by CRA, I am now writing to request data that would allow my staff to prepare our own independent estimate based on different types of income (employment, capital gains, dividends, interest) and groupings of taxpayers (individuals and corporations).

Based on our review of public methodologies used by the UK (HM Treasury) and US (Internal Revenue Service), we believe that at a *minimum*, this would require CRA to share data or information regarding the difference between reported and assessed employment, capital gains, dividend and interest income for a random sample of T1 and T2 tax filers. In addition, we also request any estimates held by CRA regarding the "collectability" of resulting reassessments and the rates of "non-detection" of incorrect returns through audit.

I am open to your recommendations regarding the best method by which these data could be shared with my office.

Yours truly,

Kevin Page

Kevin Page
Parliamentary Budget Officer

c.c.: Rick Stewart, Assistant Secretary to the Cabinet, Privy Council Office, Liaison Secretariat for
Macroeconomic Policy
Michael Horgan, Deputy Minister of Finance Canada



PBO Information Request

REQUEST NUMBER: IR0102

PBO CONTACT NAME: Jason Jacques (613-853-1596 or jason.jacques@parl.gc.ca)

TYPE OF REQUEST: One-time

PRIORITY: Normal

DATE REQUEST SENT: January 22, 2013

RESPONSE REQUIRED BY: January 31, 2013

PBO OBJECTIVE: To fulfill a request from a parliamentarian regarding the cost of federal tax evasion.

RELATION TO MANDATE: Pursuant to section 79.3 of the *Parliament of Canada Act*, the PBO may request of a deputy head any financial or economic data in the possession of the department that are required for the performance of his or her mandate.

INFORMATION AND DATA REQUESTED:

Information provided on page 1 of the letter



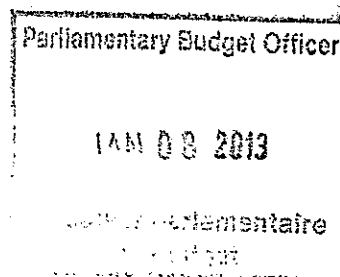
Canada Revenue Agency Agence du revenu
du Canada

Commissioner Commissaire

Ottawa, Canada
K1A 0L5

JAN 07 2013

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



Re: PBO Information Request IR0099: Tax Gap Estimates

This is in response to your letter dated December 17, 2012, requesting information and data from the Canada Revenue Agency regarding an estimate of the Canadian federal "Tax Gap".

The CRA does not generate information or data on the "tax gap". The CRA is not aware of a recognized or reliable methodology for determining the "tax gap".

Should you require additional information, please do not hesitate to contact me or Ms. Sandra Lavigne, Assistant Commissioner, Public Affairs Branch, at 613-957-3508.

Yours sincerely,

W. Davern Jones
Deputy Commissioner of Revenue
Acting as Commissioner of Revenue
Canada Revenue Agency

c.c.: Mr. Rick Stewart
Assistant Secretary to the Cabinet
Liaison Secretariat for Macroeconomic Policy
Privy Council Office

Mr. Michael Horgan
Deputy Minister
Department of Finance Canada

Tel. – Tél. : 613-957-3688
Fax – Télécopieur : 613-952-1547
www.cra-arc.gc.ca

Canada



December 17, 2012

Mr. Bill Jones
Deputy Commissioner of Revenue Acting as Commissioner of Revenue
Office of the Commissioner
555 MacKenzie Avenue, 7th Floor
Ottawa, Ontario K1A 0L5

Re: PBO Information Request IR0099: Tax Gap Estimates

Dear Mr. Jones:

I am writing to request information and data from the Canada Revenue Agency regarding an estimate of the Canadian federal "Tax Gap", as defined in the Organization for Economic Cooperation and Development's (OECD's) publication *Tax Administration in OECD and Selected Non-OECD Countries*. This publication can be found at <http://www.oecd.org/tax/taxadministration/42012907.pdf>.

As well, any details regarding the composition of the federal "Tax Gap" would also be appreciated. An example of this type of detail is presented in the Internal Revenue Service's "Tax Gap Map", published at: http://www.irs.gov/pub/newsroom/tax_gap_map_2006.pdf.

Any information or data you share will be used by my staff to respond to a request from a parliamentarian regarding tax evasion in Canada.

Please do not hesitate to contact me if any further clarification is required.

Yours truly,

Kevin Page
Parliamentary Budget Officer

c.c.: Rick Stewart, Assistant Secretary to the Cabinet, Privy Council Office, Liaison Secretariat for
Macroeconomic Policy
Michael Horgan, Deputy Minister of Finance Canada



PBO Information Request

REQUEST NUMBER: IR0099

PBO CONTACT NAME: Jason Jacques (613-853-1596 or jason.jacques@parl.gc.ca)

TYPE OF REQUEST: One-time

PRIORITY: Normal

DATE REQUEST SENT: December 17, 2012

RESPONSE REQUIRED BY: January 7, 2013

PBO OBJECTIVE: To fulfill a request from a parliamentarian regarding the cost of federal tax evasion.

RELATION TO MANDATE: Pursuant to section 79.3 of the *Parliament of Canada Act*, the PBO may request of a deputy head any financial or economic data in the possession of the department that are required for the performance of his or her mandate.

INFORMATION AND DATA REQUESTED:

Information provided on page 1 of the letter