



24 April 2014

Ms. Catherine Bennett
Assistant Commissioner
Canada Revenue Agency
555 MacKenzie Avenue
Ottawa, Ontario K1A 0L5

CRA Data Request 2013-367 – Tax Gap

RE: PBO Information Request IR0102

Dear Ms. Bennett:

I have reviewed your response to our tax gap data request, received on 16 April 2014. I wish to proceed with the request and agree to the cost and timelines you have provided.

My staff and I will await your direction on the administrative details and procedures required to establish a contract and deliver payment. PBO staff may wish to discuss minor revisions to the request to reduce the impact of some of the limitations cited in your response. Should actual costs or timelines deviate from those that you have indicated in your response, I ask that you consult PBO staff as soon as possible. I would also appreciate that CRA staff provide clarification regarding the interpretation and use of the data set when requested.

As you know, this is one of several PBO requests for access to CRA tax data. I continue to remain open to access to taxpayer micro-data should it become available, for this or other PBO requests. As you pointed out, there are known and yet unknown limitations inherent in this approach that will, by definition, limit our ability to provide analysis. Given this, I hope that this data access arrangement is a first step in establishing an ongoing and productive exchange between my office and the CRA.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Jean-Denis Fréchette'.

Jean-Denis Fréchette
Parliamentary Budget Officer

ANNEX TO PBO LETTER TO CRA

2014-04-24

De : Fréchette, Jean-Denis
Envoyé : 23 avril 2014 09:32
À : Bennett, CatherineHQ
Objet : RE: Re: (2013-367) Data request - Tax gap

Merci Catherine.
On regarde le tout et on fera un suivi.
JDF

Jean-Denis Fréchette
Directeur parlementaire du budget / Parliamentary Budget Officer

Tél: 613.992-8025
Courriel/E-mail: jean-denis.frechette@parl.gc.ca

www.pbo-dpb.gc.ca

De : Pulickal, Christina [<mailto:Christina.Pulickal@cra-arc.gc.ca>] **De la part de** Bennett, CatherineHQ
Envoyé : 16 avril 2014 13:28
À : Fréchette, Jean-Denis
Cc : Whitridge, Patricia :CRA; Askari, Mostafa; Jacques, Jason; Shaw, Trevor; Prost, Jean-Philippe :CRA; Pulickal, Christina L :CRA
Objet : Re: (2013-367) Data request - Tax gap

Mr. Fréchette:

The CRA has reviewed the detailed data request received on February 25, 2014, from your staff member Trevor Shaw. We estimate that it will take approximately six months to produce the requested data, at an estimated cost of \$141,000.

You requested information relating to three main tax sources – individual income tax (T1), corporation income tax (T2) and Goods and Services Tax/Harmonized Sales Tax (GST/HST) – sorted according to different categories, such as income group, for specified fields of the tax returns for each type of tax. You also requested information about the number of audits undertaken, the rate of change resulting from audits, and the number of voluntary disclosures. As you are aware, the CRA is obliged by section 241 of the *Income Tax Act* and section 295 of the *Excise Tax Act* to protect taxpayer information. Due to the extensive combination of data requested, we would be implementing augmented confidentiality controls to protect against residual disclosure. Residual disclosure occurs when, due to small numbers of records making up aggregate data, it could be possible to attribute the data to specific taxpayers.

The CRA would be able to provide the T1 data as requested. The proposed table layouts are

provided in the attached spreadsheet. Please note that the T1 tables would contain over 100 million data points. This is significantly more data than the CRA has ever produced in response to requests for similar data tables. For comparison, the largest previous request we have responded to comprised approximately 2.6 million data points.

The T2 data could only be sorted by income group and industry type. You requested corporation type but we note that Canadian Controlled Private Corporations comprise approximately 95% of corporations. This would leave too few corporations of other types to guarantee the confidentiality of taxpayer information. Similarly, we are unable to provide requested information on corporations in each income group and industry type claiming an exemption under an income tax treaty (which you described as 'residency'). About 1% of corporations would claim this exemption and, with such small numbers, it could be possible to identify specific corporations from the aggregate data. The table layout for T2 is provided in the attached spreadsheet.

We would be able to provide the GST/HST information according to the strata requested. The table layout for GST/HST is provided in the attached spreadsheet.

The CRA could provide the requested information regarding audit and voluntary disclosure. The table layout for these is provided in the attached spreadsheet. I note that we have interpreted "audit" to mean the CRA's field audit activities, which represent only part of the total post-assessment review and verification conducted by the CRA: our compliance efforts extend beyond the two areas you have identified.

I have outlined below four specific limitations to illustrate how challenging it will be for the PBO to derive an accurate or reliable estimate of non-compliance from the available data. The CRA is not aware of a methodology that could be used to overcome these data limitations in order to assess the 'tax gap'.

1. Blanking out data points to protect confidential taxpayer information

If you were to proceed with your request, our obligation to protect confidential taxpayer information will result in many of the cells in all tax source tables being 'blanked out' – that is, data will not be provided – because the small number of records could lead to residual disclosure. For example, there are too few T1 records to populate any tables for the territories, when divided into the requested 3,000 income ranges. As a result, you will be working with partial data and could draw incorrect conclusions.

2. Variety of potential reasons for change to initial assessment

As stated by the Commissioner, Andrew Treusch, in his letter of August 1, 2013, the difference between initially assessed data and final assessments could be due to a large range of changes, not all of which are related to anyone's conception of the tax gap. Changes will include actions such as taxpayer requested adjustments, reassessments after court decisions or appeals, applications of losses from other tax years, and reassessments following an audit or other post-assessment verification carried out by the CRA. Given that the data will be aggregated, some of these actions may offset each other (for example, the positive revenue impact of an audit being offset by the

revenue loss from a carry-back). As already noted, the audit data requested does not reflect the full range of verification activities carried out by the CRA that could result in a change to the assessment. Further, the CRA selects its audit candidates based on their confidential risk assessment criteria. This means that the probability of finding additional tax revenue is greater among those selected than in the population at large. We are concerned that extrapolating these data to the whole population would overestimate non-compliance.

3. Complexity of data

The data is complex and may be subjected to varying degrees of quality checking by the CRA, depending on its importance in calculating tax liability. For example, the T2 tax return field 652 (investment tax credit) may include credits carried forward from prior years in addition to credits earned in the current year, and recent analysis of the industry classification code (which does not affect a corporation's tax liability) shows that this field is not always correctly filled and is sometime missing. This could lead to mistaken assumptions and inaccurate conclusions being drawn. Another example of the complexity is around the GST/HST data. We would provide data for 2008. However, the rate dropped from 6% to 5% in July that year, which meant some firms needed time to adjust their accounting systems. Although the firms would have collected the correct amount of GST in their registers, they might have continued remitting to CRA at the higher rate until their accounting system was updated. Their payments would be adjusted in future months. These delays may have caused some discrepancy that in the PBO's analysis may appear as tax gap.

4. Completeness and timeliness of data

You have requested T1 and GST/HST for the most recent and complete tax year, and T2 data for the three most recent and complete tax years. We could provide T1 and GST/HST data for 2008, and T2 data for 2006, 2007, and 2008. As you are aware, audits can result in changes to assessments for several years after a tax year. Actions such as appeals can result in further elapsed time before an assessment is finalized. While we believe that 2008 is the most recent year for which audit information is reasonably complete, the values contained in the final assessment could continue to change. For this reason, an assessment of non-compliance based on 'final' assessments would be inaccurate.

In summary, while the CRA could provide the requested data, we do not consider that it will be possible to produce an accurate or reliable compliance analysis based on the available data, which would be incomplete, complex and open to misinterpretation. Should you decide to proceed, we could begin production once you accepted the estimated cost. We would monitor the actual costs being incurred carefully and, should unforeseen challenges arise and cause a significant increase in the final cost, we would consult with you before proceeding with the work.

Should you require additional information or wish to discuss further, please contact me at 613-952-3660.

Catherine Bennett
Assistant Commissioner / Sous-commissaire
Strategy and Integration Branch /

Direction générale de la stratégie et de l'intégration
Canada Revenue Agency / Agence du revenu du Canada
Tel: 613-952-3660

From: Trevor.Shaw@parl.gc.ca [<mailto:Trevor.Shaw@parl.gc.ca>]
Sent: February 25, 2014 12:47 PM
To: Whitridge, Patricia; SIB-DGSI_Statistics
Cc: Bennett, CatherineHQ; Jean-Denis, Fréchette: HOC / CDC; Mostafa, Askari: HOC / CDC; Jason, Jacques: HOC / CDC
Subject: (2013-367) Data request - Tax gap

Good afternoon,

Regarding our request, our office continues to welcome access to CRA micro-data should it become available in the future. However, in accordance with the series of CRA responses to our tax gap information request and your suggestions at our meeting yesterday, we propose the following data arrangement:

(A) Personal income tax

Aggregated T1 data of the full personal income taxpaying population for the most recent and complete tax year, stratified into four dimensions and listed in order of priority for our research purposes:

1. Ranked income group – according to total income from line 150 from the T1 return, classified into 3000 evenly 'n'-weighted groups
2. Province or territory or residence classification (Note 1)
3. Age group (Note 2)

*Note 1: as defined by the province key listed on CRA's website (<http://www.cra-arc.gc.ca/gncy/stts/gb09/pst/lcsts/csv/prv-eng.txt>).

*Note 2: as defined on the CRA website (<http://www.cra-arc.gc.ca/gncy/stts/gb10/pst/fnl/clssf-eng.html#4>)

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(B) Corporate income tax

Aggregated T2 data of the full corporate income taxpaying population for the three most recent and complete tax years, stratified into four dimensions and listed in order of priority for our research purposes:

1. Ranked income group – according to net income (or loss) for income tax purposes from line 300 of the T2 return, classified into 300 evenly 'n'-weighted groups

2. Corporation type (Note 3)

3. NAICS industry code (Note 4)

4. Residency (Note 5)

*Note 3: as categorized by line 040 of the T2 Corporate Income Tax Return

*Note 4: as defined on the CRA website (<http://www.cra-arc.gc.ca/gncy/stts/gb06/pst/t2/dsm-eng.html#footnote7>)

*Note 5: as categorized by line 082 of the T2 Corporate Income Tax Return

(C) GST/HST

Aggregated GST/HST data of the full GST/HST return filing population for the most recent and complete tax year, stratified into two dimensions and listed in order of priority for our research purposes:

1. Ranked income group – according to total sales and other revenue from line 101 of the GST/HST return for registrants and non-registrants, classified into 500 evenly 'n'-weighted groups

2. Major industry group, according to Standard Industrial Classification (Note 6)

Note 6: as defined on the CRA website (http://www.cra-arc.gc.ca/gncy/stts/gb02/pst/gst_hst/classf-eng.html)

For all PIT, CIT and GST/HST data requested, we require both initially assessed data as well as the most recent assessment. Data required for each observation is detailed in an attachment to this email, according to line categorization on CRA's T1, T2 and/or GST/HST return forms. For each stratum please provide the number of audits undertaken, the number of audits resulting in a change and the number of voluntary disclosures resulting in self-correction.

Please contact me or Jason Jacques (Jason.Jacques@parl.gc.ca or 613-853-1596) to discuss our request in greater detail. I ask that you provide a response by Friday, February 28.

Thank you,

Trevor Shaw
613-698-6568

From: SIB-DGSI_Statistics [mailto:SIB-DGSI_Statistics@cra-arc.gc.ca]
Sent: February 20, 2014 8:02 AM
To: Shaw, Trevor
Subject: (2013-367) Data request - Tax gap

Good morning,

In response to your question, the CRA is not able to provide the PBO with access to taxpayer information. The CRA's disclosure of taxpayer information is governed by s. 241 of the Income Tax Act which outlines the entities to whom the CRA may provide taxpayer information and for which purposes. The PBO is not a named entity.

We are able to share aggregate data as outlined in the letter from Andrew Treusch to Sonia L'Heureux of August 1, 2013.

Thank you
Claude

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Statistics and Data Directorate | Direction de l'intelligence d'affaires, de la statistique et des données
Strategy and Integration Branch | Direction générale de la stratégie et de l'intégration
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Government of Canada | Gouvernement du Canada

From: Trevor.Shaw@parl.gc.ca [<mailto:Trevor.Shaw@parl.gc.ca>]
Sent: February-18-14 4:03 PM
To: SIB-DGSI_Statistics
Subject: RE: (2013-367) Data request - Tax gap

Hi Nicole,

To clarify, does the CRA refuse micro level access to taxpayer information for specifically our tax gap request? Or is this the Agency's position on all PBO requests?

If micro level data access is not available for assessing a tax gap, what suggestions do you have for gaining access to data we require to conduct a tax gap analysis?

Thanks,

Trevor Shaw
613-698-6568

From: SIB-DGSI_Statistics [mailto:SIB-DGSI_Statistics@cra-arc.gc.ca]
Sent: February 18, 2014 2:53 PM
To: Shaw, Trevor
Subject: (2013-367) Data request - Tax gap

Good afternoon,

You have requested access to taxpayer information on CRA premises to conduct an analysis of the "tax gap."

The CRA is responsible for managing taxpayer information in accordance with the provisions of both the Privacy Act and the Income Tax Act. Section 241 of the Income Tax Act outlines the entities to whom the CRA may provide taxpayer information and for which purposes. The Parliamentary Budget Officer is not a named entity. As such, we are unable to agree to your proposal for on-site micro level access to taxpayer information.

Thank you
Nicole

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From: Trevor.Shaw@parl.gc.ca [<mailto:Trevor.Shaw@parl.gc.ca>]
Sent: February 3, 2014 3:51 PM
To: SIB-DGSI_Statistics
Subject: RE: (2013-367) Data request - Tax gap

Hello,

My PBO colleague and I recently met with CRA officials concerning another project. Like our tax gap request (2013-367), it requires access to tax filer information at the micro level. While supportive, your colleagues raised concerns with respect to confidentiality for the CRA and Canadian tax filers. In order to overcome these challenges, we've proposed an arrangement whereby I complete my micro-level analysis at CRA, stationed on CRA's IT infrastructure and outputting only higher-level results to take away from the CRA offices. This would allow me to complete the micro-level analysis I'm looking for, keeping with CRA's confidentiality obligations to tax filers. We're optimistic about this arrangement's potential – pending the recognition of CRA's security team.

Would a similar arrangement – whereby I complete my analysis at CRA (on CRA's IT infrastructure) reduce the administrative burden for the tax gap request (as well as associated costs)? I'd seek security approval, which I hope in turn would suffice for access to CRA data on a variety of files.

I'm keen to discuss the potential of this approach on our tax gap request.

Thanks,

Trevor Shaw
613-698-6568

From: SIB-DGSI_Statistics [mailto:SIB-DGSI_Statistics@cra-arc.gc.ca]
Sent: December 11, 2013 7:27 AM
To: Shaw, Trevor
Subject: (2013-367) Data request - Tax gap

Good morning,

Regarding your request for data to perform an analysis of the tax gap, we can provide aggregate data for individuals and corporations based on your specifications. Individual and corporate data will be provided in separate statistical tables. The data will be for the tax filing population as a whole rather than a sample.

The data provided will include the total reported and total assessed amounts of income from employment, capital gains, dividends, and interest for the most recent and complete year available, that is 2009. The difference between reported and assessed amounts is reflected by the difference between initially assessed data and the most recent assessment data.

It is important to note that current assessments include a large range of changes, not all of which are related to the tax gap. Changes include actions such as taxpayer requested adjustments, reassessments after court decisions or appeals, applications of losses from other taxation years, and reassessments following an audit.

There is a high degree of complexity especially around how our T2 information is structured. To complete the request we will have match back through a series of files and identify the initial and final assessed values. As a result, the cost of preparing the requested data is \$25,000. This includes various steps in preparing and analyzing the data, including the extraction of multiple income tax assessments for the T1 and T2 filing population. The CRA can provide this information 8 weeks from the date of cost acceptance.

Please do not hesitate to contact us if you have any questions

Thank you
Nicole

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Government of Canada | Gouvernement du Canada

From: SIB-DGSI_Statistics
Sent: October 31, 2013 10:42 AM
To: Trevor, Shaw: HOC / CDC
Subject: (2013-367) Data request - Tax gap

Good morning,

We have received your request and have assigned a number. Please use this request number for all future correspondence concerning this request. Please also note that there will be a cost associated with your request. We will provide you with the estimated cost and the delivery date shortly.

If you have any questions and/or modifications, please contact us directly.

Thank you

Claude

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From: Trevor.Shaw@parl.gc.ca [<mailto:Trevor.Shaw@parl.gc.ca>]

Sent: October 31, 2013 10:12 AM

To: SIB-DGSI_Statistics

Subject: Data request - Tax gap

We are requesting the data and information necessary to perform an analysis of Canada's tax gap. A tax gap estimate would describe 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.

We are interested in analyzing employment, capital gains, dividend and interest tax revenues for T1 and T2 filers, from both domestic and international sources. Based on approaches used in other jurisdictions (the U.S. and U.K.), we believe that a "bottom-up" method would provide the most credible estimate, utilizing sampled tax returns and follow-up reassessments/audits.

At this time, we anticipate that the specific data required for this approach would include four key components:

1. A random sample of T1 and T2 filers; in the case of the latter, preferably segmented by firm size.
2. The value of additional revenue assessed as a result of 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.
4. Estimates regarding the rates of "non-detection" of incorrect returns through audit.

These data requirements may change depending on the availability of data and consultations on feasibility with Canada Revenue Agency staff. I am open to discussing the request anytime.

Thank you for your cooperation,

Trevor Shaw
613-698-6568