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Case Study 2.1

**CRITERIA FOR ORIENTING EXAMINATION ON THE BASIS
OF TAXPAYER BEHAVIOR**

**Canada Revenue Agency
Canada**

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Case Study 2.1: CRITERIA FOR ORIENTING EXAMINATION ON THE BASIS OF TAXPAYER BEHAVIOR

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Case Study 2.1: CRITERIA FOR ORIENTING EXAMINATION ON THE BASIS OF TAXPAYER BEHAVIOR

1. Executive Summary

Canada's tax system is based on voluntary compliance and self-assessment, which, we believe, is the most cost-effective way to administer taxes. Taxpayers are expected to determine what they owe under the law and then pay the correct amount of tax, without our intervention. This means that taxpayers are expected to register as required under the law, file their tax returns on time, report complete and accurate information to determine tax liability and pay all amounts when due. Non-compliance is the failure, for whatever reason, to meet any of these requirements.

The Canada Revenue Agency (CRA) actively supports the self-assessment system. This includes identifying, preventing or correcting situations of non-compliance, particularly those that will have a negative impact on voluntary compliance and that represent the highest risk to Canada's tax base.

Our interventions are based on behaviour-based risk assessment strategies, which begin with an understanding of who is compliant, who is not, and why. We explore Canadians' attitudes and awareness about key compliance topics through research and consultation activities. At the same time, we use computerized risk scoring systems, program results, and other intelligence tools to identify areas of noncompliance in our registration, filing, reporting and payment processes.

We use this information to identify risks by each program area, and then we examine these risks from a horizontal Agency-wide perspective. We prioritize different tax compliance risks based on a number of criteria, including the number of taxpayers involved, the potential financial impact on the tax base, and the anticipated future trend of the issue (whether or not the issue is growing, remaining the same or declining).

By understanding what compliant and non-compliant taxpayers "look like" through public opinion research, identifying the means or the opportunities they use to "express" their compliant or non-compliant behaviours, and by effectively prioritizing identified risks, the CRA is able to develop both broad-based and targeted strategies designed to maintain and improve voluntary compliance.

Although we realize achieving 100% compliance is not practical, we work to encourage positive behaviours, and to suppress or prevent negative ones, through a compliance strategy that encompasses a range of activities from education and facilitation activities, to targeted and responsible enforcement.

2. Introduction

The CRA, like many other revenue administrations, faces the challenge of ensuring compliance with tax laws in a large and diverse social, economic and legislative environment. We cannot audit everyone, or verify the information on every single form we collect, nor would we want to. We also realize that it is not practical to expect 100% compliance. Unintentional mistakes will still be made, and some people will do their best to operate outside the tax system. The key to effective tax administration is to distinguish the compliant from the non-compliant taxpayers, understand the underlying factors that influence their behaviour, and then develop customized compliance strategies for each group.

In this paper we will discuss our behaviour-based risk assessment approach.

Although we apply and make available the same self-assessment measures, tools and information to all taxpayers, we focus our control activities on the areas of highest risk. In order to orient our examination activities on the basis of taxpayer behaviour, the CRA undertakes three main activities:

1. We explore Canadians' attitudes and awareness about key compliance topics through research and consultation activities;
2. We identify areas of noncompliance in our registration, filing, reporting and payment processes. We use this information to develop "risk profiles" that help us evaluate compliance in a large volume of taxpayer information through our pre-assessment and post-assessment processes; and
3. We use the results of research, consultation and direct observations to develop our broad-based compliance approach, to assess our compliance priorities and to develop customized strategies to promote and improve voluntary compliance.

Furthermore, we leverage our compliance approach through a comprehensive communication strategy, our voluntary disclosure and taxpayer redress programs.

Accordingly, in this paper we will discuss the main activities that underpin our behaviour-based risk assessment approach.

3. The Canadian Context for Tax Administration

Canada is a large country that spans some 7,200 kilometers from east to west across 6 time zones. The second largest country in area after Russia, Canada has coastlines on the Atlantic, Arctic, and Pacific oceans, giving it the longest coastline of any country. With a population of 33,212,696 people and a population density of 3.2/km², it is one of the least densely inhabited yet one of the most prosperous countries in the world.

Canada collects taxes through a self-assessment system. This system is based mainly on voluntary compliance, which in turn is based on mutual responsibility. Individuals, corporations, and trusts that are obliged to pay tax in Canada are expected to meet their responsibilities under the law. The CRA has a responsibility to maintain public confidence in the fairness and integrity of the tax system. This means providing ample support to those who wish to comply with the law, while taking appropriate measures to identify and deal with cases of non-compliance.

As the principal tax administrator for the Government of Canada, our primary responsibility is to protect Canada's revenue base. In 2007-2008, we collected almost \$372 billion on behalf of the Government of Canada, the provinces (except Quebec), the territories, and certain First Nations governments.

In order to do this, we need tools to explore and measure tax compliance attitudes and behaviours and to identify the opportunities the intentionally non-compliant use to avoid their tax obligations. We can use this information to focus our resources and our activities to achieve better results. Our behaviour-based risk assessment strategy involves identifying and exploring different areas of non-compliance, determining who is non-compliant and why, learning about the opportunities used to facilitate non-compliance, and determining which areas of non-compliance pose the greatest current and future risks to our tax base.

3.1 Our Definition of Compliance

The first step to achieving our goals is to define the term "tax compliance". All areas within the tax administration must be aware of this definition and how their activities contribute to maintaining and improving overall tax compliance in the Canadian population. Similarly, the public must be aware of what is expected of them.

CRA's definition of compliance

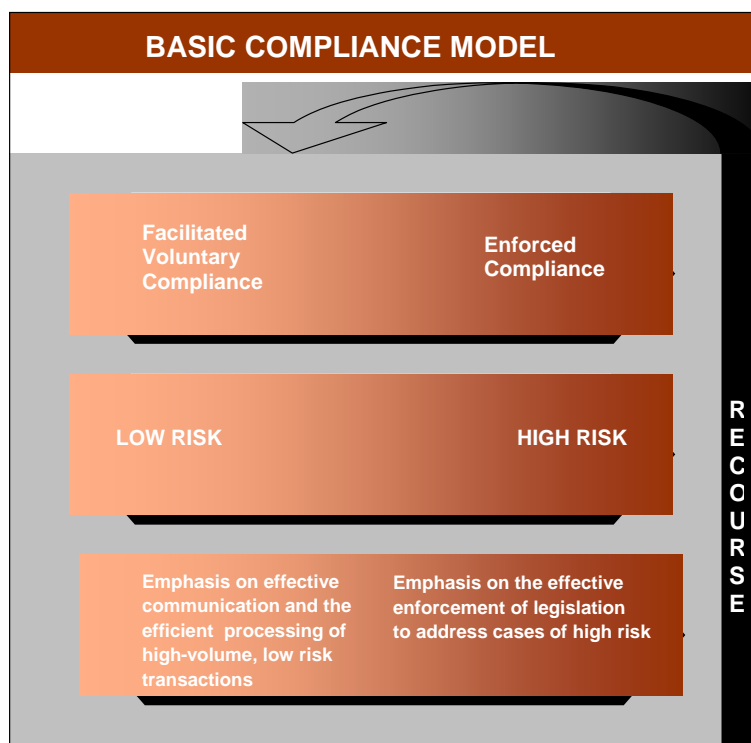
Compliance with tax laws in Canada means registering when required, filing returns on time, reporting complete and accurate information to determine tax liability, and paying all amounts owing when due. Non-compliance occurs when any of these obligations are not met, for whatever reason.

We recognize that achieving total compliance is not a practical expectation. Honest mistakes on forms and differences in interpretation or application of

complex tax laws are to be expected. As well, it is realistic to expect that there will be a small minority within the population who will operate outside the public interest and choose not to comply with the law.

3.2 Our Tax Compliance Model

Informed by our research and risk assessment activities, our service and enforcement programs can be considered as a series of points along a continuum that include prevention and detection measures, facilitated voluntary compliance, and enforced compliance, all supported by an effective recourse capacity.



Our compliance model represents a graduated approach, where all taxpayers are provided with assistance to reinforce compliant behaviour (see left side of the model) while repeated and intentional non-compliance is addressed through strong enforcement actions (see right side of the model). The initial assumption by the CRA is that citizens want to be compliant. It is only when there is an indication of non-compliance that citizens are subject to greater scrutiny by the CRA.

Although non-compliance incidents are detected and addressed across our registration, filing, reporting and payment processes, the underlying reasons behind the non-compliance are not always evident solely from examining program results.

Accordingly, the public opinion research we conduct allows us to explore the underlying motivations and influencing factors for the compliant and the non-compliant alike. We use this information to help assess risk in the population and to inform the development of custom-made strategies for taxpayers with similar compliance characteristics.

4. Exploring taxpayer attitudes through public opinion research

The CRA recognizes the importance of both research and consultation activities to the exploration of Canadians' attitudes and awareness of key compliance issues.

The CRA participates in two major surveys that monitor awareness of tax compliance issues, perceptions about the CRA as well as general tax compliance attitudes in the Canadian population:

- The CRA Annual Survey assesses attitudes towards the CRA and satisfaction with aspects of specific programs; and
- The “CROP 3SC” report on socio-cultural change in Canada and its implications for businesses and institutions is provided by a private sector, syndicated research and consulting firm. CRA, in consultation with the provinces and territories of Canada, developed a series of questions specific to tax compliance issues to be included in the annual CROP 3SC survey¹.

4.1 The CRA Annual Survey

The CRA Annual Survey is a public opinion research tool designed to measure and track high level indicators. The survey:

- Collects Canadians' perceptions of the CRA, its programs and services;
- Provides a yearly snapshot of key public opinion indicators;
- Allows for measurement of longer-term trends; and
- Identifies areas where further research would be beneficial.

¹ “CROP 3SC” stands for Système Cofremca de Suivi des Courants Socio-Culturels.

Survey results are analysed to determine what influences or “drives” taxpayers’ general opinion of the CRA, particularly those factors over which it can exert some influence. For example, while it may be possible for the CRA to strengthen public impressions of the efficiency of its operations, this may not change their views about the current level of taxation.²

Analysis of the CRA survey results show that perceptions of CRA corporate values are influencing taxpayers’ overall opinion of the CRA. CRA values (especially the value pertaining to efficiency) are factors the CRA can influence through its policies, programs and communications. Improvements in efficiency can strengthen the CRA’s corporate image among Canadians.

4.2 The CROP 3SC Monitor

The 3SC is based on the annual input from over 2,600 Canadians 15+ years of age who complete the in-home 3SC survey questionnaire under the supervision of a professional interviewer from CROP. The main part of the survey has been conducted since 1993. A federal-provincial working group – the Federal Provincial Territorial Underground Economy Working Group – added thirty compliance questions in 2002. So far, 2002, 2003 and 2005 data is available, and more iterations of the study are planned for the future.

The power of this survey lies in the ability to analyze taxpayer responses to tax compliance questions against their socio-cultural characteristics and trends revealed through the core questions and values measured.

This representative survey also helps us monitor shifts in public expectations, attitudes, and behaviour, which are all trends that can have implications for tax administrations.

The CROP 3SC research findings clearly demonstrate that Canadian taxpayers are not neatly divided into two groups: those who cheat and those who do not and will not. Instead, six distinct segments of taxpayers were identified, each with a unique motivational posture towards compliance. The CRA grouped the six segments described below, based on the degree of their members’ ambivalence towards non-compliance, to come up with three broad groups: compliers (representing 59% of the population in 2005), contingent non-compliers (33% of the population in 2005) and self-declared non-compliers (8% of the population in 2005).

² The Department of Finance is responsible for tax policy.

		%2002	%2003	%2005
Compliers	Altruistic Compliers	30	33	33
	Deferent Compliers	27	25	26
Contingent Non-Compliers	Pseudo Compliers	11	11	12
	Situational Non-Compliers	13	14	13
	Potential Non-Compliers	11	10	8
Non-Compliers	Rebels	8	7	8

As discussed further in Section 6 of this paper, Canada has been using the behavioural and motivational information identified in the survey results to develop tailored communication and enforcement strategies intended to maximize voluntary compliance within each of the three main segments.

The following is a brief description of the six population segments within each of the CRA's three broad groups.³

4.2.1 Compliant Taxpayers

According to the CROP 3SC Monitor results, there are two kinds of compliant taxpayers: Altruistic Compliers and Deferent Compliers. The CRA has combined these two segments into the "Compliers".

Altruistic Compliers

Altruistic Compliers represent 30% of the Canadian population. Demographically, they tend to be over-represented among older women (55 years old and over), with lower levels of education (high school or less).

As the name suggests, the members of this group are strongly opposed to tax cheating. In fact, not only do they oppose tax cheating on principle, but they are also resistant to any propositions that might otherwise be thought to help them to rationalize non-compliance. This segment of the population is very engaged socially, and clearly sees the benefits to be derived from greater government involvement in society.

In comparison to the general population, Altruistic Compliers score very high on the value of "everyday ethics", they do not value or support civil disobedience, and they seem to be very risk averse.

³ Description of compliance segments were taken from Meyerovich, Roman, *Compliance, Tax Evasion and Social Change in Canada in 2002: 3SC Survey Findings and Implications*, June 2004, and are valid for the 2003 and the 2005 iterations of the survey.

Deferent Compliers

Deferent Compliers represent about 27% of the population in Canada. Similar to the Altruistic Compliers, Deferent Compliers oppose tax cheating on principle and are driven by a very strong sense of everyday ethics to oppose non-compliance. They also score significantly lower on “civil disobedience” than the general population and are quite risk averse. Demographically, Deferent Compliers also tend to be women, but their age and education are similar to the general population.

Unlike the Altruistic Compliers, Deferent Compliers do not directly link their compliance with the essential services that taxes buy, nor with the level playing field created when everyone complies. Instead, their socio-cultural profile indicates that they would defer to the law quite simply because it is the law.

4.2.2 Contingent Non-compliers

The Pseudo-Compliers, Situational Non-Compliers and Potential Non-compliers make up about a third of the Canadian population. Due to the motivational postures of these groups towards tax compliance, the CRA has combined these groups into the “Contingent Non-compliers”.

Pseudo-Compliers

The Pseudo-Complier segment represents about 11% of the Canadian population. They do not think that cheating on taxes is acceptable and they even claim to recognize the negative effect their own cheating would have on other taxpayers. Even so, they do not think that their noncompliance would contribute to the decline in the quality of essential services, nor do they perceive cheating as being particularly risky.

Situational non-compliers

Situational non-compliers represent 13% of the population. Compared to the average, proportionally more of this group are university graduates and represent households with \$60,000 or more in annual income.

On the one hand, members of this group claim to be opposed to tax cheating, and they are more or less aware of the detrimental effects of tax cheating on society. On the other hand, a majority of Situational Non-Compliers consider that it is acceptable to cheat now and in the future, and claim to having done so when given the opportunity, notably where cash transactions were involved. Situational Non-Compliers score 43% lower on “everyday ethics”⁴ than the general population.

⁴The socio-cultural value “everyday ethics” has been constructed by measuring individuals’ responses to situations where “a person sees a way of turning a situation to his advantage at the expense of another person, institution or company”.

Potential Non-Compliers

Potential Non-Compliers tend to be younger males (15-34 years old), less educated (high school education or less), and with the household income not much different than that of the general population. Unlike Pseudo-Compliers and Situational Non-Compliers, Potential Non-Compliers (who represent 11% of the Canadian population) are characterized by their greater readiness to accept the idea of tax cheating and rationalizations in support of this position. For example, they point to government waste and lack of services as their justification for possible tax cheating. Unlike Situational Non-Compliers, Potential Non-Compliers claim not to have cheated in the past, but like Situational Non-Compliers, they are willing to do so in the future. In fact, the main barrier preventing them from cheating is a perceived lack of opportunity.

4.2.3 The Non-Compliant

The most non-compliant group in the Canadian population are known as the “Rebels”. Demographically, Rebels are over-represented among younger, blue-collar men (15-34 years of age), with a household income of at least \$40,000. Unlike the preceding groups, the majority of Rebels claim it is acceptable to cheat, claiming to having done so in the past, and plan to do so in the future. What distinguishes Rebels from the other segments is the consistency of their responses and the intensity of the negative socio-cultural values that they articulate. The Rebels socio-cultural profile resembles that of Potential Non-Compliers. However, unlike Potential Compliers, the majority of Rebels openly admit to tax cheating.

5. Case-level identification of tax compliance risk

Although the CRA monitors trends in compliance attitudes and awareness in the overall Canadian population, the CRA Annual survey and the CROP 3SC Monitor do not identify individual cases of non-compliance. Similarly, external consultation usually provides only general information about possible risk issues and potential solutions.

Case-level risk assessment allows the CRA to select the right taxpayer for audit action, so we do not waste our time and resources, and we don't waste taxpayer's time and money. In addition, we do not want a misguided audit action to inadvertently cause a negative effect on future compliance attitudes.

Case-level evidence of non-compliance is gathered through our various programs and is analysed to identify objective criteria that will allow us to orient examination according to the demonstrated registration, filing, reporting and/or payment non-compliant behaviour in a given period. Subsequently, this information is used to develop risk profiles and screening criteria to identify and prioritize risk in the national population and is applied to many of our pre and post-assessment processes.

5.1 Case-level risk assessment processes

The CRA has a wide variety of prevention and detection measures in place that function as checks and balances for achieving registration, filing, reporting and payment compliance. These measures range from source deductions and information slip matching to test checks, audits and criminal investigations that can lead to prosecution.



Computerized crosschecks, document matching, risk assessment systems and various surveys and test checks all support the detection of non-compliance and the establishment of risk profiles to guide the selection of cases for verification, audit and enforcement action.

National-level risk identification and assessment processes are incorporated into several tax compliance areas at the CRA, such as:

- Business registration;
- Identifying non-filers and non-registrants;
- Tax return processing;
- Post-processing examination, audit or investigations; and
- Tax collection.

5.1.1 Pre-assessment reviews

Despite the convenience and compliance benefits that third-party reporting provides, a risk remains that taxpayers will make errors on their tax returns, choose to under-report income, or overstate deductions or tax credits. Once tax returns are filed, we conduct pre-assessment reviews based on a risk-scoring approach to select returns for detailed review.

Through our Confidence Validity Program, we conduct a pre-assessment review of various deductions and credits and correct returns before a notice of assessment is issued. In 2007-2008 we identified an average amount of \$467 of additional tax assessed per review, for a total of more than \$126 million, an increase of 18% over the previous year.

5.1.2 Post-assessment reviews

Our post-assessment work involves targeted reviews based on matching programs and random reviews.

Through our matching program, we compare amounts reported by individuals for a wide range of income and deduction items (such as wages and registered pension plan contributions) with the amounts reported on third-party information slips. For the minority of taxpayers who make reporting errors, the matching process allows us to effectively identify and correct these errors.

In 2007-2008, the Personal Income Tax (T1) Matching Program generated additional tax assessments totalling \$573.2 million.

Random reviews are also very important because they help us to reliably detect reporting non-compliance.

Most tax administrations agree that the most meaningful direct evidence on reporting compliance is derived from carefully auditing/verifying a large random sample of tax returns, representative of the entire population.

The CRA's Core Audit Program (CAP) is designed to provide insights on compliance levels, potential risk factors and underlying causes of non-compliance behaviour. It only targets the small and medium business population, including self-employed individuals.

In 2007-2008, the CAP program examined the unincorporated business segment of the small and medium enterprise population. This segment's estimated rate of significant reporting non-compliance (i.e., \$5,000 or more in additional federal tax owing) was 14.6%. This is the first year in which this particular segment has been examined since the CAP program was implemented. As such, this estimate of reporting non-compliance will serve as a baseline against which future examinations of this particular segment will be evaluated.

5.2 The CRA Compliance Review Process

The CRA conducted its first Compliance Review in 2004, and the strategies and action plans from that review continue to guide many of today's activities. The Review activity engaged senior staff at Headquarters and in the Regions to examine the key priorities and the greatest risks to the tax base from an Agency-wide perspective.

The Compliance Review process involved the following key steps;

- Create an inventory of all material compliance issues from across all programs in the Agency;
- Collect data on the size and characteristics of each issue for the purpose of risk assessment;
- Assess each of the issues against pre-determined risk criteria (discussed below);
- Prioritize the compliance issues from an Agency perspective in terms of the highest risks to Canada's tax base;
- Obtain senior management concurrence of the proposed highest priorities; and,
- Develop or refresh strategies and action plans to address each of the identified priorities.

The four risk criteria used to rank each compliance issue include:

- Gauge the public profile of the issue and its impact on the self-assessment system;
- Assess the financial impact;
- Determine the scope of the issue, in terms of how many taxpayers could be involved; and
- Identify the risk trend of the issue, in terms of whether it was growing or declining.

The 2004 review identified four compliance priorities from among the 30 issues identified: Aggressive Tax Planning, GST/HST High-Risk Compliance, the Underground Economy, and Non-filers/ Non-registrants & Revenue Collections. Strategies and action plans for each of the priorities were subsequently developed and work continues to be carried out.

Periodic compliance reviews conducted every three to four years are essential to confirming existing compliance risks, and ensuring that we consider new and emerging risks. By identifying and prioritizing the many compliance challenges we face, we are better able to focus our limited resources toward addressing the highest priority risk areas. The CRA is currently in the process of conducting its second Compliance Review.

6. Applying compliance research and risk assessment information to promote and expand voluntary compliance

The CRA uses the results of research and consultation activities, as well as case-level risk-assessment information, to determine different types of taxpayer behaviour and to develop and orient examination activities accordingly.

6.1 *Facilitating Compliance*

Our goal is to maximize voluntary compliance by assisting taxpayers in meeting their tax obligations. We have a number of service offerings to assist taxpayers to register, file, report and pay their taxes such as providing electronic filing and payment options designed to reduce administrative burden. We make effective use of our risk assessment techniques to generally leave compliant taxpayers out of our examination and enforcement activities. In cases where the taxpayer initiates contact, we provide them with timely, accurate, and accessible information, delivered through our telephone enquiry services, our “in-person” services at our Tax Services Offices and our Web site.

We also proactively reach out to communities and help ensure that filing and reporting is as straightforward and convenient as possible.

6.1.1 Risk assessment activities that improve service delivery: The Scientific Research and Experimental Development (SR&ED) process realignment

The Scientific Research and Experimental Development (SR&ED) program is a federal tax incentive program, administered by the CRA that encourages Canadian businesses of all sizes, and in all sectors to conduct research and development (R&D) in Canada. It is the largest single source of federal government support for industrial R&D.

The SR&ED program gives claimants cash refunds and/or tax credits for their expenditures on eligible R&D work done in Canada.

The CRA recently improved the timeliness of its claims processing by incorporating front-end screening, pre-review work and a rules-based automated risk assessment system that examines the completeness and the validity of the claims.

The automated risk assessment process was developed in cooperation with local staff, regions, program experts and the system was tested to the satisfaction of CRA employees and claimants. Employees were able to spend less time on low risk claims, and focus on the review of higher risk claims, with an overall effect of significantly reducing claim processing time.

The SR&ED process realignment resulted in a reduction of the average time to screen an initial claim from 108 days to 10 days, while the average time to review a claim was reduced from 313 days to 250 days.

6.1.2 Outreach and education programs

CRA's outreach and education programs are important elements of Canada's approach to tax compliance. They support voluntary compliance by informing the public about the CRA's programs and services. Education ensures that taxpayers have the knowledge to meet their obligations without direct intervention.

- The *Teaching Taxes Program* introduces high school and post-secondary students across Canada to Canada's tax system. It teaches them how to prepare a basic income tax return.
- The *Learning About Taxes Program* is a free online course that provides basic information on Canada's income tax system.
- The *Community Volunteer Income Tax Program* helps eligible individuals who are unable to complete their returns by themselves and are unable to pay for assistance. The program works with trained volunteers who are associated with community organizations that help taxpayers prepare their income tax and benefit returns.

Our outreach activities increase our visibility in the community. In 2007-2008, we conducted 1,287 outreach events, involving more than 58,000 participants, to provide information on benefits and entitlements to individuals such as current and potential child benefit recipients, students, and newcomers to Canada. We also presented approximately 1,200 outreach events for businesses—involving close to 30,000 participants—to support the business community by facilitating compliance for such groups as small businesses, GST/HST registrants, and potential business e-service users.

6.2 Compliance strategy for Contingent Non-compliers

As previously noted, the main barriers to non-compliance for contingent non-compliers involve their perception and understanding of risk and a lack of opportunity. The general compliance strategy for this group is to increase their understanding of risk by communicating the full measure of consequences for getting caught cheating.

6.2.1 Communication of consequences for tax non-compliance

Public opinion research conducted in 2007 about the perception of tax cheating and the impact of compliance communications revealed some interesting findings. Participants were often not aware of CRA activities, and they also were not aware of some of the more severe consequences associated with getting caught for tax cheating. In addition to providing direction for the CRA communications strategy, research results have been used to develop key messages in news releases to the public as well as the ones we display on our website. We would particularly like to emphasize the fact that being accused of tax evasion may result in imprisonment or the establishment of criminal record.

6.2.2 Addressing legislative opportunities for non-compliance

Changes in tax policy often lead to the creation of new tax laws or legislative amendments. Some of these legislative changes may provide the opportunity for aggressive interpretations of the law that are not intended in the legislation. The CRA works with the Department of Finance to address these situations.

When new legislation or an amendment is proposed, the CRA analyses the provisions for administrative feasibility, taxpayer burden, enforcement considerations, administrative efficiency, simplicity and clarity. The CRA works to ensure systems, procedures, forms and guides are updated to reflect legislative amendments, and that proposed amendments are communicated to Agency employees and the public.

6.3 *Compliance Strategy for the Non-Compliant*

According to research findings, the “rebel” is not affected by communication or education strategies developed to promote compliance. They have already formed the intent to be non-compliant and, in many cases, they proactively explore and create opportunities to cheat. If they are salaried workers, they may moonlight in the home renovations sector and not report the self-employment income. They may create false invoices to increase their claimed expenses. Possibly, they have never filed a tax return. The CRA’s main tool to protect the tax base from this population segment is to improve the identification of high risk taxpayers, prioritize the risks, and apply swift and firm enforcement action accordingly.

6.3.1 Criminal Investigations

For those involved in tax evasion, the CRA enforces criminal sanctions. Prosecutions are a fundamental part of our enforcement presence and are essential to ensure a level playing field for all taxpayers and businesses.

In 2007-2008, there were 299 convictions for tax evasion. Courts across Canada imposed close to \$27.5 million in fines. In addition, offenders were sentenced to a total of more than 44 years in prison. We obtained convictions in 96% of the cases prosecuted.

6.3.2 Special Enforcement Program

Our Special Enforcement Program conducts audits and undertakes other civil enforcement actions against individuals and businesses who are known or suspected of deriving income from illegal activities.

The CRA works closely with the Royal Canadian Mounted Police (RCMP), other law enforcement agencies, and the Financial Transaction and Reports Analysis Centre (FINTRAC) of Canada to combat money laundering, terrorist financing activities, and the evasion of taxes or duties.

In 2007-2008, we completed more than 1,100 audits in the Special Enforcement program involving taxpayers suspected of earning income from illegal activities. These audits identified \$82.2 million in additional taxes owing.

7. Leveraging our compliance activities

In addition to orienting our examination activities with regard to taxpayer behaviour, we further encourage compliance through mechanisms such as our Compliance Communications Strategy, the Voluntary Disclosures Program, and our redress process.

7.1 The CRA Compliance Communications strategy

One of the key findings from research to understand public perceptions on tax compliance issues is that the public wants to hear about what the CRA is doing to combat tax evasion and other types of non-compliance issues, such as the underground economy. They want to see evidence that the CRA is addressing high risk taxpayers, no matter who they are. They also want to see concrete evidence that the CRA is getting results.

A strong and integrated Compliance Communications Strategy can influence compliance behaviour. The implementation plan for the communications strategy includes a wide range of activities, such as more media interviews, news releases and tax alerts.

7.2 *Voluntary Disclosures Program (VDP)*

The Voluntary Disclosures Program (VDP) is aimed at providing taxpayers with an opportunity to come forward to correct past omissions and correct deficiencies, thereby becoming compliant with their legal obligations.

In 2007-2008, we implemented changes to aid taxpayers in making a disclosure, improve the VDP administrative process and to provide outreach to tax professionals. Results show that more than 70% of disclosures received in 2007-2008 were made through tax professionals.

7.3 *Our Redress Process*

The availability of a redress process is integral to our tax administration. To earn and maintain the trust of taxpayers, the redress process must be fair and be seen to be fair. Taxpayers who feel that they have been treated fairly have increased confidence in their dealings with us.

A basic aspect of fairness is ensuring that taxpayers are informed of their rights to redress and how to exercise them. Making sure that the redress process is timely, accessible, and consistent contributes to its actual and perceived fairness. Taxpayers can file a Notice of Objection, which will result in an administrative review by the independent and impartial Appeals Branch within the CRA and, if not satisfied, can also appeal their case to the courts.

8. Conclusions

In this paper we discussed some of the behaviour-based risk assessment activities we conduct to develop broad based and targeted compliance strategies.

While we provide the same self-assessment rules and measures to all taxpayers, regardless of differences in their behaviour, we focus our examination activities on the areas of highest risk.

Risk identification and assessment is a complex and evolving activity. The instruments and the processes we use to collect and evaluate risk information are based on indirect as well as direct information.

Indirect information, such as public opinion research on attitudes and awareness about key compliance topics, provide us with useful information about the underlying motivation and influencing factors that drive compliance behaviour.

We collect and analyse direct information sent to us by citizens on their tax forms to develop a concrete picture of non-compliance opportunities.

We use the results of research, consultation and direct observations of program results to develop our broad-based compliance approach, to assess our compliance priorities and to develop customized strategies to promote and improve voluntary compliance, while identifying and addressing areas of non-compliance.