

Inter-American Center of Tax Administrations – CIAT

45th CIAT GENERAL ASSEMBLY



**“TAX MORALE AS DETERMINING FACTOR IN IMPROVING THE
EFFECTIVENESS OF THE TAX ADMINISTRATION”**

Subtopic 2.3:

**“CREATING TAXPAYER AWARENESS: CORPORATE SOCIAL RESPONSIBILITY AND
THE FORUMS FOR TAXPAYER- TAX ADMINISTRATION DIALOGUE”**

Canada Revenue Agency

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Executive Summary

Canada's tax administration, the Canada Revenue Agency (CRA) is committed to protecting the nation's revenue base by ensuring compliance with tax laws. As a part of its efforts, the CRA actively pursues individuals and businesses, including participants in the underground economy and those avoiding taxes by hiding funds offshore, who are not paying the taxes that they owe to Canadians.

The CRA believes that in order to support excellence in tax administration and the sustainability of the Canadian tax system, the CRA must address the root causes of non-compliant behaviour in key high risk segments of the population. Large business compliance has captured the attention of the CRA and tax administrations worldwide.

Corporations' access to aggressive and sophisticated tax planning strategies poses a risk that, left unchecked, could undermine the government's ability to effectively deliver its programs. In fact, aggressive tax planning features prominently in the CRA's inventory of risks to the sustainability of the tax system, and as such, has been the focus of increased resources, research, and compliance efforts.

One focus area for addressing potential aggressive corporate tax planning is the leveraging of the movement to view payment of taxes through the lens of Corporate Social Responsibility (CSR). The CRA would like to evolve our outreach, communication, and compliance efforts to encourage, and capitalize on, this development.

There are a number of stakeholders that affect the CSR behaviour of corporations, and the CRA is endeavouring to influence them through its policies, messaging, and through the fora in which the taxpayer – tax administration dialogue occurs. In part, these stakeholders inform the structure of this case paper.

The CRA also recognizes that some of the most important opportunities for the discussion and facilitation of responsible approaches to taxation occur during the regular meetings that the CRA holds with each corporate tax filer. Benefits accrue to both the corporation and the CRA when the corporation adopts a responsible approach to taxation.

While the CRA has such tools as the Canadian General Anti Avoidance Rule, the way of the future seems to be to encourage changes in corporate behaviour rather than to discourage specific actions or behaviours. Examples of this, such as CRA's new approach to large business compliance, are noted.

Even with CRA's new approach of encouraging an evolution of corporate behaviour, it must be recognized that the corporation faces pressures and incentives that may count against the widespread adoption of taxation as a CSR issue. However, the macro environment is ripe for incubating corporate interest in tax as CSR, and the CRA is positioning itself to leverage an environment where responsible taxation practices could become as much of an expected

corporate behaviour as responsible labour practices, environmental sustainability, and workplace health and safety.

CIAT Précis

“One of the mechanisms that proved more effective in enhancing the levels of tax morality at the corporate level are the business Fora in which the tax administration and taxpayers transparently and openly set forth the importance of the tax commitment and agree, in line with corporate social responsibility, the due compliance with the obligations pertaining to such companies.

On the other hand, the administration also recognizes the importance of attending, guiding and facilitating such compliance through the development of effective support mechanisms that do not hurdle such compliance.

It is a kind of fiscal agreement between companies and the administration whose purpose is not the tax amounts due but rather to operate as a point of agreement between society and the government administration to attain the common good.

Such Fora shall be summarized in the case study, as well as their design and implementation process, the results obtained, the main hurdles in the process and their outlook.”

1.0 Introduction

1.1 Purpose and Scope of Paper

The purpose of this paper is to explore the taxpayer-tax administration dialog fora as it relates to Corporate Social Responsibility (CSR). This paper shares the Canada Revenue Agency’s (CRA) experience with tax as a CSR concern, and how that concept is incorporated into the CRA’s policies and ongoing dialogue with its partners and clients in Canada’s tax system.

After defining CSR itself, this discussion of the Canadian case approaches the subject from the perspectives of corporate taxpayers and their intermediaries, and individual taxpayers. These groups are important stakeholders of both corporations and the Canadian tax system. The realities of each are explored before discussing the CRA’s approach to large business compliance in greater detail.

1.2 Corporate Social Responsibility (CSR) Defining CSR

CSR is typically defined as a corporation’s commitment to a way of conducting business that takes into account the interests of all stakeholders.¹ These interests include economic, environmental and social concerns, often referred to as a corporation’s “triple bottom line.”²

¹ A number of views are surveyed, See Industry Canada, Diversity of Perspectives.

The term “stakeholder” refers to any individual or group that is impacted by the activities of a particular corporation and includes:

- Customers;
- Shareholders;
- Management and employees;
- Suppliers;
- Society at large; and
- Governments.

This wider responsibility is in contrast to the traditional view of the corporation’s role in society, which held no duty to any group but shareholders.³ The extent to which other stakeholders were driving the corporation’s business activities was not significant. Recent corporate failures and social activism have led to a business environment where increased corporate integrity and accountability are expected.⁴ However, the Canadian government has already been taking public policy actions in support of CSR for years, although they are frequently not explicitly labelled as CSR.⁵

Since the 1970’s, there has been a great mobilization of CSR as it relates to its environmental and social bottom lines. From environmental stewardship and sustainable production, to responsible labour practices, corporate stakeholders have come to expect that the organization will perform above that which the bare letter of the law requires of them in the countries where they do business. Some commentators have asserted that behaving responsibly is value-maximizing even if that responsibility is not advertised to customers.

However, that line of reasoning seems an incomplete rationale for engaging in the full range of possible CSR activities, which includes everything from intrinsically efficient efforts to use less paper, to the more expensive act of paying a fair share of taxes. Neither is pure altruism a sound nor complete explanation for the widespread emergence of CSR. A more robust explanation is that there is a reputational impact from CSR, or lack thereof, which affects sales and cost of capital, thus acting on corporate profits from two angles. The still ultimate fiduciary responsibility of corporate managers to maximize profit could explain why action on the less publicly visible applications of CSR has been slower to receive embrace by business.

Tax matters fit into this domain, and the corporate case in particular is the focus of this paper.

² KPMG. (2007). Tax and Corporate Social Responsibility.

³ Most famously asserted in Friedman, M. (1970). *The Social Responsibility of Business is to Increase its Profits*. NY Times, Sept 17.

⁴ Conference Board of Canada. (2008). *The Trust Imperative: Taking Governance to the Next Level*.

⁵ Industry Canada’s website provides a good accounting of the GoC’s CSR activities and initiatives.

Taxation in the Context of CSR

To date, the linkage between taxation and CSR often goes unrecognized by corporations. Taxes are typically viewed as an obligation to be minimized, and not as something that should be influenced by the corporation's moral or social stance. Nevertheless, corporations make some significant choices with large tax effects that could or should be viewed through a moral or social lens. Examples are where the corporation locates operations, where it registers assets or subsidiaries, and which tax credits it pursues.

A precise definition of socially responsible tax behaviour is difficult to frame because the issue is a nuanced ethical matter. A sense of ethical, moral and civic responsibility shapes a corporation's orientation on CSR and that stance, if genuine, should inform all of its business decisions, including the use of tax minimization arrangements.⁶ Accordingly, that position should come to bear in its self-assessment of what its *fair* tax obligation is, technicalities notwithstanding. Ultimately, a strict rules-based approach to corporate tax responsibility is unlikely to add any additional value or clarity that cannot be imparted by legislation.

Promotion of CSR is better suited to guide conduct in situations that rules (i.e.; laws) fail to effectively address.

The determination of a fair tax liability, separate from a technical tax liability, is a subjective, values-based process. It may be guided by an interpretation of legislative intent, or by some other measure, such as an amount commensurate with the extent to which a given corporation uses public services and infrastructure, or the magnitude of its presence in Canadian society.⁷ One moral case for tax responsibility is that society pays to educate workers, protect private property, and provide infrastructure and thereby supports an environment that allows corporations to pursue a profit. The CRA believes that part of the responsibility to fund the continuity of this environment falls on corporate citizens.

CSR as a Compliance Tool

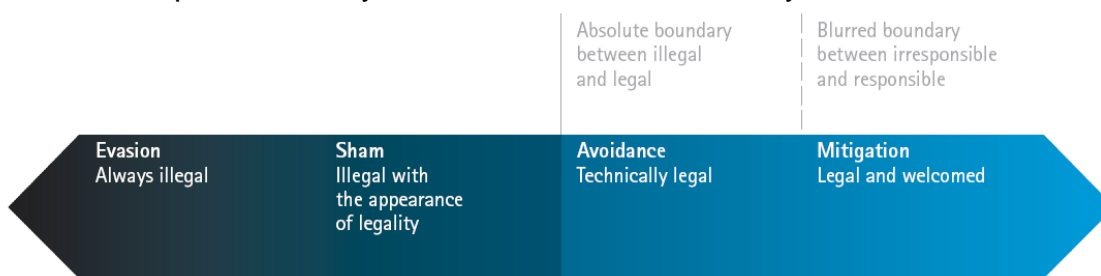
The CRA's position is that aggressive tax planning undermines the integrity of tax laws and the tax base. It involves transactions, arrangements or events that are normally fully disclosed, but which are undertaken to achieve a tax result that is not supportable within the overall scheme of the *Income Tax Act*, *Excise Tax Act*, or Income Tax Conventions. When aggressive tax planning leads to such a result, the corporation is said to have engaged in abusive avoidance.

⁶ KPMG. (2007). *Tax and Corporate Social Responsibility*.

⁷ *Ibid.*

The principles-based *General Anti-Avoidance Rule (GAAR)* provision of the Canadian *Income Tax Act* was enacted in 1988 to address abusive avoidance and to counterbalance literal interpretation of specific sections, where those interpretations are contrary to a holistic, contextual understanding of the Act. However, pursuing GAAR in any specific case is burdensome on the tax administration and cannot be seen as a complete, broad-based solution. Traditional compliance efforts against corporate tax avoidance would be well-served by a supplement in the form of CSR promotion, support, and fora. Other reasons for expanding the toolkit are the relative expense of taxpayer audit to the tax administration (and the taxpayer), the difficulty of identifying compliance issues in complex multinationals, and the cost of prolonged litigation in an adversarial environment.

Because CSR encourages a degree of self-regulation, effective stakeholder engagement might pre-empt court challenges, in some cases, by seeing corporations more likely to accept the initial rulings of the CRA or by discouraging filers from arranging questionable schemes to begin with. Tax practices that could benefit most from such an approach generally include those that may be technically legal under some interpretations of legislation, but that are considered by the tax administration to be abusive. Consider the continuum view of tax minimization put forward by CSR think tank SustainAbility:⁸



On a practical level, there are a number of potential benefits for both the corporation and the CRA, including:

- Greater certainty for corporations with respect to how tax positions will be treated by the tax administration;
- Potential application of findings to past and future years;
- Improved identification of audit and legislative issues;
- Greater certainty and transparency in tax positions and their rationale from corporations;
- Less time and resources dedicated to pursuing litigation and to senior management dealing with tax compliance issues for the business;
- Greater audit currency and faster audit closure for the CRA; and
- Decreased interest expense for businesses while waiting for reassessment.

It is likely that corporations will also look for other value from the inclusion of tax in the CSR framework, as the reduced compliance burden described above is unlikely in itself to provide a sufficient business case, and altruistic motivations must compete against the reality of the

⁸ SustainAbility. (2006). *Taxing Issues: Responsible Business and Tax*.

bottom line.⁹ In order to voluntarily accept higher effective tax rates, which is a likely consequence of adopting a responsible approach to taxation, support and pressure from a corporation's customers and investors is likely necessary: in the absence of moral concerns from shareholders, executives should be able to establish a business case. Investors and customers would form the foundation of the business case (with reduced tax compliance burden reduction being an additional incentive) because they supply sales and capital and, through their action, can cause corporations to reorient themselves on other CSR issues.^{10 11}

2.0 Canadian Stakeholder Perspectives

2.1 Corporate Taxpayers and Tax Intermediaries

Corporate taxpayers, particularly large ones, are central not only to the CSR conversation, but are generally important to tax revenue generation for the Canadian government. The large corporate filers, having more than \$250M in gross revenue or that are otherwise determined to be large based on the CRA's models of complexity, make up only about 0.5% of corporate filers by number, but generate close to 50% of corporate income taxes paid. Canadian corporations are also important in their roles as tax collectors. For a corporation operating in all provinces, for example, there are potentially 58 different taxes on them and another 28 that the corporation collects or withholds on behalf of the federal or partner provincial governments.¹²

Large corporate taxpayers are few in number relative to the magnitude of their tax contributions, but they possess a sophisticated ability to plan their tax liabilities in Canada. Mechanisms for avoidance that are less accessible to small corporations include transfer pricing, use of tax havens and offshore financial centers, treaty shopping, and abusive corporate tax shelters, although the latter is becoming more accessible to smaller taxpayers as tax shelters are now also marketed at the retail level. Both in house expertise and tax intermediaries are critical sources of expertise for corporations in determining which tax planning options are available to them, and in determining how aggressively to position themselves.

Although the CRA has continually increased its training and resources to combat these practices, the corporate development of coherent CSR policies which include tax management would help to address the root of the compliance challenge. CSR has

⁹ CSR is more likely to become an issue in the boardroom when there is a business case for it, See Strandberg, C. (2005). *The Convergence of Corporate Governance and Corporate Social Responsibility*.

¹⁰ For example, the Dow Jones now has a Sustainability Index for ethical funds. 44% of adults surveyed say that a high degree of CSR is important to them in their buying decisions. See IPSOS MORI. (2003). *Corporate Brand and Corporate Responsibility*.

¹¹ In cases where the increase in the cost of capital caused by exclusionary socially responsible investing is higher than the cost of the tax payments at issue, previously non-complying, value-maximizing firms will comply., See Heinkel, R., Kraus, A. & Zechner, J. (2001). *The Effect of Green Investment on Corporate Behavior*.

¹² PriceWaterhouseCoopers. (2008). *Total Tax Contribution 2008*.

encouraged self-regulation in other domains, as mentioned earlier in this report, such as sustainable development and workplace health and safety.

Fortunately, CSR policies are becoming more common in large organizations, with some 72% of Canadian business leaders stating that their companies have developed formalized policies for CSR activities.¹³ Frameworks for CSR already exist within which taxation could be included as a component. Large corporations are much more likely than small corporations to have an existing CSR policy framework, which leads to the conclusion that they are the best target audience for dialogue on tax as CSR.¹⁴ Furthermore, they can afford to sacrifice proportionally more profit to pursue social ends than can smaller firms, while still remaining competitive.¹⁵

It is within this environment that the CRA encourages taxation as a CSR concern. Much of the research on the tax non-compliance behaviour of large corporations is focused on individual cases rather than broader trends, and research on corporate compliance as a result of tax as CSR is basically nonexistent. However, taken at face value, the idea of tax as a CSR issue appears to be incubating in corporate Canada. The recognition that tax payments are an important contribution to society, and the showcasing of amounts paid in Canada, are elements of CSR reports for a number of large corporations including:

- Sun Life Financial;
- Royal Bank of Canada;
- Bank of Montreal; and
- EnBridge Gas Distribution.

In the annual CSR reports of Sun Life Financial, Royal Bank of Canada, and Bank of Montreal, for example, taxes paid are listed by type and by province. The reports preface this disclosure with statements indicating recognition that their tax contributions strengthen the economy. Bank of Montreal stands out in that it draws the connection that the taxes it pays help to fund programs and services across the country. Deeper transparency, along with metrics and the development of key performance indicators and other standards for Tax as CSR would lend comparability to the reports, demonstrate their substance, and facilitate stakeholder action.

This is all an indication that the link between taxes and CSR has currency with industry and that advocacy for the concept has potential. Although still largely unformed, the fact that interest is developing means that the CRA has an opportunity to play a role in shaping the attitudes and discourse surrounding the issue.

¹³ Ipsos Reid. (2006). *Corporate Social Responsibility in Canada*.

¹⁴ BusinessRespect. (2009). *Large Firms more likely to have CSR Policies*.

¹⁵ Adams, M & Hardwick, P. (1998). *An Analysis of Corporate Donations: United Kingdom Evidence*.

2.2 Individual Taxpayers and Other Stakeholders

Corporate actions do not exist in isolation from the individual perspectives of corporate stakeholders. Directors are both individual taxpayers and influencers of corporate tax stances, as are customers and investors. Often in a small- or medium-sized enterprise, the individual attitude and the corporate attitude are one and the same. If there is a sufficient level of transparency in corporate affairs and a willingness, on the part of individuals, to use their investment, and purchasing power, then we would not expect a great deal of divergence between the social responsibility beliefs of individuals and the social responsibility actions of corporations.

Indeed, individuals are the foundation of society, businesses and the tax system. They have the freedom accorded them by their rights, but they also have legal, social and moral obligations to uphold the law and act in a socially responsible manner. The CRA engages Canadians in each of the numerous roles that they play in the system: taxpayers, business owners, corporate investors, customers, and employees.

The CRA has a number of outreach initiatives that specifically target responsible citizenship. They include educational programs, information seminars for youth and newcomers to Canada, and underground economy outreach activities. During these outreach events, messaging highlights how taxes and meeting one's tax obligations contribute to the quality of life and services for all Canadians. The fora include:

- Responsible Citizenship and Canada Tax System – School Learning Unit;
- Teaching Taxes Program;
- Learning About Taxes;
- Presentations in Trades Schools;
- Information seminars for newcomers to Canada / Welcome to Canada Seminar;
- Homeowner Initiative;
- Community Visits;
- Speaking Engagements;
- Information session for non-residents;
- “Get it in writing” Campaign; and
- Underground Economy YouTube Contest.

More generally, all of the CRA outreach activities promote and inform citizens and businesses of obligations and entitlement in the context of taxes. This consists of explaining responsibilities for filing, remitting, reporting and keeping books and records. At a very basic level, this can be considered as a component of advocating responsible citizenship. In 2009/10, over 6,900 information sessions were delivered to some 125,000 participants.

CSR engagement with small corporations is more similar to engagement with individuals than it is to large corporations. Small business responsibility messaging focuses on the underground economy, and those businesses where opportunities for non-compliance are

more readily available, and where such non-compliance may impact the consumer, such as the trades (e.g. construction). It emphasizes the importance and benefits of behaving responsibly as a business owner and of demanding that the businesses with which you contract also behave responsibly. For example, the CRA's "Get it in writing" campaign highlights the importance of consumers insisting that businesses give them receipts and written contracts. The goal is protection and recourse for the consumer, and more comprehensive information being reported to the CRA that will allow the Agency to ensure the correct taxes are paid.

The CRA is still considering fora and messaging directed towards individuals to encourage them to use their consumption and investment power to encourage large businesses to behave responsibly with respect to tax. A greater awareness of the impact of corporate tax avoidance and how it negatively affects social programs and government services in Canada would strengthen the business case for corporations to treat tax as a CSR issue if it effects buying and investing behaviour. There is evidence that socially responsible investing at the retail level has an effect on environmental responsibility, and many say that a high degree of CSR is important to them in their buying decisions. To date, the full extent to which socially responsible consumption and investment is actually occurring is unclear. Moreover, the ultimate contribution of CSR behaviour by corporations towards environmental, social, and economic sustainability is unclear.

3.0 CRA-Supported Fora Addressing CSR

The Canada Revenue Agency (CRA) administers income tax, goods and services tax/harmonized sales tax (GST/HST), and other taxes. It is the principal revenue collector in the country, while Canada's Department of Finance is the source of tax policy. The CRA also distributes billions of dollars in tax and non-tax benefit payments to millions of Canadians.

Canada's tax system is based on voluntary compliance and self-assessment, which is both cost effective and minimally intrusive on the privacy and operations of individual Canadians and businesses. In practical terms, this means that taxpayers are expected to register as required under the law, report complete and accurate information to determine their tax liability, file their tax returns on time, and pay any amounts due. However, the different interests of the tax administration and the taxpayer can lead to disagreement in those areas where there is room for interpretation.

Especially relevant to the present topic, in recent years, compliance has captured the attention of the CRA and tax administrations worldwide. The increased availability of aggressive and sophisticated tax planning strategies poses a risk that, left unchecked, could undermine the government's ability to effectively deliver its programs. In fact, aggressive tax planning features prominently in the CRA's inventory of risks to the sustainability of the tax system and, as such, has been the focus of increased resources, research, and compliance efforts.

The CRA believes that in order to continue to achieve excellence in tax administration it must address the root causes of non-compliant behaviour in key high risk segments of the population. This was part of the rationale for the CRA's initial exploration of tax as it relates to CSR, namely, the extent to which Tax as CSR had been adopted as a practice in corporate Canada, and how the concept might be applied to reduce the use of irresponsible tax strategies. The CRA is, like most tax administrations, still in the early stages of explicitly incorporating CSR in its toolkit. Corporations in Canada are at a similarly early point in embracing Tax as CSR, and the effect of the concept on compliance outcomes is, as yet, untested. Nonetheless, we believe it is worthwhile to pursue further the notion that responsible tax practices could contribute to corporate reputations in the same way that CSR issues such as environmental stewardship, sustainable production, and responsible labour practices have in recent years.

Presently, Tax as CSR considerations are a supporting factor in the CRA's holistic approach to corporate compliance. The CRA does not explicitly refer to the term CSR in its contacts and communications with corporate taxpayers, but those channels incorporate the principles of CSR and encourage its application. For example, corporations with a history of open and co-operative relationships with the CRA and who work to address tax management issues in a speedy and professional manner, all other things equal, will be rated more favourably by the administration's corporate risk-rating models. This is consistent with treating CSR as a corporation's way of doing business in all spheres including tax, rather than just as a label to market specific activities or philanthropy. Viewed another way, programs are designed such that corporations who exhibit the substance of Tax as CSR are recognized, whether or not they have themselves packaged and branded that behaviour as CSR.

The subsections that follow describe some of the ways that the CRA incorporates CSR dialogue fora into its relationship with corporate taxpayers outside of the routine contact that it has with them during the regular compliance and audit processes.

Ministerial and Senior Management Speeches

Canada's Minister of National Revenue is the principal spokesperson for the CRA, while the Commissioner leads and is responsible for the overall management of communications, as well as its integration with other key functions at the CRA, particularly policy and program development and management.

Whether as a dedicated topic for discussion, or as a point that rounds out the discussion of other taxation issues, senior CRA officials frequently use their speaking engagements as a platform to raise awareness that corporations have more than just a legal responsibility to pay a fair share of taxes. For example, consider this excerpt from Former Minister of Revenue Gordon O'Connor to the Tax Executives Institute, which Tax Business magazine refers to as the most influential group of taxpayers in the world:

“If you're doing business in Canada today, whether you know it or not, you depend on government services. To be profitable in business, you rely on the services that governments provide: good infrastructure to move product to market, a sound education system to draw on for a trained workforce, and health care to ensure that your employees are physically able to do their jobs. Without those basics, we don't have a well functioning state. So it is with the best interests of our country at heart, that we must all contribute our share.”

High Level Dialogue Fora with Business Leaders

As referred to above, the CRA maintains a two-way dialogue with a number of organizations that have the capacity to influence behavior in the Tax as CSR domain. These fora stand apart from the regular dialogue that the CRA engages in with corporate taxpayers during the course of normal service and compliance throughout the year. These groups are important channels that the CRA uses to engage the corporate community collectively and include:

- Tax Executives Institute;
- Canadian Institute of Chartered Accountants;
- Canadian Banker's Association;
- Canadian Taxpayers Federation; and
- Canadian Federation of Independent Business.

Voluntary Disclosures Program

The CRA's successful Voluntary Disclosures Program (VDP) allows taxpayers to come forward and correct inaccurate or incomplete information or to disclose information they have not reported during previous dealings with the CRA, without penalty or prosecution. Disclosures may be made for income tax, sales taxes, as well as export and other charges.

As it relates to CSR, the program allows businesses to come back into a full compliance relationship with the CRA, an obvious first step to any conversation about tax responsibility, but also a chance for them to reconsider their tax management practices. Intake has grown significantly in recent years, particularly with regard to the use of offshore transactions. Filers have become aware of efforts by the CRA and its international partners to address offshore and other unreported income and assets, partly as a result of domestic media attention on EBay powersellers and the whistleblowing at some financial institutions.

Advocating Responsible Citizenship

With the overall long term objective of improving voluntary compliance through an enhanced understanding of responsible citizenship, the CRA began a multi-phase initiative in 2008 to take stock of its existing responsible citizenship activities, explore what other tax administrations do, and identify partnership opportunities to engage additional government departments. Although the responsible citizenship concept is focussed on individuals, the CRA believes that individual citizenship and corporate citizenship are two sides of the same

coin, and as a result, there is an overlap in work being performed in support of these two concepts. In fact, the opportunity to better calibrate this messaging and outreach to achieve maximum effect is expected to be a fruitful area for future work.

4.0 CRA's Approach to Large Business Compliance

Perhaps the most important opportunities for the discussion and facilitation of responsible approaches to taxation occur during the regular meetings that the CRA holds with each corporate tax filer.

The CRA negotiates audit protocol agreements in an effort to introduce greater co-operation, openness, and flexibility into the audit of corporations. Although not a legal document, a protocol, developed jointly between a corporation and the CRA, represented a mutually agreeable framework that established the guidelines for the audit process and the taxpayer-tax administration relationship. The idea is based on a set of principles that were developed out of a consultation process with the corporate community.

However, in recent years the CRA felt the need to further advance this approach in order to more effectively address avoidance transactions that may play out over a number of years. Such issues include transfer pricing, reorganization, financing arrangements, and use of derivatives and hybrid instruments. The objective is to achieve openness and reciprocity in the relationship between the taxpayer and tax administration.

The CRA is now in the process of adopting a new approach to large business compliance, to be phased in over several years. It will strengthen the International and Large Business Directorate's risk assessment process, enhance its interaction with large business taxpayers and tax intermediaries, and improve the use of resources directed at large business compliance. One of the main objectives is to optimize the use of compliance resources, but there are a number of derivative benefits, including a lower compliance burden for corporations who behave transparently and demonstrate a history of responsibly managing their tax affairs. Lessons learned from the CRA's experience with negotiated audit protocols helped to inform the new approach to large business compliance, which is the basis for the CRA's regular compliance contact with corporations, and is a key forum for the mutual transmission of expectations. The demonstration of responsible corporate policies and behaviour is emphasized as an important precursor to a healthy working relationship.

On the basis of a wide variety of measures, which include historical information and past relationships along with more recognizable metrics, the population of corporations will be segmented using three categories of risk: low, medium, and high. Risk assessments will be done annually, and reclassification to a lower level of risk will require the corporation to change risk issues and behaviours, thereby demonstrating openness, cooperation and trustworthiness to the CRA. Developing a full evaluation of all members of the population, though, will be a multi-year process. In relation to CSR and taxation, the benefits, too, will perhaps be most evident when surveyed from the long view.

As CSR is a way of doing business, rather than a checklist of activities, the risk-rating formula that the CRA employs not only takes into account the *existence* of certain types of transactions, business partners, and sector-specific risks, it also takes into account more qualitative attributes that give insight as to the ability and positioning of a corporation to

manage those risks responsibly. The CRA will assess a range of corporate governance principles related to tax decision-making and will discuss them with the taxpayer to ensure that all tax risks are properly identified and addressed on a timely basis. For example:

- Is there a sound framework to manage tax risks and comply with tax obligations?
- Is there a strong in-house tax capability?
- Are tax positions determined inside or outside the business?
- Are significant tax risks elevated to decision makers such as the Chief Financial Officer, Chief Executive Officer, the Board or its Audit Committee?
- Are there appropriate review and sign off procedures for material transactions?
- Is there an effective tax risk mitigation capability including the corporation's relationship with the applicable tax jurisdictions?
- Is there capacity to regularly evaluate the effectiveness of tax governance systems?

Face-to face meetings are an important opportunity for dialogue between the CRA and corporate taxpayers, and are held regardless of taxpayer risk categorization. As mentioned earlier, the existence of particular risks and the taxpayer's tax management are discussed, and that discussion is a vehicle for the transmission of CRA concerns. The opportunity is also provided for feedback to be given to the CRA. As each meeting concludes, the corporation should have a clear understanding of the CRA's approach to large business compliance, and the CRA should have a clear understanding of how the taxpayer's business operates. In particular, the CRA should understand how tax issues are handled, who is responsible for handling them, whether a formal risk committee exists, and so on. Among the important objectives of the meeting are to:

- Inform the taxpayer of the correlation between the risk issues identified and the planned compliance approach;
- Heighten the CRA's awareness of any issues that may impact on current or future risk assessments; and
- Heighten the CRA's awareness of any items expected to impede compliance from either a legislative standpoint or a responsible tax management standpoint.

Each corporation will be assigned a Large File Case Manager who will play a liaison role between the corporate taxpayer and the section managers and tax specialists of the International and Large Business Directorate at the CRA. This role is important because it gives the corporation a single point of contact with whom to discuss concerns and to whom additional information can be given if it is expected to have an impact on risk classification in subsequent years. This relationship is valuable because it provides continuity for both the corporation and the CRA, and facilitates long term cooperation. The Large File Case Manager can also receive input from the corporation as to legislation and other changes that could be beneficial, where there are issues impacting on the corporation's ability to comply.

As mentioned previously, CRA literature, including planned material laying out the CRA approach to large business compliance does not mention CSR as such. Yet, CSR in the tax

realm is clearly supported by these policies, because responsible tax management and a co-operative stance towards the tax administration are synonymous with businesses treating taxation as a CSR priority.

5.0 Next Steps and Conclusion

At this time, the CRA's policies are well placed to benefit from interest in CSR as it relates to taxation. Whether or not taxation as a CSR issue attains widespread and substantive adoption depends largely on the willingness of all corporate stakeholders to lever their influence. Although the CRA believes that tax as a CSR concern has viability, the significant costs and time horizons inherent to altering social responsibility norms mean that the CRA's policies will not be the primary driver behind its adoption.

Of particular note in this case study is the emphasis the CRA has placed on encouraging changes in behaviour. This can be seen in its interactions with corporate stakeholders and its new approach to large business compliance. It is therefore the CRA's assertion that measures rewarding change have merit for use alongside of, or arguably in preference to, those employing sanctions when encouraging changes in corporate taxpayer behaviour.

As global cooperation has come to put considerable pressure on tax havens and aggressive tax planning, similar cooperation could be brought to bear on the responsible tax front. Eventually, as the concept gathers more momentum, standards like the International Accounting Standards Board or the voluntary Global Reporting Initiative could incorporate responsible tax metrics among their standards and key performance indicators. Ultimately, perhaps the most prudent path that a tax administration might take at this time is to have strategies and approaches that reward responsible tax planning and embed messaging about tax responsibility in existing channels of outreach and communication, rather than divert significant scarce resources to engineer public attitudes on the matter.

Appendix A – About the CRA

Canada is a large country that spans some 7,200 kilometres from east to west across six time zones. With a population of approximately 33 million people and a population density of 3.2/km², it is one of the least densely inhabited, yet one of the most highly developed countries in the world.

Canada's tax system is based on voluntary compliance and self-assessment, which in Canada, is believed to be 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 the CRA's 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 CRA is responsible for the administration of tax programs and the delivery of economic and social benefits on behalf of federal, provincial and territorial governments, and First Nations. In 2009-2010, the CRA collected more than \$358 billion in taxes and other revenues, and issued over \$17 billion in benefit payments to millions of families and individuals.

Revenues come from three key sources: income tax, excise taxes and duties, and GST/HST. In addition, the CRA administers a number of non-tax programs, such as delivery of Canada's national child care benefit and debt collection for various government programs. As the principal tax administrator for the Government of Canada, our primary responsibility is to protect Canada's revenue base by ensuring compliance.

The CRA's mission is:

"...to administer tax, benefits, and related programs, and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians."

The CRA's vision is to be:

"...the model for trusted tax and benefit administration, providing unparalleled service and value to its clients, and offering its employees outstanding career opportunities."

The CRA's **promise** is a commitment to:

"...contributing to the well-being of Canadians and the efficiency of government by delivering world-class tax and benefit administration that is responsive, effective, and trusted."

The CRA has a workforce of approximately 44,000 employees across Canada, including a term population that fluctuates to approximately 10,000 during peak tax-filing season. The Agency operates out of 55 service sites across Canada, including 38 Tax Services Offices (TSOs), six Tax Centres (TCs), one combined TSOs and TCs, and 10 call centres.

Appendix B – Taxpayer Bill of Rights and Commitment to Small Business

Taxpayer Bill of Rights

1. You have the right to receive entitlements and to pay no more and no less than what is required by law.
2. You have the right to service in both official languages.
3. You have the right to privacy and confidentiality.
4. You have the right to a formal review and a subsequent appeal.
5. You have the right to be treated professionally, courteously, and fairly.
6. You have the right to complete, accurate, clear, and timely information.
7. You have the right, as an individual, not to pay income tax amounts in dispute before you have had an impartial review.
8. You have the right to have the law applied consistently.
9. You have the right to lodge a service complaint and to be provided with an explanation of our findings.
10. You have the right to have the costs of compliance taken into account when administering tax legislation.
11. You have the right to expect us to be accountable.
12. You have the right to relief from penalties and interest under tax legislation because of extraordinary circumstances.
13. You have the right to expect us to publish our service standards and report annually.
14. You have the right to expect us to warn you about questionable tax schemes in a timely manner.
15. You have the right to be represented by a person of your choice.

The Canada Revenue Agency Commitment to Small Business

1. The CRA is committed to administering the tax system in a way that minimizes the costs of compliance for small businesses.
2. The CRA is committed to working with all governments to streamline service, minimize cost, and reduce the compliance burden.
3. The CRA is committed to providing service offerings that meet the needs of small businesses.
4. The CRA is committed to conducting outreach activities that help small businesses comply with the legislation we administer.
5. The CRA is committed to explaining how we conduct our business with small businesses.