



Canada Revenue  
Agency

Agence du revenu  
du Canada

Canada

# Annual Report to Parliament 2013-2014



# Minister's message

The Canada Revenue Agency serves as the world-class tax administration that supports Canada's economic growth and prosperity. A well-functioning tax and benefit system is the backbone of a dynamic, prosperous, and democratic society.

As Canada emerges from the global economic crisis, our government remains focussed on jobs and growth. The Canada Revenue Agency (CRA) plays an important role in supporting small businesses, the engines of job creation. We extended and expanded the temporary hiring credit for small business, which will help an estimated 560,000 small businesses reinvest in their operations. We also increased the lifetime capital gains exemption which encourages investment in small business and makes it easier to transfer family businesses to the next generation. These tax relief measures will help small businesses plan for the future and build the skilled workforce Canada needs to compete successfully.

The CRA is doing its part to make sure small business investments contribute to growth and are not tied up in red tape. The CRA's significant contribution to our government's Red Tape Reduction Action Plan includes an expansion of CRA online services, making tax compliance simpler for small businesses and their tax representatives. For example, Canadian businesses can now choose to receive electronically their notices of assessment and reassessment and letters for their corporate and GST/HST accounts. Online filing rates for individual taxpayers also reached all-time highs in 2013-2014, as more Canadians opted for the convenience of secure online filing.

Public confidence in the fairness of Canada's tax system is assured when everyone pays the taxes they owe. That's why our government is combatting tax evasion and the use of tax havens, which undermine the tax system and place an unfair burden on law-abiding Canadians. The CRA's Aggressive Tax Planning program challenges abusive schemes designed to avoid reporting or paying tax on income. In January 2014, I announced the new Offshore Tax Informant Program under which the CRA may make financial awards to informants providing evidence of major international tax non-compliance leading to the collection of taxes owing. As of March 31, 2014, the CRA had received 63 written submissions, an indication that this and other measures we have recently taken to combat international tax evasion are helping to ensure a level playing field for all Canadians when it comes to Canada's tax laws.

The tax system can be complex, especially for small and medium-sized businesses that may need help understanding their obligations and paying the taxes they owe. The CRA's records show that, each year,



“Supporting small business is a key motivation behind our government’s Red Tape Reduction Action Plan, to which the CRA is making a very significant contribution.”

— Kerry-Lynne D. Findlay

about a third of the income tax returns from these smaller enterprises contain errors. Our government is responding by introducing several measures to help businesses and make it easier for them to comply. For example, the CRA began pilot-testing the Liaison Officer Initiative. Through this initiative, CRA employees help taxpayers at key points in the business life cycle, such as when they start up a new business, hire staff, or make important investment decisions. The Liaison Officer Initiative can help businesses avoid errors that could end up being costly and time-consuming down the road.

More Canadians are working now than ever before and the economy is once again growing. Our government is committed to making sure Canadian families and communities remain secure and strong. In 2013-2014, our government added several new tax credits and exemptions to assist families and communities. For example, there are now credits and exemptions for Canadians needing a variety of therapeutic services and devices, and an adoption expense tax credit to make adoption more affordable. And, for the 2014 and later tax years, the CRA will administer a new search and rescue volunteers tax credit to recognize the important role played by ground, air, and marine search and rescue volunteers.

I am proud of all that the CRA accomplished in 2013-2014, and I continue to be impressed by CRA employees’ dedication to integrity and service and by their contributions to Canada’s growth and prosperity.

*original signed*

**The Honourable Kerry-Lynne D. Findlay, P.C., Q.C., M.P.**

Minister of National Revenue

# Foreword by the Chair

As the Chair of the Board of Management I am pleased with the Canada Revenue Agency results for the past year. I believe our Board has fulfilled its oversight responsibilities, working together with Board members, the Commissioner and his management team, as well as the employees of the CRA.

In fulfilling our responsibilities the Board has also supported the Canada Revenue Agency (CRA) in achieving the planned strategic objectives, with the overall goal of providing continual improvements in service to Canadian taxpayers and benefit recipients.

Continual improvement in service to Canadians remains a high priority for the Board and the CRA. It is one of the pillars of our roadmap for integrity and security, service, and compliance, which was approved by the Board in December 2013. The Board is fully engaged in the CRA's enhanced emphasis on integrity and security, and ensuring services are available for taxpayers to comply with their tax obligations.

In 2013-2014 the CRA continued transformation with regard to the government's overall fiscal rebalancing efforts. The Board is pleased with the progress of transformation to date, and continues to encourage the CRA to focus on reducing red tape internally, as well as for Canadians, in particular for small and medium enterprises, in dealing with the CRA. To this end, the Board remains committed to working with the Commissioner and staff at the CRA to continually find ways to streamline and simplify processes, while introducing new e-services for Canadian taxpayers.



“The Board supports the CRA’s strategic objectives, with the overall goal of providing continual improvements in service to Canadian taxpayers and benefit recipients”

— Richard (Rick) Thorpe

In June 2013, the Board welcomed the Clerk of the Privy Council to our Strategic Planning meeting, where he shared with the Board the Government’s Blueprint 2020, a process to renew Canada’s public service. The CRA’s Commissioner has also engaged the Board in the CRA’s Blueprint 2020 plans, employee engagement and consultations. The Board is committed to working with the Commissioner on this promising initiative.

I would like to express my thanks to Ms. Susan J. McArthur, whose term as Board Chair ended on August 3, 2013, and to my colleague Ms. Fauzia Lalani, who served as interim Chair until October 3, 2013, for their service to Canadians, as well as for giving me and the Directors of the Board assistance and direction in ensuring the CRA has a solid strategic framework and is focused on providing Canadians with the services they deserve.

On behalf of the CRA Board of Management, I am pleased to recommend this report to the Minister of National Revenue, the Honourable Kerry-Lynne D. Findlay, for tabling in Parliament.

*original signed*

**Richard (Rick) Thorpe, CPA, CMA, FCMA**  
Chair,  
Board of Management

# A message from the Commissioner of the Canada Revenue Agency

This was a rewarding year to serve as Commissioner of the Canada Revenue Agency. I am proud of the significant steps we took to advance our organizational priorities—service, compliance, integrity, and security.

The way the Canada Revenue Agency (CRA) serves Canadians is changing. By adding more online options every year we have improved service for taxpayers, and increased the efficiency of tax administration. This shift to electronic services has enabled us to keep pace with changing taxpayer needs, and demonstrates our support for Government priorities such as red tape reduction. Taxpayer use of our online services shows we are on the right track. In 2013-2014, 80% of Canadians filed their individual tax returns electronically, our website received more than 125 million visits, and our call centre agents and automated services answered more than 22 million calls.

Importantly, in 2013-2014, more than 92% of individual taxpayers filed their taxes on time without intervention from the CRA – a profound demonstration that service and compliance go hand in hand. By enhancing our service channels to provide the information and tools Canadians need to meet their tax obligations, we help clear away the barriers to voluntary compliance.

The CRA is continuously looking for ways to make compliance easier, and to deter non-compliance. To this end, our Minister announced three new programs for small and medium enterprises to help protect the integrity of the tax system and reduce red tape. These programs are aimed at providing early support to Canada's entrepreneurs to help ensure they understand and can easily access the information they need to comply with their tax obligations, as well as working more closely with tax representatives. Our goal is to provide assistance at key points in the small business lifecycle to help prevent costly and time consuming errors, and ultimately reduce the need for audits.



“Canada’s tax system can only work effectively if the CRA maintains public confidence in the fairness and integrity of our processes.”

— Andrew Treusch

To deter non-compliance, we are taking a strong stance against international tax evasion and aggressive tax avoidance, implementing a number of measures announced in Economic Action Plan 2013. These included the Offshore Tax Informant Program, new reporting requirements for international electronic fund transfers, a streamlined process for obtaining third party information, and expanded reporting requirements for taxpayers with foreign income or property. We have also continued to increase the number of auditors working on international files in 2013-2014, to ensure we have the on-the-ground capacity to get the job done.

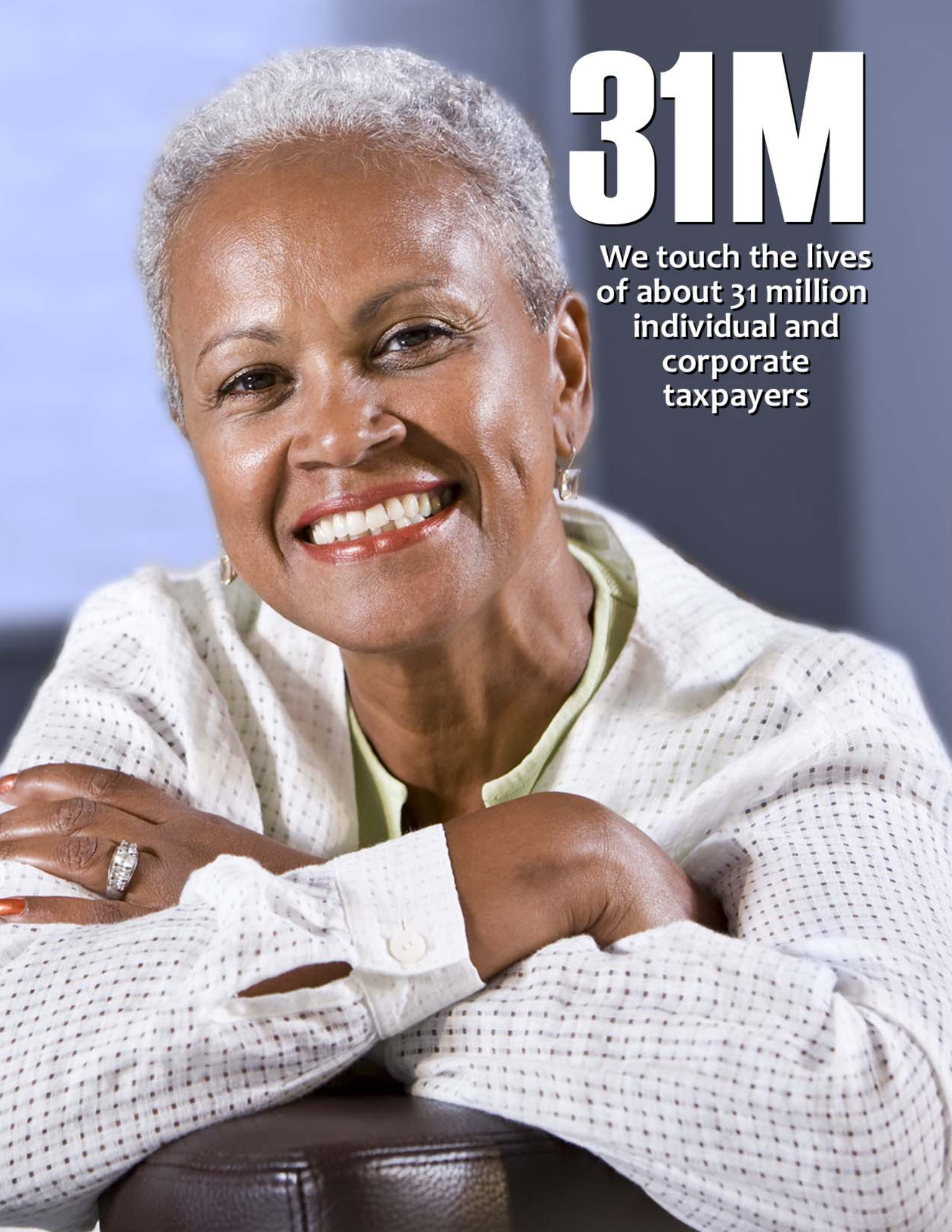
Canada’s tax system can only work effectively if the CRA maintains public confidence in the fairness and integrity of our processes. In 2013-2014, we continued to build on our existing culture of integrity and solid business practices, taking several steps to reinforce security and maintain public trust in the tax system. These included additional measures to protect taxpayer data and prevent inappropriate access, physically segregating the audit and selections functions to ensure the independence and objectivity of each, and putting in place a new level of security screening for individuals in positions warranting a high degree of public trust.

Every employee plays a critical role in maintaining the CRA’s integrity while advancing service and compliance, and I extend a warm thank-you to everyone in the organization. Our employees demonstrated strong capabilities and resilience during a time of rapid transition. With their help and dedication, the CRA is well-positioned to serve Canadians for years to come.

*original signed*

**Andrew Treusch**

Commissioner of the Canada Revenue Agency



# 31M

We touch the lives  
of about 31 million  
individual and  
corporate  
taxpayers



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**\$451B**

We processed over  
\$451 billion in payments

# Overview

The Canada Revenue Agency (CRA) is Canada's tax and benefits administrator. Our activities provide the government revenue needed to deliver essential services to Canadians that lay the foundation for continued economic prosperity and future growth. In addition, we work in partnership with other levels of government such as the provinces and territories to collect revenues and deliver benefit programs on their behalf. Last year, we processed over \$451 billion in payments and we issued almost \$22 billion in benefit and credit payments. The work we do touches the lives of approximately 31 million individual and corporate taxpayers. The foundation of our administration rests upon three enduring pillars: **service, compliance, and integrity**.

## Organization

The CRA employs a workforce of over 40,000 and maintains a physical presence in every major centre and region of the country. Although our employees work out of dozens of offices from coast to coast and perform a wide variety of tasks, they all share a common goal: to deliver unparalleled service and value to Canadians and our government clients. At the CRA, we are committed to delivering a world-class tax and benefit administration that is efficient, effective, and trusted.

In addition to the *Income Tax Act* and the *Excise Tax Act*, we administer legislation for the Canada Pension Plan, and the Employment Insurance Program. We are also responsible for enforcing legislation governing charities, collecting tobacco taxes and duties, ensuring registered pension plans comply with the regulations governing their administration, and collecting many non-tax debts for the federal government.

### Blueprint 2020 at the CRA

In June 2013, the Clerk of the Privy Council launched Blueprint 2020 by inviting public servants to engage in a government-wide dialogue on his vision for Canada's public service of the future. This is a vision of a public service where a high-performing workforce makes use of new technologies to engage citizens and partners, and achieves the best possible outcomes with new, efficient, interconnected, and nimble ways of working.

In response to the Clerk's Blueprint 2020 challenge, the CRA embarked on the most successful employee engagement exercise in its corporate history. The response of staff and management was remarkable as tens of thousands of CRA employees participated in town halls, team meetings, and special events held in offices across the country. Thousands more engaged, on social media, in a CRA-wide and government-wide dialogue about Blueprint 2020.

The result was the identification of nine priorities and the development of a comprehensive plan of action to move the CRA toward the Clerk's Blueprint 2020 vision.

## Outcomes, Technology, and Convergence

Our strategies focus on outcomes such as ensuring individuals and businesses find it simple and quick to comply, and most Canadians can deal with their tax matters online, when and how they choose. Our strategic approach is also propelled by rapid advances in information technology and data analytics. We continually expand our digital service offerings, and use advanced analytics to more accurately predict taxpayer behaviour and risk of non-compliance. We now use targeted, risk-based approaches that are more cost-effective and proactively support and influence the compliance behaviour of low-risk taxpayers. This reduces the need for costly audit and collections interventions.

As our use of technology and analytics becomes more sophisticated, new proactive compliance approaches are feasible. Service and compliance activities now often work together to make our program delivery more efficient. For example, our Liaison Officer Initiative supports compliance outcomes while helping businesses meet their tax obligations. Similarly, new digital services support compliance outcomes by enabling self-service and reducing the compliance burden.

## Service, Compliance, Integrity, and Security

Our tax system works because Canadians have placed their trust in the fairness of Canada's tax system and the integrity of our administration and our people. We earn this trust by vigorously protecting the confidentiality of the information entrusted to us, providing fair and impartial redress, pursuing those who are non-compliant, and acting with integrity in our dealings with taxpayers, benefit recipients, and their representatives.

### Service

Making it easier for taxpayers to understand and comply with their tax obligations is one of our core service priorities. This means providing easier access to clear, accurate information, providing timely services, and reducing the compliance burden wherever possible by reducing red tape. It means providing targeted assistance to taxpayers who may need a helping hand, like new Canadians, small businesses, students and seniors. It also

means expanding the digital services we offer to give taxpayers and their representatives more opportunities to access our services and information.

### We improved service by:

- enhancing our secure online portals—such as our new audit landing page—for taxpayers, benefit recipients, and their representatives.
- offering innovative new digital services such as expanded e-documents services, and developing CRA applications for mobile devices.
- providing tailored help for those who need it, when they need it, such as first-time filers, new Canadians, seniors, scientific research and experimental development claimants, and small businesses owners.
- working in partnership with others to provide needed services—for example, working with community organizations to help deliver the Community Volunteer Income Tax Program—and exploring opportunities for new partnerships with tax preparers and software developers.
- reducing red tape for businesses so they can get on with the task of creating jobs and growing the economy.

# 51

**DID YOU KNOW?**  
The CRA has 51 tax services offices and tax centres serving Canadians in every region of the country

## Compliance

Delivering excellent service is just one important way we maintain high levels of voluntary compliance. With help and support, most Canadians comply with their tax obligations. However, there will always be those who will try to evade their responsibilities. Our compliance strategy is simple. We are increasing our support for those who need help to comply, and we are making non-compliance more risky and difficult for those who choose not to comply.

Our research tells us compliance depends on the perceived risk of detection for some taxpayers. The existence of a strong enforcement presence serves as an effective deterrent for many taxpayers who might otherwise be tempted to cheat.



### We improved compliance by:

- creating point-of-sale audit teams comprising electronic commerce audit specialists to address the use of software that suppresses sales.
- improving compliance support to small business through our Liaison Officer Initiative, which provides information and in-person support at key points as businesses grow.
- using new proactive compliance efforts like letter writing and telephone campaigns to reach large numbers of taxpayers and positively influence their compliance behaviour.
- releasing pre-judgement information on significant criminal investigation actions such as searches, seizures, or laying criminal charges. This information helps to protect Canadians from fraud schemes.
- working more collaboratively with tax preparers to identify issues of concern and prevent common reporting errors. In February 2014, we announced the Registration of Tax Preparers Program.
- implementing business intelligence and quality assurance initiatives in our audit and examination programs for income tax and GST/HST. This ensures the quality of our audits and brings greater rigour to our audit workload selection processes.
- supporting innovative measures, such as the new reward program for individuals who provide information on cases of significant international tax non-compliance.

## Integrity and Security

Integrity is a cornerstone of our approach to administering tax and benefits and we are deeply committed to safeguarding the trust Canadians have placed in us. We recognize that our decisions and the conduct of our employees affect the lives of Canadians and influence their perceptions of Canada's tax system. Maintaining high ethical standards of conduct is a fundamental duty of everyone in our organization. Our Integrity Framework incorporates a strong system of checks and balances to make sure our employees adhere to those high standards.

We support our employees by promoting integrity and security in all aspects of our business and at all levels within the organization, from executives to front-line staff. Our Code of Ethics and Conduct and our Conflict of Interest Policy contain clear rules and standards of behaviour to which all employees must agree and adhere as a condition of their employment. Misconduct is addressed appropriately. We have established strong internal mechanisms to detect integrity and security breaches and to take disciplinary action against them.

### We strengthened integrity and security by:

- advancing several multi-year projects enhancing our IT security, to better protect taxpayer data and prevent inappropriate access.
- implementing our Blueprint 2020 action plan, which included adding specific values and ethics clauses to executive performance agreements for 2014-2015, setting the tone at the top of our organization.
- introducing an enhanced security screening assessment for people holding or applying for positions requiring a high degree of public trust.
- establishing the position of chief privacy officer to monitor and oversee the management and protection of confidential, personal, and financial information at the CRA.
- acting quickly and decisively to temporarily shut down all CRA e-services to protect Canadians from the Heartbleed security risk.



## Our future directions

We are proud to offer unparalleled service and value to Canadians and government. Our future is one where:

- compliance with tax laws is widely recognized as good citizenship.
- meeting one's compliance obligations is made as simple and convenient as possible.
- most Canadians deal with their tax matters online, when and how they choose.
- staff are highly trained and have the resources to resolve most taxpayer problems and issues in real time.
- sophisticated analytics guide our service delivery strategies and help to detect and address non-compliance efficiently and effectively.

We know the work we do is essential to the social and economic well-being of Canadians. Our people are proud to work for an organization that is providing quality services and safeguarding the fairness and security of Canada's tax system. As we move forward, we will continue to improve the efficiency and effectiveness of our program delivery through service enhancements and new compliance initiatives. The CRA will always strive to provide Canadians with a world-class tax and benefits administration that is efficient, effective, and trusted.

A man and a woman are shown in profile, looking at a laptop. The man is on the left, wearing a light blue shirt, and the woman is on the right, wearing a dark blue top and holding a white mug. They are both smiling and appear to be engaged in a collaborative activity. The background is a soft, light blue gradient.

# 125M

Our website received  
over 125 million visits



# Taxpayer and business assistance

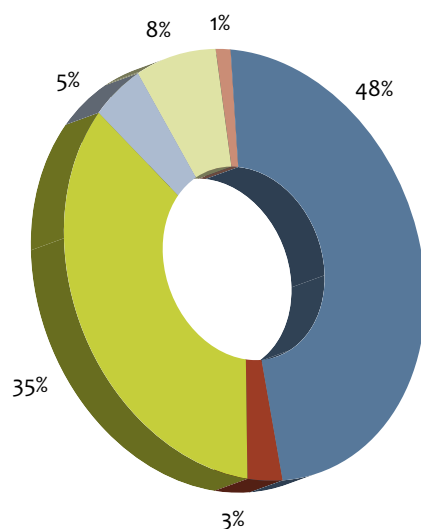
The CRA is committed to providing taxpayers with the accurate and timely information they need to comply with Canada's tax laws. Our website is organized according to taxpayer needs, providing detailed information about CRA programs and services for individuals and families, businesses, charities and giving, and representatives. Taxpayers with more complex information needs can contact our call centres, refer to our publications and videos, or consult our technical interpretations and rulings services. To further support taxpayers, we regulate charities and monitor and administer deferred income and savings plans to ensure they meet legislative requirements.

Taxpayer and business assistance	Financial resources (in dollars)	Human resources (FTEs)
Planned	575,621,136 <sup>1</sup>	4,038
<b>Actual</b>	<b>350,801,699<sup>1,2</sup></b>	<b>3,976</b>
Difference	224,819,437 <sup>3</sup>	62

<sup>1</sup> Includes Charities – Public safety and anti-terrorism sub-program:  
– planned spending (\$4,596,590) and actual spending (\$4,671,341)

<sup>2</sup> The figure represents the actual spending for the CRA on a modified cash basis, based on Parliamentary appropriations used. See pages 106-107 for an explanation of how actual spending relates to results in the CRA Financial Statements – Agency Activities.

<sup>3</sup> Decrease primarily due to lower than planned payments related to the Canada/US softwood lumber agreement. The decrease was partially offset by increased payments associated with severance, benefits, and vacation credits.



## Program spending *at a glance*

- Taxpayer services – Enquiries
- Taxpayer services – Information products
- Policy, rulings, and interpretations
- Registered plans
- Charities
- Charity – Public safety and anti-terrorism

## Taxpayer services – Enquiries and information products

Taxpayer services		Financial resources (in dollars)	Human resources (FTEs)
<b>Enquiries</b>	Planned	154,418,509	2,361
	<b>Actual</b>	<b>167,965,933</b>	<b>2,412</b>
	Difference	(13,547,424)	(51)
<b>Information products</b>	Planned	8,744,872	127
	<b>Actual</b>	<b>10,929,629</b>	<b>105</b>
	Difference	(2,184,757)	22

The CRA continues to adapt and strengthen its programs and services to keep pace with the evolving needs and expectations of taxpayers, and to effectively fulfill its mandate. An important aspect of taxpayer services is to proactively share information so taxpayers are aware of changes affecting them, understand their options, and continue to receive the information and support they need to meet their tax obligations.

We communicate tax information through many different channels, allowing taxpayers to choose how and where to get the information they need. Our website continues to be the mainstay of our communications efforts. In December 2013, the CRA re-launched its website, featuring a more user-friendly approach to providing information and services based on four taxpayer segments: individuals and families, businesses, intermediaries, and charities. The website is now designed to display on any device, including smartphones, tablets, or PCs. We also improved the website search function, making it easier and faster for the public to find the information they need.

The CRA continues to use social media to extend its communications reach in response to burgeoning demand. For example, video-based content on the Web is increasing in popularity, prompting the CRA to add informative videos about taxes and benefits to its branded YouTube channel, generating almost 40,000 views. In addition, the CRA maintains an active Twitter presence with over 37,000 followers.

While we continue to expand our online presence, the CRA recognizes some segments of the taxpayer population want

or need alternative sources of information and support. We continue to offer other options such as telephone services.

### Handling Taxpayer Calls

The CRA responds to millions of calls each year and, in 2013-2014 alone, we handled 16.9 million tax calls and 5.6 million benefits calls. This year, we expanded our range of telephone services. Some examples include:

- We began accepting direct deposit registration over the telephone, which made it faster and easier for individual taxpayers to start taking advantage of direct deposit.
- We integrated our National Forms Call Centre into the national telephone network. We also introduced a new system enabling call centre agents to respond to requests for forms or publications by emailing a direct link to the required document.
- We integrated GST/HST rebate calls into the national telephone network.
- We supported the Charities program enquiries service by handling charities calls during evening hours through the national telephone network.

### Outreach

Our outreach efforts continue to focus on educating and assisting taxpayers so they can meet their tax obligations and be informed about their eligibility for benefits. In 2013-2014, we expanded our audience through our work with community organizations. This increased awareness among the taxpayer segments most likely to benefit from assistance, including Aboriginal peoples, seniors, newcomers, and youth.

We used online videos and webinars to communicate up-to-date information about our programs and initiatives to taxpayers. This technology is convenient, easy to use, and allows us to reach a greater number of taxpayers, including those who live in remote locations. This year, we released a two-part student series, and the video “Newcomers to Canada and the Canadian Tax System” was posted onto YouTube. We also hosted a webinar for new small businesses during Small Business Week.

Through the Community Volunteer Income Tax Program (CVITP), the CRA arranges for volunteers to help taxpayers. The focus is on preparing returns for taxpayers with lower

# 22M

**DID YOU KNOW?**  
We answered over  
**22 million tax and  
benefits calls through  
agents and automated  
services**



incomes and simple tax situations. In 2013-2014, we added to the number of organizations providing a national endorsement of CVITP, increasing from two to six.

### Key results:

- We received over 125 million visits to our website.
- Over 21 million forms and publications were downloaded.
- We issued 631 tweets in 2013-2014 that were retweeted 2,398 times.
- CRA YouTube videos posted on our website generated almost 40,000 views.
- We answered 16.9 million tax and 5.6 million benefit calls through agents and automated services.

## Policy, rulings, and interpretations

Policy, rulings, and interpretations	Financial resources <sup>1</sup> (in dollars)	Human resources (FTEs)
Planned	80,133,209	1,045
<b>Actual</b>	<b>81,385,344</b>	<b>997</b>
Difference	(1,252,135)	48

<sup>1</sup> Excludes statutory payments related to Canada/US softwood lumber agreement – planned spending (\$283,000,000) and actual spending (\$42,344,675).

In February 2014, Canada and the United States signed an intergovernmental agreement with regard to the U.S. *Foreign Account Tax Compliance Act*. As a result, Canadian financial institutions are required to identify account holders that are U.S. persons, including U.S. residents and U.S. citizens. Canadian financial institutions will report this information to the CRA annually starting in 2015.

To ensure Canadian privacy laws are respected, the CRA will then exchange the information with the U.S. Internal Revenue Service through the existing provisions and safeguards of the Canada-U.S. Tax Convention. The treaty contains robust safeguards to ensure the Internal Revenue Service will treat taxpayer information confidentially, and use the information solely to administer tax laws.

During the reporting period, we developed services to help financial institutions comply with *Foreign Account Tax Compliance Act* legislation. We are now moving ahead with publishing administrative guidance, releasing a new information return, and developing appropriate exchange of information capacities to fulfill Canada's obligations under the agreement.

## Improved Access to Technical Information

The CRA recognizes that taxpayers, tax professionals, and industry associations rely on us for current and accurate technical tax information to provide early certainty on tax matters, help prevent errors, and in some cases eliminate the need for new rulings.

The CRA publishes a wide range of technical documents intended to provide CRA's interpretation of income and commodity tax laws as they apply to the most significant aspects of a particular subject. These publications are not a substitute for the law, nor can they explain how every provision of the law will apply to all potential situations. Where there is a change to an interpretative position described in these technical publications, or when other important developments occur that are relevant to the contents, we update the information.

In 2013, the CRA began replacing its existing income tax interpretation bulletins with new, more user-friendly publications called income tax folios, which are prepared in consultation with the tax community. In addition to starting more than a dozen new folios throughout 2013-2014, the existing published folios were updated for numerous legislative and other changes.

Our technical publications are widely used, serving as an important resource for taxpayers, tax professionals, and industry associations across Canada, as well as for our staff. To maximize the usefulness of income tax folios, we sought feedback from external tax organizations early in their development phase. The input helped to decide which interpretation bulletins should be converted into folios first, and provided insight into what new and emerging topics would be good candidates for new publications. We also

established a pilot project with the Canadian Tax Foundation and the Chartered Professional Accountants of Canada to develop draft income tax folio chapters.

In 2013-2014, the CRA sought input from key external stakeholders on draft GST/HST technical publications with significant content or policy changes, tapping into their practical experiences and industry knowledge to help minimize information gaps.

### Key results:

- We completed 3,135 GST/HST rulings and interpretations.
- We provided 2,841 income tax technical interpretations.
- We provided 161 advance income tax rulings.
- We completed 46,072 CPP/EI rulings, issuing 93% within target timeframes.

## Registered plans

Registered plans	Financial resources (in dollars)	Human resources (FTEs)
Planned	16,577,413	168
<b>Actual</b>	<b>17,255,285</b>	<b>161</b>
Difference	(677,872)	7

The CRA enforces the provisions of the *Income Tax Act* pertaining to deferred income and savings plans, by registering and monitoring the plans and by approving the deductibility of employer contributions to defined benefit pension plans. Canadians rely heavily on registered plans to help them plan and secure income for the future. In 2013-2014 we oversaw approximately \$1.97 trillion in deferred income and savings plan assets.

The CRA monitors the sector to ensure integrity, confirming all plans comply with legislative requirements. We are updating our information technology systems to better use the vast amount of data associated with registered plans and to assess the associated compliance risk. As a result, the number of RRSP issuers that submitted contract information electronically tripled from the previous year.

## Helping with Pooled Registered Pension Plans

Pooled registered pension plans (PRPPs) are deferred income plans designed to provide retirement income for employees and self-employed individuals who do not have

access to a workplace pension. PRPPs may pool the funds in the accounts of participating employees and self-employed persons (i.e., members) to achieve lower costs in relation to investment management and plan administration. The option to establish PRPPs, as well as the applicable income tax rules, came into effect in December 2012. Under Economic Action Plan 2013, the federal government announced it would work closely with the provinces to encourage implementation of PRPPs across Canada.

During 2013-2014 the CRA worked with the Office of the Superintendent of Financial Institutions to prepare and deliver a webinar designed to help the provinces introduce enabling legislation for PRPPs. The webinar has been posted on the CRA website for future reference as the provinces implement PRPPs in their jurisdictions.

#### Key results:

- We reviewed 89% of the applications to register pension plans within 180 days.
- We responded to 89% of written enquiries within 60 days.
- We conducted 549 audits of registered plans.



## Charities

Charities	Financial resources (in dollars)	Human resources (FTEs)
Planned	28,150,543	300
<b>Actual</b>	<b>26,249,492</b>	<b>260</b>
Difference	1,901,051	40

Registered charities play an integral role in communities across the country, and Canadians donate billions of dollars each year to support charities in their work. In 2012, registered charities issued over \$14 billion in official donation receipts. The estimated cost of revenues foregone

by the government in 2012 as a result of these charitable exemptions was \$3.5 billion.

The CRA has a responsibility to safeguard the interests of taxpayers by ensuring registered charities meet their legal obligations. We review applications for charitable status, and monitor and guide organizations to ensure they qualify for or maintain charitable status, as required by the *Income Tax Act*. In addition, to help Canadians make their donations wisely, we maintain a searchable list of Canadian charities. Donors can use the list to confirm whether a charity is registered under the *Income Tax Act* and can therefore issue official donation receipts.

# \$14B

**DID YOU KNOW?**  
Over \$14 billion in donation receipts were issued to Canadians in 2012

The list also provides financial information and describes the activities of each registered charity.

In 2013-2014, the CRA continued to implement the measures announced by the Government of Canada in Budget 2012 related to charities and political activities. We developed and published new educational products to help charities understand the rules governing political activities, including a self-assessment questionnaire, a new webinar, and a series of videos. We also monitored the political activities of charities, to ensure they complied with existing rules. We reviewed the annual information returns (Form T3010), sent letters reminding charities of the rules, and performed audits. As the rules relating to political activity apply to all registered charities, the CRA's educational and compliance efforts related to political activities have extended to the charitable sector as a whole.

In June 2013, we launched a new application process for municipal or public bodies performing a function of government in Canada, and for low-cost housing corporations for the elderly, enabling the public bodies to register as qualified donees. This application process was necessary because of the changes made to the definition of a qualified donee in Budget 2011.

Budget 2014 included new measures to reduce the administrative burden on charities and encourage charitable giving. These included redesigning the CRA's Charities Assessment Registration System and the Charities Internet Display System. Once the redesign is complete, we will be able to offer new electronic services, including online filing of Form T3010, *Registered Charity Information Return* and Form T2050, *Application to Register a Charity under the Income Tax Act*.

### Key results:

- We responded to 85% of charities calls in the telephone enquiries queue within two minutes.
- We processed 83,916 registered charity information returns.
- We audited 845 charities.
- We revoked the registered status of 1,612 charities—936 voluntary revocations, 644 for delinquency, 23 for cause, and 9 for loss of corporate status.

# Performance results

Program/ sub-programs	Expected results	Performance indicators	Targets	Results
<b>Taxpayer services – Enquiries and information products</b>	Taxpayers and businesses have access to timely and accurate responses to their tax enquiries	Percentage of tax calls (individual and business enquiries) answered within two minutes of entering the agent queue	80%	80.5%
		Percentage of tax callers (individual and business) who succeed in reaching our telephone service	85%	86%
<b>Policy, rulings, and interpretations</b>	Taxpayers and businesses receive timely rulings and interpretations under the <i>Income Tax Act</i> , the <i>Excise Tax Act</i> , and various other federal legislation	Advance income tax rulings issued within 90 business days	85%	75% <sup>1</sup>
		Technical interpretations issued within 90 business days	85%	87%
		GST/HST rulings and interpretations – respond to written requests within 45 business days (this excludes highly technical and precedent- and/or policy- setting rulings and interpretations)	80%	74% <sup>2</sup>
<b>Registered plans</b>	Registered plan administrators and their agents receive timely service in response to applications	Percentage of registered plan applications reviewed within the established time frames (180 days)	85%	89%
<b>Charities</b>	Enhanced service to registered charities and applicants for charitable status	Percentage of charities calls responded to within two minutes	80%	85%
		Percentage of charitable registration applications that are reviewed and responded to within established time frames (two months for simple applications and six months for regular applications)	80%	95%
	Compliance in the charitable sector is improved	Percentage of charities that file their annual information return on time	80%	87.5%

<sup>1</sup> Some resources diverted from providing rulings to train new technical staff and develop new initiatives (e.g., folios).

<sup>2</sup> Results improved (from 71% at the start of December to 74% at the end of March) when resources were reallocated and inventory management strategies were implemented.



# 28M

We assessed more  
than 28 million  
income tax returns  
for individuals



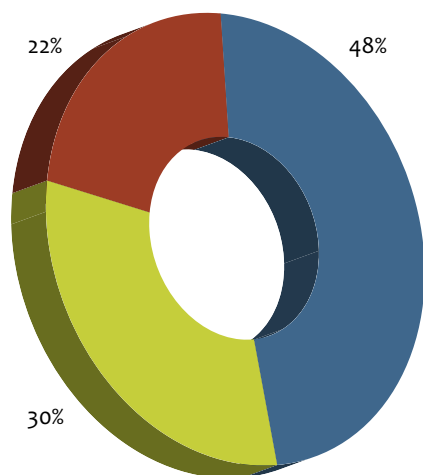
# Assessment of returns and payment processing

We assess and process tax returns and payments for individuals and businesses as quickly and accurately as possible, providing taxpayers with early certainty to help them manage their tax affairs with confidence. Our goal is to reduce red tape by providing comprehensive, streamlined, and timely services to individuals and businesses while securing Canada’s revenue base.

Assessment of returns and payment processing	Financial resources (in dollars)	Human resources (FTEs)
Planned	665,185,607 <sup>1</sup>	6,547
Actual	649,108,155 <sup>1,2</sup>	6,488
Difference	16,077,452	59

<sup>1</sup> Includes goods and services tax administration in Quebec sub-program: – planned spending (\$143,000,000) and actual spending (\$142,772,214)

<sup>2</sup> The figure represents the actual spending for the CRA on a modified cash basis, based on Parliamentary appropriations used. See pages 106-107 for an explanation of how actual spending relates to results in the CRA Financial Statements – Agency Activities.



## Program spending *at a glance*

- Individual returns and payment processing
- Business returns and payment processing
- Goods and services tax administration in Quebec

## Individual returns and payment processing

Individual returns and payment processing	Financial resources (in dollars)	Human resources (FTEs)
Planned	313,389,102	3,994
<b>Actual</b>	<b>309,585,473</b>	<b>3,979</b>
Difference	3,803,629	15

# 80%

**DID YOU KNOW?**  
80% of returns for individuals were filed electronically

The CRA contributes significantly to the Government of Canada’s “Digital Canada 150” commitment to be a leader in using digital technologies to interact with Canadians, making it simpler and quicker to access services and information online.

Our digital services for taxpayers improve and increase each year as

we add new features and functions to make it easier for taxpayers to securely file online, receive information, and communicate with us. We know taxpayers are more likely to comply with their tax obligations voluntarily if we make it as easy as possible for them to do so, and provide a convenient and secure digital experience comparable to what they have come to expect from the private sector. At the same time, we maintain traditional paper filing, paper information resources, and call centres to support the taxpayers who prefer these methods.

Electronic tax filing has become the norm for most tax filers. In the 2014 tax filing season, electronic filing rates continued to rise, reaching 80%. This high e-filing rate indicates our long-term strategy of adding new online services every year is working.

# 14.6M

**DID YOU KNOW?**  
14.6 million logins were made to My Account for individuals

### REPORT CARD: The digital service experience

The vast majority of Canadians voluntarily report accurately because the CRA provides quality services that make it easier to meet tax obligations. Our digital services are an essential part of our range of service options.

Each year, we measure how many individual taxpayers, businesses, and benefit recipients have used the CRA’s secure, online services as their preferred way to meet their tax obligations and receive their benefits.

Key results:

- 80% of individual returns were filed electronically for the 2014 filing season.
- 83% of business returns were filed electronically for 2013-2014.
- 70% of GST/HST returns for businesses were filed electronically for 2013-2014.
- 71% of payments were received electronically (including payments remitted at financial institutions) for 2013-2014.

To drive these results higher, we continually improve our secure online services. New in 2013-2014:

- On request, taxpayers can submit documents electronically for validation of tax information.
- Taxpayers can pay taxes owing by pre-authorized debit.
- Taxpayers can use online calculators for RRSP deductions and contributions.
- Tax preparers can submit individual returns for both the current and preceding tax year through the EFILE automated service on behalf of taxpayers.
- Benefit recipients can view and update information on children in their care.
- Businesses can file partnership returns electronically.
- Businesses can use new notification and account management features in the online mail service.

**Electronic filing rates have grown steadily over the past decade; in the 2014 tax filing season, over 21.5 million individual returns were filed using our electronic filing services, compared to 11 million a decade ago.**

We are determined to ensure our e-service options keep pace with Canadians' evolving needs and expectations and now offer more than 50 online functions which are readily used by individuals. Our online services are also used heavily by representatives and tax professionals. For example, 192,845 representatives were registered for the Represent a Client service at the end of 2013-2014, an increase of 32% over last year.

We are able to process electronic returns and payments faster, and provide faster and more efficient service at a lower cost than for traditional paper options.

We are also better able to detect and reduce non-compliance by analyzing returns. Our services aim to help Canadians get it right the first time. But when mistakes happen or non-compliance occurs, we can detect, prevent, or correct them by verifying claims for errors, reviewing high-risk claims, and matching the information in filed returns to third-party data. These are some of the compliance activities we use to protect tax revenue.

# 50

## DID YOU KNOW?

We offer more than 50 online functions for individuals

Improvements to online filing for the 2014 tax season:

- Tax preparers can submit returns for both the current and preceding tax year through the EFILE automated service on behalf of individuals.
- Newcomers to Canada can file online.
- Taxpayers and their representative can send additional supporting documents through **My Account** when requested by the CRA.



In a 2013 audit of government online service delivery, the Auditor General of Canada noted that the CRA initiative to enhance secure online services planned to:

- enhance capacity for users to conduct end-to-end transactions
- add the ability to conduct more taxpayer services online (such as filing, payments, submitting documents)
- improve user satisfaction

## REPORT CARD: Reducing red tape for small business

The CRA is committed to supporting small businesses by reducing red tape and making it easier for them to access services and fulfill their tax obligations. We held consultations with small businesses in November 2012 to help prioritize our reducing red tape measures, and extensive follow-up consultations will begin in the fall of 2014. Based on our extensive initial consultations with small businesses and tax representatives across Canada, we have implemented a number of significant measures, including the following:

- We launched the **My Business Account** online enquiries service which enables businesses or their representatives to email tax-related questions about their accounts to the CRA and receive answers online and in writing.
- We implemented Agent ID for the CRA's business enquiries telephone service. Agents provide an identification number to business owners when they answer a call, offering better accountability and a more consistent experience for callers. This makes it easier for business owners to give feedback on CRA services.
- We re-designed the CRA's audit webpage to make it more user-friendly. We also developed a series of audit videos that contain important information about our audit process, and linked them to the audit landing page so that they are easy to find.
- We created a new red tape reduction action plan webpage to give businesses up-to-date information on red tape reduction initiatives and make it easier for taxpayers and small businesses to identify their difficulties. Extensive consultations to get small business input are planned in 2014.

For more information on how the CRA is reducing red tape for businesses, go to [www.cra.gc.ca/redtapereduction](http://www.cra.gc.ca/redtapereduction).

- Taxpayers can authorize the CRA to withdraw a predetermined amount directly from their bank account through **My Account**.
- T1 NETFILE filing process features direct links to e-payment options for every NETFILE return.
- Taxpayers can change up to 10 years of prior returns in **My Account**.

### Key results:

- We assessed 28.8 million income tax returns for individuals.
- 14.6 million logins were made to **My Account** for individuals.
- Over 660,000 individuals newly enrolled in **My Account**.
- Representatives accessed over 7.7 million individual accounts through Represent a Client.
- We identified \$1.5 billion in additional taxes owing by verifying claims for errors, reviewing high-risk claims, and matching the information in filed returns to third-party data.
- 298,930 individuals' returns were reviewed and taxpayers received beneficial adjustments to their tax returns with a total dollar value of \$103.5 million.

## Business returns and payment processing

Business returns and payment processing	Financial resources (in dollars)	Human resources (FTEs)
Planned	208,796,505	2,553
<b>Actual</b>	<b>196,750,468</b>	<b>2,509</b>
Difference	12,046,037	44

Online filing increased from 2012-2013: There was a 31% increase in the online filing of T5 information returns and a 13% increase in the online filing of T2 corporate tax returns.

We continued to enhance our online services and implement new ones to make compliance easier for businesses. For example:

- Business owners can receive online mail in the secure **My Business Account** portal and receive notification



by email when new correspondence is available in their account.

- Employers and their representatives are able to view the PD7A Statement of Account for current source deductions online, and it is also available for e-delivery.

# 3.4M

## DID YOU KNOW?

Over 3.4 million businesses were registered for the GST/HST

- GST/HST returns and certain elections and rebates can now be filed online.
- Partnership information returns can now be filed online.

We continue to work on enhancements to our online process for registering for a

business number (BN), the numbering system that lets businesses deal with multiple levels of government based on one business, one number. The number of provincial, territorial, and municipal partners using the BN continues to grow.

## Going the extra distance to serve small and medium size businesses

We noticed recurring errors on T2 returns during the 2013 tax season so we approached tax representatives who work on T2 returns and showed them how to avoid the errors.

We then worked with tax software manufacturers to change explanations within the software and help users avoid the errors.

This action will save time and resources for tax preparers, corporations, and the CRA.

More businesses are using our electronic services as we make it easier for them to access information and manage various accounts including GST/HST, payroll, corporation income tax, excise tax, and excise duties.

### Key results:

- Over 4 million logins were made to **My Business Account**.
- Over 114,000 business owners enrolled in **My Business Account**. This brings the total number of businesses to 1.9 million, an increase of 26%.
- Representatives accessed over 3.9 million business accounts through Represent a Client.
- We responded to over 6,400 enquiries online.
- 83% of corporation income tax returns were filed online.
- 70% of GST/HST returns were filed online
- We identified more than \$60 million in additional taxes owing on corporation income tax returns.
- We identified close to \$133 million in additional losses through a review of corporate loss carryforwards from prior years, which can be converted into a present-value tax adjustment of more than \$19 million.

# Performance results

Program/ sub-programs	Expected results	Performance indicators	Targets	Results	
<b>Individual returns and payment processing</b>	Individual taxfilers receive timely and accurate assessment notices	Percentage of service standard targets that are met or mostly met relating to T1 individual and T3 trust return activities: <ul style="list-style-type: none"> <li>Processing T1 individual income tax returns (electronic) within an average of two weeks of receipt (target: 100%)</li> <li>Processing T1 individual income tax returns (paper) within an average of four to six weeks (target: 100%)</li> <li>Responding to taxpayer-requested adjustments (T1) within an average of two weeks (electronic) (target: 100%)</li> <li>Responding to taxpayer-requested adjustments (T1) within an average of eight weeks (paper) (target: 100%)</li> <li>Processing T3 trust returns within four months (target: 95%)</li> </ul>	100%	100%	
		Percentage of individual (T1) returns processed accurately	98%	99.2%	
		Percentage of individual (T1) returns received on time processed by mid-June	98%	99.8%	
		Individuals file electronically	Individual (T1) electronic filing rates <sup>1</sup>	80%	80%
		Validation activities detect and address non-compliance by individuals with the reporting requirements of the acts	Ratio of average dollar value assessed for targeted vs. random reviews	Minimum ratio of 2:1	2.77:1
<b>Business returns and payment processing</b>	Business taxfilers receive timely and accurate assessment notices and payment processing	Percentage of service standard targets that are met or mostly met relating to business Taxfiler (T2, GST/HST, excise and other levies) activities: <ul style="list-style-type: none"> <li>Processing T2 corporation income tax returns (electronic) within 45 calendar days (target: 90%)</li> <li>Processing T2 corporation income tax returns (paper) within 90 calendar days (target: 90%)</li> <li>Processing GST/HST returns within 30 calendar days of receipt (target: 95%)</li> <li>Processing excise tax, excise duty, softwood lumber, and air traveller's security charge returns within 60 calendar days of receipt (target: 95%)</li> </ul>	100%	100%	
		Percentage of T2 returns processed accurately	98%	98.5%	
		Payments to the Receiver General are processed on time	Percentage of payments to the Receiver General that are deposited within 24 hours of receipt	96%	98.9%

<sup>1</sup> The values are based on data for the 2014 tax filing season from February to August 2014.



**\$16B**

We identified over  
\$16 billion of  
non-compliance



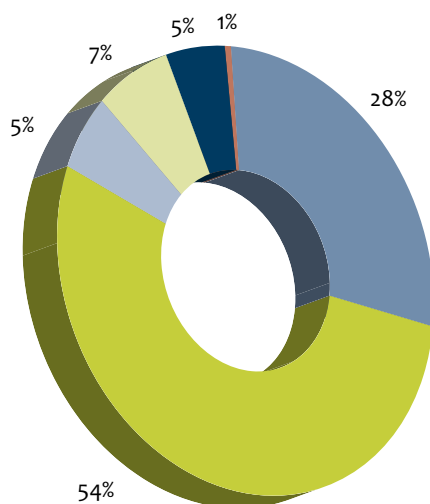
# Compliance

The CRA's compliance activities protect the integrity of our self-assessment tax system by identifying, addressing, and deterring non-compliance with Canada's tax laws. Our compliance measures escalate from promoting compliance to enforcing it. We promote compliance by increasing taxpayers' understanding of their tax obligations through outreach activities and targeted taxpayer assistance, and by educating taxpayers about their reporting responsibilities. We also undertake examinations, audits, and criminal investigations at the domestic and international level to ensure taxpayers comply with Canada's tax laws.

Compliance	Financial resources (in dollars)	Human resources (FTEs)
Planned	1,106,828,514 <sup>1</sup>	10,360
<b>Actual</b>	<b>1,084,562,230<sup>1,2</sup></b>	<b>9,761</b>
Difference	22,266,284	599

<sup>1</sup> Includes audit professional services sub-program (the activities of this sub-program ceased during 2013-2014): – planned spending (\$60,735,173) and actual spending (\$64,147,383)

<sup>2</sup> The figure represents the actual spending for the CRA on a modified cash basis, based on Parliamentary appropriations used. See pages 106-107 for an explanation of how actual spending relates to results in the CRA Financial Statements – Agency Activities.



## Program spending *at a glance*

- International and large business
- Small and medium enterprises
- Audit professional services
- Scientific research and experimental development
- Criminal investigations program
- Voluntary disclosures program

## International and large business

International and large business	Financial resources (in dollars)	Human resources (FTEs)
Planned	323,959,239	2,484
<b>Actual</b>	<b>301,865,840</b>	<b>2,327</b>
Difference	22,093,399 <sup>1</sup>	157

<sup>1</sup> Decrease primarily due to program and overhead savings as well as payments associated with severance, benefit and vacation credits.

The CRA is responsible for ensuring the reporting compliance of Canada's largest and most complex business entities through a variety of means including strategically directed audit measures, ongoing legislative reviews and research to identify tax loopholes and mitigate emerging non-compliance risks, and targeted outreach and education.

We are moving forward with our business transformation agenda. This includes refining our risk-assessment models and processes to more effectively target the highest-risk taxpayers within the large business population. We continue to implement new ways of supporting voluntary compliance by increasing transparency and strengthening mutual trust and cooperation with Canada's largest business entities.

The CRA's approach to large business compliance takes into account the taxpayer's and tax intermediary's compliance risks and promotes responsible corporate tax management behaviour. This approach divides large businesses into three broad compliance risk segments: high, medium, and low. When dealing with large businesses, the CRA conducts open and transparent discussions on the CRA's determination of their compliance risk and behaviour. Businesses considered to be the highest risk are subject to a full compliance audit. Taxpayers in the medium risk category may be subject to a full compliance or limited scope audit, and taxpayers who are at low risk are subject to periodic compliance assurance reviews. The approach to large business compliance strategy allows the CRA to focus its audit resources on the highest-risk cases of non-compliance within the large business population, and reduce the compliance burden for businesses at low risk.

In recent years, offshore non-compliance has become a large concern for many industrialized countries. In response

to this increasing risk, Canada's Economic Action Plan 2013 introduced a number of measures to help strengthen the CRA's ability to address offshore non-compliance. To administer these new measures and better coordinate the CRA's offshore compliance activities, specialized teams have been created in the Victoria, London, and Quebec City tax services offices. In addition, another specialized team in the London tax services office has been established to conduct research to identify offshore compliance risks, improve how files are selected for audit, and foster links with other CRA programs to share intelligence efficiently.

### In 2013-2014:

- We continued to improve our risk-assessment capacity. This included work on automating of the risk assessment of taxpayers in the large-business taxpayer segment.
- We strengthened our quality assurance program for large files, the Continuous Program Integrity Review, by adopting improved audit control measures and business analysis.
- Regional and local offices worked hard to assess all outstanding legacy files and close low-risk files where appropriate. By closing these files we are achieving greater audit currency and significantly increasing our capacity to focus existing audit resources on higher-risk cases.

## Aggressive Tax Planning

Many taxpayers, including individuals, corporations, and trusts, use tax planning to structure their tax affairs and reduce their amount of tax owing. Registered retirement savings plans and tax-free savings accounts are two examples of legal, beneficial ways ordinary Canadians can reduce their taxes owing. However, taxpayers are not allowed to engage in aggressive tax planning arrangements deliberately designed to circumvent the object and spirit of tax laws.

Aggressive tax planning or abusive tax avoidance occurs when a person undertakes transactions contravening specific anti-avoidance provisions of the

# \$8.4B

### DID YOU KNOW?

From April 2009 to March 2014, our aggressive tax planning audit activities identified \$8.4 billion in fiscal impact<sup>1</sup>

1. Fiscal impact consists of tax assessed, tax refunds reduced, interest and penalties, and present value of future federal tax assessable arising from compliance actions. It excludes the impact of appeals reversals and uncollectable amounts.

## REPORT CARD: Offshore compliance

In May 2013, the federal government announced new measures to strengthen the CRA's offshore tax compliance capacity and combat international tax evasion and aggressive tax avoidance. Over five years, the CRA will invest \$30 million to implement measures in the government's Economic Action Plan for 2013.

### During 2013-2014:

- The CRA created the Offshore Compliance Division to provide a focused approach to implementing the Economic Action Plan measures targeting offshore non-compliance and to deliver related program activities, including creating dedicated offshore compliance specialized teams in three regions across Canada.
- The CRA began administering legislative changes announced in Economic Action Plan 2013 that extended the normal reassessment period for taxpayers who fail to report income from a specified foreign property on their tax return and properly file the Foreign Income Verification Statement (Form T1135). The measure received Royal Assent on December 12, 2013.
- The Offshore Tax Informant Program was launched in January 2014. Under this program, rewards are paid to individuals who provide information to the CRA about major cases of international tax non-compliance that lead to the assessment and collection of additional federal taxes. As of March 31, 2014, the program has received 63 written submissions.
- The CRA is building a facility for banks and other financial intermediaries to electronically submit reports to the CRA on international electronic funds transfers of \$10,000 or more. This link will build on existing infrastructure and no new burden will be imposed on financial intermediaries when it is introduced in January 2015.
- Canada continues to work with tax administrations around the world, bilaterally and participating in the Organisation for Economic Co-operation and Development's Working Party on Exchange of Information and Tax Compliance and the Forum on Tax Administration's various networks such as High Net Worth Individuals, Large Businesses, and Offshore Compliance to examine new trends and approaches to offshore compliance.

law. This includes situations where a taxpayer reduces or eliminates tax through a transaction or a series of transactions that may comply with the letter of the law but violate its spirit and intent.

Aggressive tax planning is a global problem threatening to undermine the ability of nations to generate tax revenues they need to advance and prosper. The strategies the CRA uses to identify and address these unacceptable arrangements are multi-faceted and include audits, legislative change, education, awareness campaigns, and working internationally to support efforts to promote greater international cooperation and increase our ability to access accurate and timely tax and financial information from offshore tax jurisdictions.

Over the past several years, the CRA has been working hard to create an expansive network of treaties and tax information exchange agreements. As of March 31, 2014, Canada was party to 92 tax treaties and 19 tax information exchange agreements. In November 2013, Canada ratified the Convention on Mutual Administrative Assistance in Tax Matters. This convention provides for the exchange of information between parties to the convention. By expanding information sharing and international cooperation, the CRA is significantly improving its ability to identify, address and stop aggressive international tax avoidance and evasion.

The CRA also plays a leading role in many international forums actively working to address International

non-compliance, such as the Organisation for Economic Co-operation and Development (OECD), and the Forum on Tax Administration.

In February 2013, the OECD launched a project on base erosion and profit shifting. This project addresses the international tax planning strategies that multinational enterprises use to inappropriately minimize their taxes, by shifting corporate profits away from the jurisdictions where the economic activity has taken place. The leaders of the G8 and the G20 have endorsed the work of the project, and recommendations are being developed to respond to the concerns raised in the action plan, released by the OECD in July 2013. The CRA is an active participant in this process and is making a significant contribution to moving forward with the action plan on base erosion and profit shifting.

The CRA continues to work closely with the Department of Finance and the Department of Justice to develop the legislative tools needed to challenge aggressive tax planning schemes and protect the integrity of Canada's tax system. In recent years the Government has introduced dozens of important measures to close tax loopholes and address international aggressive tax avoidance.

Budget 2014 recently announced several new legislative measures to close known aggressive tax planning loopholes. These included measures to:

- prevent avoidance of Canadian tax on income associated with the insurance of risk through insurance swap arrangements;

## Recognition from the Auditor General of Canada

As noted in the Spring 2014 Report of the Auditor General of Canada, the CRA now has the tools to detect, correct, and deter the non-compliance of taxpayers using aggressive tax plans. In addition, the Auditor General's Fall 2013 Report on Offshore Banking concluded the CRA had done a good job of following up on the information it received about offshore accounts in the Liechtenstein list case and had made progress in using the intelligence gathered during this case to improve its processes for identifying other taxpayers who may have unreported offshore income.

- ensure offshore regulated bank provisions cannot be used to circumvent the foreign accrual property income rules through foreign affiliates that are not part of a Canadian financial institution group; and
- ensure non-residents cannot avoid Canadian withholding tax by entering into loan arrangements with third-party financial intermediaries.

Successfully addressing aggressive tax planning requires an ongoing commitment and an effective long-term strategy. For example, over the past several years we have witnessed

## General Anti-Avoidance Rule

The General Anti-Avoidance Rule (GAAR) came into existence as part of a package of tax reforms that received Royal Assent in December 1990. GAAR provides the CRA with a legislative mechanism to effectively draw a line between legitimate tax minimization and abusive tax avoidance. The purpose of the GAAR is to reject the tax benefits of certain arrangements that might comply with a literal interpretation of the legislation but are not in accordance with the object, spirit, or intent of the *Income Tax Act* and *Excise Tax Act*. In such cases, the GAAR may be invoked by the minister.

The GAAR is not intended to introduce uncertainty in tax planning; its sole purpose is to deal with situations where unique aggressive tax planning schemes are not caught by the existing net of targeted rules. The GAAR helps to ensure the acts administered by the CRA are applied consistently.

As of March 2014, 1,203 cases had been referred to the General Anti Avoidance Rule committee since its inception. Many of the issues originally dealt with by the GAAR committee have been clarified and resolved by way of subsequent legislative amendments.

a sharp decrease in the number of taxpayers participating in gifting tax shelter schemes. Part of the reason for this decline has been the CRA's long-term strategy of focusing audit efforts on taxpayers engaging in these tax shelter schemes. In recent years, participation in these schemes has declined dramatically from 48,000 participants in 2006 to just over 2,500 in 2013.

### Key results:

- We completed the review of 19,463 international and large business files.
- We completed the review of 15,823 aggressive tax planning files.
- Our international and large business audit activities identified over \$6.1 billion in fiscal impact.<sup>1,2</sup>
- We conducted 35 third party penalty audits which resulted in \$65.7 million in penalties being imposed upon third-parties (e.g., promoters and tax preparers).

## Small and medium enterprises

Small and medium enterprises	Financial resources (in dollars)	Human resources (FTEs)
Planned	565,576,843	5,910
<b>Actual</b>	<b>582,301,781</b>	<b>5,858</b>
Difference	(16,724,938)	52

The small and medium business population is large, diverse, and critically important to Canada's continued economic well-being. Small businesses are important engines of economic growth and innovation in the Canadian economy. According to Industry Canada, between 2002 and 2012, 77.7% of all private-sector jobs in Canada were created by businesses with less than 100 employees. Small and medium-sized businesses vary greatly in size and sophistication and range from one-person operations to businesses with dozens or even hundreds of employees. Within the small and medium business population, many businesses operate in sectors of the economy characterized by frequent cash transactions, such as the hospitality and construction industries. As a result, there are often tempting opportunities to engage in underground economy activities.

2. \$409 million dollars of fiscal impact was refunded during 2013-2014 through the resolution of double taxation issues with Canada's treaty partner countries. This amount had been included in our program results for prior years.

In addition, the relative survival rate of small businesses is low, and thousands of these entities enter and exit the taxpayer population each year. As a result of the dynamic and complex nature of Canada's small and medium enterprise taxpayer population, ensuring they comply is a significant challenge for our tax administration.

An important tool used by the CRA to ensure the reporting compliance of businesses is the audit, but we also consult, educate, and collaborate with stakeholders. In addition, recent advancements in business analytics are allowing us to increasingly use targeted and proactive non-audit interventions, such as tailored client assistance, to support and positively influence the compliance behaviour of taxpayers who represent a low to medium risk of non-compliance.

In 2013-2014, the CRA took several steps to transform and modernize its approach to business reporting compliance. We are investing in proactive approaches to support voluntary compliance up-front in an effort to reduce the need for more costly audit interventions later. On January 17, 2014, the Minister of National Revenue, the Honourable Kerry-Lynne D. Findlay, announced a three-point plan to improve reporting compliance and provide greater support to Canada's small and medium business community.

### Three-point plan to support small and medium-sized business compliance:

- The **Liaison Officer Initiative** (LOI) is designed to provide information and in-person support to small businesses at key points as their businesses grow. This initiative helps small businesses to navigate the tax system and get it "right from the start." Early in 2014, LOI pilot projects were launched in the Ontario and Quebec regions.
- A proposal for a **Registration of Tax Preparers Program** (RTPP). Under the proposed RTPP, tax preparers who prepare individual and corporate tax returns for a fee would be required to register with the CRA. The RTPP would then allow the CRA to work with these tax preparers to help identify issues of concern and prevent reporting errors before returns are filed. Public consultations on this program began in February 2014. The results of these consultations will guide the next steps for this proposal.

# 70%

**DID YOU KNOW?**  
Approximately 70% of small and medium enterprises use tax preparers to file their taxes

- The final element of this three point plan will see the use of advanced business intelligence to improve file selection. Analysis of business intelligence data enables auditors to identify the most appropriate files for audit. Specialized audit teams will also be used when managing compliance in certain high-risk areas. Small and medium business audit programs will also explore the use of proactive approaches, such as sector-specific letter-writing campaigns, to positively influence the reporting behaviour of taxpayers.

These new approaches will give the CRA an opportunity to increase its presence in the small and medium business population by offering more help and assistance to low-risk taxpayers who may be struggling to meet their obligations. The proactive and focused nature of these new approaches will help reduce the compliance burden for low-risk taxpayers and allow them to avoid unnecessary audits and potentially costly errors. At the same time, this approach will make it more difficult for taxpayers who do not comply, by allowing us to focus our audit resources on files at the highest risk of non-compliance.

# \$137M

## DID YOU KNOW?

Since June 2000, the CRA has assessed over \$137 million in third party penalties to tax advisors, planners and promoters as a result of their involvement in gifting income tax shelter schemes

## Business Intelligence and Quality Assurance

As part of the CRA's business transformation and integrity agenda, we have implemented the Business Intelligence and Quality Assurance (BIQA) program. BIQA was implemented in the small and medium business audit programs for income tax and GST/HST in September 2013. Following this successful implementation, BIQA was expanded to include the GST/HST Refund Integrity program.

The business intelligence component of BIQA institutes a new regional approach to selecting audit files. Specialized regional teams develop and select income tax and GST/HST audit workloads. The teams are responsible for gathering, analyzing, and applying the business intelligence used to identify the most appropriate files for audit. This new approach is a more systematic and comprehensive risk-based way to achieve

strategic program objectives at the local, regional, and national levels.

In addition to BIQA, a good example of a more systematic approach to workload management is our National Leads

### CONVICTION: GST/HST FRAUD

## GST/HST fraud leads to 92 months in jail

**Newmarket, Ontario, June 17, 2013** – The Canada Revenue Agency announced today that a Markham, Ontario, man has been sentenced in the Ontario Court of Justice to 92 months in jail and fined \$935,506 after pleading guilty to one count of fraud over \$5,000.

The CRA investigation revealed that for the years 2001 to 2005 the former chartered accountant had filed fraudulent GST/HST returns and received just over \$9.8 million in unwarranted refunds. The court heard evidence that the man had used his senior position in a large retail energy reseller to access the books and records of another recently acquired company. Using this information, he then presented himself as the person who had been authorized to communicate with the CRA on behalf of the newly acquired company to facilitate filing fraudulent GST/HST returns. The fraudulent refunds were then deposited into a bank account he had opened by incorporating another company with a similar name.

The proceeds from the fraud were used to fund a lavish lifestyle that included major renovations to his Markham home, buying a number of properties outside of Canada, and transferring millions of dollars into U.S. bank accounts. For the tax years 2002 to 2005, the man also did not file his personal income tax returns, so he failed to report the income he fraudulently received and thus evaded paying \$935,506 in federal income taxes.

## Tax preparer gets 10-year jail term for tax fraud

Oshawa, June 4, 2013 — A director and owner of a Vaughan-area tax preparation firm was sentenced today in the Ontario Superior Court on two counts of fraud over \$5,000 and was sentenced to the maximum period of 10 years in jail for each count, to be served concurrently. She was also ordered to pay a fine of \$699,608. The convicted woman is currently under arrest in Spain, where extradition proceedings are underway to return her to Canada. She will begin serving her sentence when she returns.

In November 2006, the CRA carried out searches of the woman's residence, place of business, and a local storage facility. The documents obtained during the searches showed that she had fraudulently claimed carrying charges and charitable donations totaling \$58,500,000 on 4,200 income tax returns that she had prepared on behalf of her clients for the 2003 to 2005 tax years. In all, these false claims reduced the amount of federal taxes her clients owed by over \$10 million. In addition, her tax preparation firm did not report taxable income of \$2.8 million for the years 2003 to 2005, resulting in the evasion of \$699,608 in federal tax.

Centre. The centre was established in Scarborough, Ontario, in June 2013. It coordinates and evaluates all informant leads the CRA receives to ensure the information is incorporated in our risk assessment systems, and then refers the lead information to the appropriate compliance program and tax service office for follow up.

The quality assurance component of BIQA, delivered through our Audit Quality Assurance program, establishes strong internal audit control measures to ensure greater audit consistency and quality. Strong audit protocols and procedures help to strengthen the quality of our audits by making staff and managers more accountable. Audit Quality Assurance creates mechanisms for quickly identifying areas needing improvement and improves evidence-based decision-making.

The Audit Quality Assurance process randomly selects audits and examination files for review and is designed to meet the following goals:

- ensure and promote the consistent application of quality standards in compliance activities;
- communicate best practices;
- identify learning needs; and
- provide management with assurances that audit standards are being met.

The program helps us to continuously reinforce quality and professionalism in our audit activities.

## The Underground Economy

Underground economy (UE) activity is generally defined as economic transactions that are unreported for tax purposes. The CRA considers the underground economy to include both unreported and under-reported income, which may involve:

- not filing or registering
- not reporting a business activity
- not reporting part of a business activity or income
- not reporting employment income

Combatting the UE is a high priority for the CRA and we have a dedicated program in place to deal with businesses and individuals who participate in the underground economy.

# 10,360

### DID YOU KNOW?

About ¼ of CRA's total workforce is dedicated to ensuring taxpayers report accurately and are in compliance with Canada's tax laws

UE activity undermines Canada's tax base. It also threatens future economic growth. The tax revenues lost to UE activity restrict the Government's ability to balance its books and fund important government services and economic action plans. But the most insidious effect of the UE is the unfair advantage it gives to people who are willing to cheat the

system, undermining the natural competitive advantages of more innovative, productive, and profitable businesses.

Recent information from Statistics Canada suggests the relative size of the UE as a percentage of the economy is shrinking (from 2.9% in 1992 to 2.3% in 2011). Four industries accounted for almost 65% of Canada's total estimated UE: construction – 28%; finance, insurance, real estate, rental, leasing and holding companies – 13%; retail trade – 12%; accommodation and food services – 12%.

The CRA is committed to tackling the UE and protecting the integrity of Canada's tax system by:

- working with other federal departments, provincial and territorial governments, professional organizations, and key industry groups;
- using a multidimensional compliance strategy including outreach, education, and targeted compliance actions;

- working with international partners to share best practices and identify emerging UE risks and trends;
- conducting compliance research and focusing on sectors where UE activity is prevalent;
- taking a leadership role internationally on the underground economy. In 2011, the CRA led the development of a study on reducing opportunities for tax non-compliance in the underground economy for the OECD Forum on Tax Administration's Subgroup on Small and Medium Enterprise Compliance; and
- providing business cases for new legislative measures to strengthen our ability to identify and address UE activity.

#### In 2013-2014:

- New Electronic Suppression of Sales legislation took effect on January 1, 2014. The legislation provides civil penalties for using, possessing, acquiring, manufacturing, developing, selling, possessing for sale, offering for sale, or otherwise making available Electronic Suppression of Sales software. The new legislation also includes criminal offence provisions for developing, selling, or using this software. To ensure all stakeholders know about the new legislation, a public awareness campaign was conducted until August 31, 2014.
- We created specialized point-of-sales audit teams to address the use of electronic suppression of sales software. The teams are made up of electronic commerce audit specialists and auditors from the income tax and GST/HST small and medium business audit programs. They are involved in applying new civil penalties to people who use or sell sales suppression software and are now working in major urban centres across Canada.
- We established underground economy specialized teams with advanced training in identifying unreported and under-reported income to function as UE centres of expertise. These teams are now operational in 20 tax services offices across the country.
- The Government's Economic Action Plan 2013 introduced legislative measures to streamline procedures for getting information on unnamed persons from third parties such as banks. These measures will complement the audit tools the CRA uses now.

#### CONVICTION: INTERNATIONAL TAX EVASION

### Vancouver businessman jailed for income tax evasion

Vancouver, September 10, 2013 – The Canada Revenue Agency announced today that a Vancouver man has been sentenced to two years in jail and fined \$400,000 in Robson Square Provincial Court, after being found guilty on nine counts of tax evasion.

A CRA investigation found that the man had not reported \$2,447,209 in business and investment income on his 1994, 1996 to 2001, 2004, and 2005 personal income tax returns. A significant portion of his unreported income was derived from offshore stock transactions. Evidence presented to the court showed that the man had held assets in a personal account in Guernsey and he periodically transferred capital from his Guernsey account to a Canadian company account under his control. He then withdrew funds from the Canadian company's business account for personal use. In total, he evaded \$672,703 in federal income tax.



### Key results:

- The small and medium enterprise program conducted 1,213 underground economy outreach visits.
- We reviewed 39,221 files.
- We audited 7,971 underground economy files.
- Our audit activities identified over \$1.1 billion in fiscal impact.

## Goods and Services Tax/Harmonized Sales Tax

The implementation of regional and national inventory models to select and prioritize files for audit is improving our ability to target limited audit resources to files at the highest risk of non-compliance. In addition, by using advanced data analytics we are better able to identify high-risk files based on patterns and trends in the data that GST/HST registrants file. The CRA's GST/HST pre-assessment national inventory model is an excellent example of how we are using analytics to effectively and efficiently identify risk and prevent unwarranted refunds from being paid.

Schemes designed to exploit value-added tax systems commonly found in the European Union have begun to make their presence known in Canada. Our Aggressive GST/HST Planning Program is working closely with our international partners to share best practices to address these emerging aggressive GST/HST planning schemes.

These schemes are a significant non-compliance threat and are being addressed by our GST/HST compliance program. In 2013-2014, the program exercised new authorities under the *Excise Tax Act* for the first time by successfully identifying and assessing a significant third-party civil penalty against an individual who made and participated in the making of false statements or omissions in relation to a Excise Tax matter.

### In 2013-2014:

- The technical capacity of staff continued to be augmented through a series of national technical capacity building forums. These knowledge-sharing sessions allow subject matter experts to provide up-to-date information on interpretive positions.
- The CRA continued to refine its GST/HST pre-assessment national inventory model by adding new algorithms and rules to better identify files at risk and prevent the payment of unwarranted refunds. These changes are

helping the program identify more cases of identity theft, fictitious claims, and abusive schemes.

- The risk assessment of GST/HST large business audit files has been significantly improved through the introduction of a new three-tiered risk assessment process. This new process helps focus audit resources on the highest-risk files. Regional risk assessment committees rank files for audit and then incorporate them into regional work plans to establish which files should be audited and in which order.

### Key results:

- The CRA completed 78,310 GST/HST audits.
- The total additional fiscal impact as a result of GST/HST audits is slightly over \$2 billion.

## Scientific research and experimental development

Scientific research and experimental development	Financial resources (in dollars)	Human resources (FTEs)
Planned	72,020,710	599
<b>Actual</b>	<b>74,360,370</b>	<b>617</b>
Difference	(2,339,660)	(18)

The Scientific Research and Experimental Development (SR&ED) program provides tax assistance and investment tax credits to Canadian businesses as an incentive to conduct qualifying industrial research and development activities in Canada. The CRA also administers film and media tax credits. The CRA's role is to ensure all claims under these programs are made in accordance with legislative requirements.

We review the technical and financial aspects of all claims submitted to ensure the work and expenditures claimed meet the specific requirements of the *Income Tax Act*. We also focus on identifying high-risk claims and ensure the program operates as intended.

Because the scientific research and experimental development tax credit is the largest single source of federal government support for industrial R&D in Canada, we work hard to give applicants the information and timely access to services they need. Our goal is to make sure tax credits or cash refunds are delivered quickly, consistently, and predictably.

**In 2013-2014:**

- In January 2014, the SR&ED program launched the self-assessment learning tool. This online tool helps businesses determine if their R&D work meets the requirements for the SR&ED program. It includes focused questions, clear explanations, and tips on how to structure an SR&ED claim.
- The CRA introduced the First-Time Claimant Advisory Service. This service provides in-person help for first-time SR&ED claimants. Local CRA staff meet with first-time claimants at their place of business to help them to better understand the SR&ED program and to give them the tailored information they need for a successful claim.
- In January 2014, we began piloting webinars on the SR&ED program. These webinars are designed to complement the in-person seminars currently held across the country.

These new initiatives are designed to help SR&ED claimants successfully access the SR&ED program and benefit from the incentives it offers. By proactively supporting our clients



and helping them become better informed, we are increasing their chances of a successful claim, reducing the time lost through processing delays, and lowering their administrative burden. This additional support is expected to give SR&ED claimants more opportunities to create jobs and grow Canada's economy.

**Key results:**

- The SR&ED program processed 24,794 claims.
- The program provided more than \$3.3 billion in tax assistance in support of industrial research and development.
- The CRA identified over \$534 million in non-compliance.

**Criminal investigations**

Criminal investigations	Financial resources (in dollars)	Human resources (FTEs)
Planned	77,884,482	684
<b>Actual</b>	<b>56,177,107</b>	<b>386</b>
Difference	21,707,375 <sup>1</sup>	298

<sup>1</sup> The difference is due to the Criminal Investigations transformation (for more explanation, see pages 42 and 43). Resources have not been reduced, and lapses were reinvested in staffing, training, tools, and compliance-related activities.

The Criminal Investigations Program (CIP) is transforming to become a world-class criminal investigations unit. It will focus on the most egregious tax evaders, including those who promote tax evasion schemes such as a few unscrupulous tax consultants, tax preparers, and tax protestors, as well as those who illegally hide their money offshore.

The financial resources dedicated to identifying and addressing those who commit tax fraud have not been reduced. The transformation plan for the CIP includes a number of transitional factors that have affected the FTE variance. These include:

- the reclassification of investigators to higher grades and levels;
- the consolidation of the program from 32 offices to 6, located in cities that align with our key stakeholders such as the Royal Canadian Mounted Police and the Public Prosecution Service of Canada in the cities of Vancouver, Calgary, Toronto, Ottawa, Montreal, and Halifax; and
- transitional costs for training, tools, and facilities.

## “Natural person” gets 14 months in jail and a hefty fine for tax evasion

**Regina, August 12, 2013** — The Canada Revenue Agency announced today that an Estevan provincial court has fined a Saskatchewan businessman \$264,335 for tax evasion and sentenced him to 14 months in jail.

The man was found guilty of evading federal income by failing to report employment income totaling \$548,044 paid to him in 2006, 2007, and 2008 by a company he controlled and owned. The corporation was also found guilty of helping him to evade taxes. The Court heard evidence that the man had changed his status from an employee to that of a subcontractor, so that the company would no longer be required to issue him a T4 slip. The Court fined the man \$164,728 and his company \$99,607 for a total fine of \$264,335, which represents 100% of the tax evaded.

Evidence provided to the Court showed that over a two-year period the man had also paid fees to an “educator” with the Paradigm Education Group and had adopted their belief that, as a “natural person,” he was not subject to the *Income Tax Act*. The man’s “educator” is also now before the courts charged with tax evasion and aiding, abetting, and counselling others to commit tax evasion. Unfortunately, at no time did the man seek out reputable professional advice about these erroneous beliefs.

The CIP has adopted national strategic file selection. This ensures consistency and our ability to leverage the expertise of investigators nationally, as well as the capacity to effectively work on egregious and complex tax evasion cases.

Our new national workload selection process has enhanced the strategic selection of files by considering local, regional, national, and government priorities. Files selected through this process eliminate the potential for unilateral decisions to investigate files that do not meet national program priorities.

The CIP will also proactively utilize all communication avenues to promote the results of successful prosecutions, and it will release prejudgment information on significant criminal investigations actions such as searches, seizures, and laying criminal charges. This type of information serves to maintain the integrity of the tax system and warns Canadians about potential fraud schemes.

The CIP has been aggressively staffing and recruiting. With the exception of two offices, the program expects to be fully staffed by March 2015. We expect the remaining two offices to be fully staffed in 2015-2016. Program lapses have been invested in training and tools for our new and existing investigators, as well as in compliance-related activities.

The CIP investigates suspected cases of tax evasion, fraud, and other serious violations of tax laws. And it recommends cases to the Public Prosecution Service of Canada for criminal prosecution.

Tax evasion and fraud are serious offences. The success of our criminal investigations acts as a powerful deterrent to people who might otherwise be tempted to commit these crimes.

The work done by the CIP is highly specialized, difficult, and time-consuming. On average, investigations take over three years—from the time a case is accepted for investigation, to the time it goes to court. As well, these investigations can involve individuals with previous criminal records and, in some cases, even individuals with ties to organized crime.

Investigations are done by skilled technical teams with expertise in search, seizure, forensic accounting, and investigative techniques. This includes the taking of electronic evidence from computer records and electronic devices. The evidence needed to support criminal charges is generally gathered through the use of judicially authorized, investigative tools such as search warrants and production orders. The onus is on the CRA to gather sufficient evidence to allow the Public Prosecution Service of Canada to prove beyond a reasonable doubt that an offence has been committed. Our actions are always subject to scrutiny by the

courts. Accordingly, under the Charter of Rights and Freedoms, investigators have to protect the rights of the taxpayers under investigation.

### Key results:

- The Public Prosecution Service of Canada conviction rate was 98%.
- The courts awarded \$9.9 million in criminal fines and 25 individuals received prison sentences. A total of more than 52 years of jail sentences were imposed.

## Voluntary disclosures

Voluntary disclosures	Financial resources (in dollars)	Human resources (FTEs)
Planned	6,652,067	77
<b>Actual</b>	<b>5,709,749</b>	<b>77</b>
Difference	942,318	0

The Voluntary Disclosures Program gives taxpayers a way to voluntarily come forward to put their tax affairs in order and become fully compliant. The program promotes voluntary compliance with tax legislation.

Taxpayers who use this program still must pay any taxes owing, plus interest, but they may avoid costly penalties or prosecution. Taxpayers can disclose unreported income from any source, non-filed returns, or can correct errors or omissions on previously filed returns, among other errors or omissions.

For example, as a result of our focus on offshore compliance, taxpayers are using the Voluntary Disclosures Program to disclose offshore income and assets. The number of offshore disclosures received have increased from 1,215 in 2006-2007, to 5,248 in 2013-2014. This represents over \$2 billion in total unreported income since 2006-2007.

Encouraging taxpayers to come forward, correct their tax affairs and pay their fair share is a cost-effective way for the CRA to obtain compliance. The Voluntary Disclosures Program also provides valuable insights into taxpayer behaviour that are helping the CRA to meet the compliance and service challenges of the future.

### In 2013-2014:

- Voluntary Disclosures Program operations were centralized and now operate out of the Shawinigan, Winnipeg, and Surrey tax centres. Centralization allows the CRA to maximize existing tax centre file processing expertise.

### Key results:

- In 2013-2014 we processed 14,624 Voluntary Disclosures, a record and almost 22% more than the previous year.
- The program identified more than \$813 million in unreported income.
- The program identified \$303 million in unreported income from disclosures related to offshore income and assets in 2013-2014.

# Performance results

Program/sub-program	Expected results	Performance indicators	Targets	Results
<b>International and large business</b>	Reporting non-compliance is detected and corrected by better targeting compliance actions through effective risk assessment of the largest and most complex tax filers	Change rate for international and large business income tax audits (percentage of risk-assessed audit activities that result in detecting non-compliance)	90%	85% <sup>1</sup>
<b>Small and medium enterprises</b>	Reporting non-compliance is detected and corrected by better targeting compliance actions through effective risk assessment of individuals, small and medium businesses (less than \$250 million per year in gross sales), and non-residents	Change rate for small and medium enterprise income tax audits (percentage of risk-assessed audit activities that result in detecting non-compliance)	75%	82%
<b>GST/HST</b>	Reporting non-compliance is detected and corrected by better targeting compliance actions through effective risk assessment of GST/HST registrants	Change rate for GST/HST audits (percentage of risk-assessed audit activities that result in detecting non-compliance)	75%	73%
<b>Scientific research and experimental development</b>	Eligible claimants receive timely scientific research and experimental development tax incentives	Percentage of service standards targets that are met or mostly met relating to SR&ED: <ul style="list-style-type: none"> <li>• Claims – SR&amp;ED tax incentives – refundable claims processed within 120 calendar days (target: 90%)</li> <li>• Claims – SR&amp;ED tax incentives – non-refundable claims processed within 365 calendar days (target: 90%)</li> <li>• Claims – SR&amp;ED tax incentives – claimant-requested adjustments to refundable claims processed within 240 calendar days (target: 90%)</li> <li>• Claims – SR&amp;ED tax incentives – claimant-requested adjustments to non-refundable claims processed within 365 calendar days (target: 90%)</li> </ul>	100%	100%
<b>Criminal investigations program</b>	Suspected cases of evasion or fraud are detected and addressed through referrals to Public Prosecution Service of Canada	Percentage of full-scale investigations referred to Public Prosecution Service of Canada compared to total number of full-scale investigations	80%	56% <sup>2</sup>
<b>Voluntary disclosures program</b>	Promoting compliance with Canada's tax laws by encouraging taxpayers to voluntarily come forward and correct previous omissions in their dealings with the CRA	Percentage of verified voluntary disclosure cases sampled through program reviews will be in compliance with VDP policies and procedures	90%	90%

<sup>1</sup> As noted in the report, as a result of CRA compliance actions, the number of participants in gifting tax shelter schemes has fallen significantly in recent years. Consequently, the number of tax shelter audits performed during the reporting period also fell dramatically, negatively impacting the international and large business audit change rate.

<sup>2</sup> See the last paragraph in the criminal investigation section on page 42 for explanation of variance.



**\$46B**

We resolved \$46 billion  
in outstanding tax debt

# Collections and returns compliance

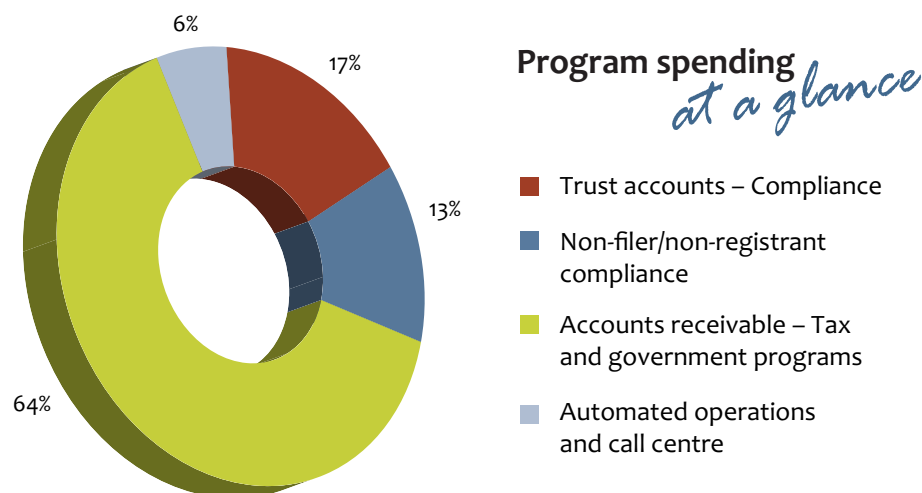
The collections and returns compliance programs identify, address, and prevent non-compliance to help resolve tax debt quickly. The CRA takes a progressive approach to compliance and debt collection, beginning with education and outreach activities to remind taxpayers of their compliance obligations. We work with individuals and businesses who have outstanding tax returns or remittances, or who owe money, to help them meet their tax obligations and pay their outstanding debt. When needed, we take action to address non-compliance by using a range of activities designed to enforce compliance with Canada's tax laws for registering, filing, withholding, and paying debt.

Collections and returns compliance	Financial resources (in dollars)	Human resources (FTEs)
Planned	477,228,052 <sup>1</sup>	7,433
<b>Actual</b>	<b>496,787,602<sup>1,2</sup></b>	<b>7,589</b>
Difference	(19,559,550)	(156)

<sup>1</sup> Includes automated operations and call centre sub-program (the activities of this sub-program ceased during 2013-2014):

– planned spending (\$31,640,994) and actual spending (\$31,358,153)

<sup>2</sup> The figure represents the actual spending for the CRA on a modified cash basis, based on Parliamentary appropriations used. See pages 106-107 for an explanation of how actual spending relates to results in the CRA Financial Statements – Agency Activities.



## Trust accounts – Compliance

Trust accounts – Compliance	Financial resources (in dollars)	Human resources (FTEs)
Planned	77,675,476	1,823
<b>Actual</b>	<b>81,333,441</b>	<b>1,757</b>
Difference	(3,657,965)	66

The CRA is responsible for ensuring the integrity of Canada's source deductions system, overseeing the income tax deducted from the paycheques of millions of Canadians each year to fund federal, provincial, and territorial government programs and infrastructure. We also oversee the income tax deducted and amounts held in trust for

### CONVICTION: TAX EVASION

#### Construction company fined \$200,000 for inaccurately recording overtime pay

**February 2014** – In 2008 and 2009, a northern Ontario construction company recorded \$1,242,357 worth of overtime pay as non-taxable allowances. It compensated employees for the overtime by paying directly for personal expenses or by issuing separate cheques not included on the payroll. Using this approach, the company avoided withholding and remitting the required income tax, Canada Pension Plan contributions, and employment insurance premiums. The company pleaded guilty to tax evasion and was fined \$200,000. It was also reassessed for failure to withhold and remit CPP contributions and EI premiums on the overtime paid in the form of non-taxable allowances from January 1, 2008, to December 31, 2009.

Some employees were affected because the overtime pay was not recorded as income on their T4 slips. Employees who under-reported their taxable income for the 2008 and 2009 tax years have also been reassessed for additional federal taxes.

employees' contributions to their Canada Pension Plan (CPP) and employment insurance (EI) accounts. The collection of personal income tax revenue through source deductions is the most significant source of government revenues. In 2013-2014 alone, the CRA collected \$245 billion through source deductions.

The CRA recognizes the importance of working with employers to ensure they accurately deduct and remit the right amounts when preparing employee payrolls, and remit the employer's portion of CPP contributions and EI premiums. Our role includes helping to educate employers, support compliance, and prevent errors by making information readily available through our website, webinars, and our call centre.

Businesses registered for the GST/HST are responsible for collecting and remitting the appropriate amounts to the CRA, based on the taxable supplies of the goods and services they provide. The GST/HST is a significant source of government revenue, and the CRA is vigilant in making sure GST/HST registrants file when required and remit on time.

The CRA uses a variety of processes to help taxpayers comply. They include an automated reminder service that sends a series of calls to new employers and GST/HST registrants to remind them of their filing obligations, and automated reminder letters and telephone calls to establish filing arrangements. This enables the CRA and taxpayers to resolve issues early to reduce the number of cases requiring follow-up action or prosecution.

When such early intervention methods fail, and GST/HST or source deductions non-compliance is identified or suspected, the CRA takes corrective action including examining employer books and records to make sure the correct amounts are being deducted and remitted. Using this approach, in 2013-2014 the CRA identified \$958.6 million in source deductions non-compliance.

#### Key results:

- We performed over 493,000 payroll account reviews.
- We resolved over 330,000 GST/HST files through our GST/HST delinquent filer program.
- We completed 865 employer compliance audits.
- We identified \$1.9 billion in non-compliance including source deductions.





## Non-filer/non-registrant compliance

Non-filer/non-registrant compliance	Financial resources (in dollars)	Human resources (FTEs)
Planned	71,485,073	859
<b>Actual</b>	<b>64,927,998</b>	<b>897</b>
Difference	6,557,075	(38)

Non-filers are defined as individuals, corporations, or trusts that do not file tax returns despite a legal obligation to do so. Non-registrants are business entities that do not register for the GST/HST when required.

Some of the ways we identify non-compliance in this area include using automated systems to match information slips and corporate business numbers against submitted tax returns, and following up on informant leads from various sources. We also investigate sectors where we suspect underground economic activities exist. Some of our accomplishments in 2013-2014 included:

- leveraging business intelligence to influence enhancements to program strategies
- regionalizing inventories
- strengthening internal controls for workload management

Once we identify non-filers and GST/HST non-registrants, we take a measured approach to promote or enforce compliance. We use letters, telephone calls, and in-person contact in an effort to get outstanding returns. When these actions do not bring the taxpayer into compliance with their filing obligations, we may decide it is necessary to prosecute the taxpayer for not filing their tax returns.

### Key results:

- We received over 667,000 income tax and information returns as a result of our actions to prompt compliance by non-filers.
- We identified \$3.3 billion in non-compliance in the non-filer segment.

## Accounts receivable – Tax and government programs

Accounts receivable – Tax and government programs	Financial resources (in dollars)	Human resources (FTEs)
Planned	296,426,509	4,368
<b>Actual</b>	<b>319,168,010</b>	<b>4,478</b>
Difference	(22,741,501) <sup>1</sup>	(110)

<sup>1</sup> Increase primarily due to in-year allocations aimed at enhancing program results, legal services expenditures transferred from the appeals program during the 2013-2014 fiscal year, and payments associated with severance, benefits and vacation credits.

Effectively resolving outstanding tax debt is a critical element in protecting Canada's tax base and ensuring governments have the revenues needed to support social programs and address priorities. In 2013-2014, the CRA resolved \$46 billion in outstanding tax debt on behalf of federal, provincial, territorial, and First Nations governments.

### CONVICTION: NON-FILERS

#### Non-filer fined \$15,000 for not filing tax returns

**Brampton, Ontario, February 4, 2014** – The Canada Revenue Agency announced today that a Brampton, Ontario, man has been fined \$15,000 after pleading guilty to 15 counts of failing to file personal and corporate income tax returns. The fines were imposed by the Ontario Court of Justice in Brampton. The man was given 12 months to pay the fine, and all returns have since been filed.

The CRA made several requests for the missing returns before serving the Brampton man with formal notices demanding that he file them. Charges were laid when he did not comply.

In addition to the fines imposed by the courts, individuals or corporations convicted of not filing tax returns are still obligated to file the tax returns and pay the full amount of taxes owing, plus interest, as well as any civil penalties that the CRA may assess.

This past year, over 92% of individuals paid their taxes on time and without intervention. The CRA focuses on addressing the remaining segment of the population that is non-compliant, and uses a variety of interventions ranging from automated reminders or phone calls from agents to various enforcement actions conducted by our tax services offices.

Along with collecting tax debts, the CRA also undertakes various activities to promote the integrity of the tax system and maintain a healthy tax portfolio. These activities include insolvency-related actions, investigations leading to legal action to protect the tax amounts owing, managing the aged inventory, and ensuring accounts are properly written off when the accounts are not collectable.

In 2013-2014, some of our major undertakings included:

- putting more collections information online, based on consultations with stakeholder groups; for example, we added specific topics of interest to third parties, such as requirements to pay (garnishees);
- implementing new processes and technology to better reallocate accounts from potential collection officer action to lower-risk and more efficient strategies, such as letters and phone calls;
- applying analytics expertise to improve call campaigns such as instalment remitters;
- piloting new approaches to leverage the capacity of senior collection officers on high-risk accounts across broader geographic zones; and
- assuming responsibility for recovering overpayments for additional employment and social development Canada benefit programs, including developing required policies and procedures.

# 92%

**DID YOU KNOW?**  
More than 92% of individuals file and pay their taxes on time without CRA intervention

The CRA launched new projects to address payment non-compliance in the very high-risk collections area of repeat offenders. Our goal is to identify and modify the future behaviour of taxpayers, specifically those who are strategically organizing their business affairs to avoid collections actions or are unwilling to correct their non-compliance.

## REPORT CARD: Business intelligence

Similar to other tax administrations, the CRA collects, produces, and stores vast amounts of data. New technologies and faster processing are helping us to more effectively access, integrate, and analyze this data, resulting in better business intelligence about taxpayer behaviour.

Equipped with this knowledge, we are in a stronger position to positively influence taxpayer behaviour. This, in turn, supports our compliance and collections efforts, from placing a well-timed phone call, to offering a reminder, to selecting files for examination when non-compliance is suspected. Examples of our initiatives include:

- Using data analysis to predict which instalment remitters were likely to make payments enabled us to better target follow-up phone calls, resulting in \$31 million in additional negotiated payment arrangements.
- Using data analysis to identify accounts that would “self-resolve” allowed us to focus our collections efforts on higher risk accounts, ultimately limiting the growth in tax debt.
- Using data analysis to predict the assessed value of unfiled T1 returns, enabling us to better select T1 non-filer workload for follow-up action, and resulting in additional positive assessments totalling \$127 million.
- having successfully used a “nudge” approach (i.e., calls to encourage taxpayer co-operation) with our automated dialler strategy, we adopted a similar approach for collections.

The CRA is also continuing efforts to identify and address specific complex workloads such as international accounts and tax avoidance schemes. We have begun to establish centres of expertise to deal with the challenges unique to these files.

At the end of 2013-2014, the CRA’s collections activities exceeded targets for a number of reasons which included continued improvements to collection processes and the effective management of aged accounts to address the legislation on the collections limitation period. To ensure tax debts are resolved before the limitation period expires, the CRA is developing an automated system to manage the limitation periods for all tax debts. At the end of the reporting period, the total undisputed taxes, interest, and penalties was \$33.6 billion.

### Key results:

- The CRA resolved \$46 billion in outstanding tax debt.
- The CRA recovered \$609 million of the outstanding debt portfolio for Employment and Social Development Canada.

## Expanded Use of Business Intelligence

In 2013-2014, the CRA continued to maximize the use of business intelligence tools to predict cases where CRA intervention might influence payment and filing compliance.

By using technology and business intelligence, the CRA was able to make strategic and operational decisions so that taxpayer files could be directed to the most appropriate collection or compliance strategy, such as the Debt Management Call Centre, the Accounts Receivable National Inventory, or directly to a tax service office for intervention. Data mining models allowed the call centre to receive taxpayer files that might be settled by an automated phone call or a call from a call centre agent, whereas the more complex and higher-risk files were directed to a tax service office for more aggressive action.

The CRA also identified population segments, including new employers and GST/HST registrants and individual quarterly instalment remitters, that would benefit from receiving an automated reminder of their filing obligations and due dates.

We implemented a predictive data mining model which enabled us to predict taxpayers' likelihood to pay and guided our campaigns to improve payment compliance by calling taxpayers with outstanding balances. Our business intelligence work is helping our efforts to support filing compliance when addressing the underground economy in high-risk sectors.

# Performance results

Program/sub-programs	Expected results	Performance indicators	Targets/forecasts/threshold	Results
<b>Accounts receivable and returns compliance</b>	Tax debt and government programs debt is resolved on a timely basis and is within targeted levels	Percentage of dollar value of tax and government programs accounts receivable resolved at our tax services offices in the fiscal year, compared to forecast	100%	122% <sup>1</sup>
<b>Trust accounts – Compliance</b>	Ensure compliance with filing and remitting requirements as they relate to the <i>Income Tax Act</i> , the <i>Canada Pension Plan</i> , the <i>Employment Insurance Act</i> , and the <i>Excise Tax Act</i>	Dollar value of assessments related to Employer, GST/HST and Part XIII related compliance activities	\$1.8 billion	\$2 billion
<b>Non-filer/non-registrant – Compliance</b>	Ensure compliance of individuals, corporations, and trusts with filing and registration requirements as they relate to the <i>Income Tax Act</i> , the <i>Excise Tax Act</i> , and other legislation	Dollar value of returns obtained and estimated assessments related to GST/HST non-registration activities and non-filer activities for individuals, trusts and corporations resolved at the TC/TSO level	\$2.45 billion	\$3.3 billion
<b>Accounts receivable – Tax and government programs</b>	Tax debts are collected and resolved, for the federal, provincial, and territorial governments, on a timely basis and within targeted levels	Percentage of dollar value of tax accounts receivable intake (dollars) resolved in the year of intake	60%	59%
		Percentage of TSO tax accounts receivable aged inventory (>5 years) compared to closing TSO inventory	18%	14.5%
		Percentage of accounts receivable dollars resolved (production) in the fiscal year compared to the dollar value of accounts receivable received (intake) in the fiscal year	90%	95%
	Government program debts are collected and resolved, for the federal, provincial, and territorial governments, and are within targeted levels	Percentage of dollar value of government program accounts receivable resolved in the fiscal year compared to forecast	100%	102% <sup>2</sup>

<sup>1</sup> The actual total of tax debt and government programs debt resolved by our tax services offices and by our Government Programs in 2013-2014 was \$21.3 billion — 22% higher than the original forecast of \$17.4 billion.

<sup>2</sup> The actual total of government program debts resolved in 2013-2014 was \$609.2 million — 2% higher than the original forecast of \$596 million.



# 91,214

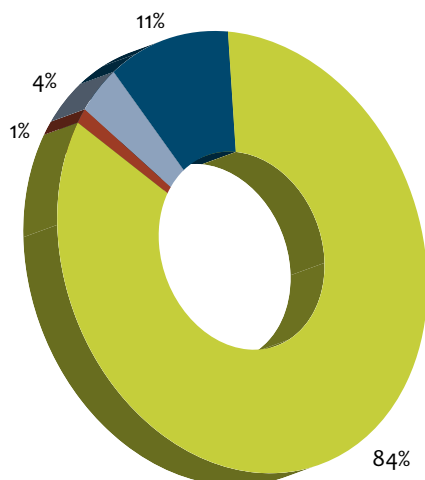
We resolved 91,214 income  
and commodity tax disputes

# Appeals

The CRA provides a fair and impartial redress process to resolve disputes and requests for relief arising from decisions made by the CRA. If taxpayers are not satisfied with the outcome of this process, they can appeal to the courts.

Appeals	Financial resources (in dollars)	Human resources (FTEs)
Planned	194,984,626	1,634
<b>Actual</b>	<b>190,219,456<sup>1</sup></b>	<b>1,732</b>
Difference	4,765,170	(98)

<sup>1</sup> The figure represents the actual spending for the CRA on a modified cash basis, based on Parliamentary appropriations used. See pages 106-107 for an explanation of how actual spending relates to results in the CRA Financial Statements – Agency Activities.



## Program spending *at a glance*

- Income and commodity tax – Objections, determinations, and appeals to the courts
- Canada Pension Plan/employment insurance appeals to the minister and appeals to the courts
- Service complaints
- Taxpayer relief

## Income and commodity tax – Objections, determinations, and appeals to the courts

Income and commodity tax – Objections, determinations, and appeals to the courts	Financial resources (in dollars)	Human resources (FTEs)
Planned	163,551,896	1,214
<b>Actual</b>	<b>159,394,641</b>	<b>1,275</b>
Difference	4,157,255	(61)

The CRA interacts with millions of taxpayers, GST/HST registrants, and benefit recipients each year. Our goal is to make sure each taxpayer is treated fairly and according to the appropriate tax laws, beginning with the *Income Tax Act*.

Whenever a taxpayer or benefit recipient disagrees with a CRA decision, they can request a review. To launch a formal redress process, the taxpayer files an objection and receives a letter of acknowledgement from the CRA. To ensure impartiality, we assign an appeals officer who was not involved in the original assessment, determination, or ruling to work with the taxpayer to try to resolve the dispute. In cases where we are unable to resolve a tax dispute to the taxpayer’s satisfaction, the taxpayer has the right to appeal to the Tax Court of Canada or the Federal Court.

The CRA is committed to providing objective, fair, transparent, and timely administrative reviews. The ultimate goal is to provide a sound decision that will respond to the taxpayer or benefit recipient who put forward the objection and will build trust in the tax system. Our decisions are not arbitrary or subjective—every decision is firmly grounded in legislative authority to ensure all taxpayers are treated fairly and consistently.

## Faster Processing, Decreasing Costs

The CRA’s growing focus on aggressive tax planning in recent years contributed to a growing backlog of income tax objections and subsequent appeals to the courts.

Bill C-48 received Royal Assent on June 26, 2013, amending the *Income Tax Act* retroactively to 2002. The amendment affects selected groups of objections involving more than 107,000 taxpayers. Between August 2013 and March 2014, the CRA communicated with 25,600 taxpayers to offer resolution to the dispute. Of these, 19,300 accepted the resolution. Along with objections from other similar groups, we anticipate completing about 44,500 objections in 2014-2015.

In addition to resolving these group objections, the CRA has continued to find more efficient ways of processing objections. By distributing low-complexity objections to tax centres across Canada, the CRA can reduce turnaround times. In 2013-2014, we also began a review of information technology systems related to appeals to identify potential efficiencies and improvements.

The ability to process and clear some of the existing backlog, combined with a decrease in new files coming in during the reporting period, enabled us to reduce the closing inventory. The closing inventory for 2013-2014 was 197,278 which is lower than the 2012-2013 closing inventory of 208,559 leaving us with 11,000 fewer objections to resolve.

# 83,708

**DID YOU KNOW?**  
We received 83,708 objections

### Key results:

- We received 80,723 income and commodity tax disputes.
- We resolved 91,214 income and commodity tax disputes.
- 4,543 appeals were filed before the Tax Court of Canada.



## Canada Pension Plan/employment insurance appeals to the minister and appeals to the courts

Canada Pension Plan/employment insurance appeals to the minister and appeals to the courts	Financial resources (in dollars)	Human resources (FTEs)
Planned	4,910,146	154
<b>Actual</b>	<b>2,300,606</b>	<b>126</b>
Difference	2,609,540	28

The CRA provides a timely, objective, fair, and transparent dispute resolution process for taxpayers who want to appeal a CRA decision relating to an assessment or ruling made under the *Canada Pension Plan* or the *Employment Insurance Act*. Once we issue a decision on an appeal, the decision can be further appealed to the Tax Court.

Increased emphasis on the timeliness of these decisions has reduced the average time it took to resolve a CPP/EI appeal. The average time fell to 140 days from the previous year's average of 150. The program also saw an improvement of 13% in 2013-2014 in meeting its internal objectives for the timely resolution of CPP and EI appeals.

If the administrative review of a CPP/EI appeal does not resolve the taxpayer's dispute, the taxpayer can appeal to the Tax Court of Canada. In these instances, the CRA works with the Department of Justice. There has been a decrease in the number of CPP/EI appeal files received at the Tax Court of Canada in the last few years: a 31% reduction in the number of CPP/EI appeals to the Tax Court of Canada compared with 2011-2012. This decrease is explained in part by our commitment to transparency in explaining our decisions. Taxpayers receive a complete analysis and explanation, which we believe increases their understanding of the decision and reduces the number of appeals to the courts.

### Key results:

- We received 2,985 CPP/EI disputes and resolved 3,272.
- 284 appeals were filed before the Tax Court of Canada.

## Taxpayer Bill of Rights

In June 2013, the Minister added a new right to the Taxpayers Bill of Rights. Right #16 provides the assurance that service complaints or requests for formal reviews will not attract reprisal. Any allegation of reprisal will be investigated by the CRA. This provides an objective and impartial review by making sure the investigation is conducted independently of the office associated with the complaint.

## Service complaints

Service complaints	Financial resources (in dollars)	Human resources (FTEs)
Planned	7,844,409	95
<b>Actual</b>	<b>7,578,574</b>	<b>87</b>
Difference	265,835	8

The CRA offers a three-step process to resolve service-related issues resulting from mistakes, undue delays, misleading information, or concerns about behaviour of CRA employees. Since some service complaints result from a lack of information or simple miscommunication, we first encourage taxpayers to talk with us. Taxpayers who are still not satisfied may file a formal complaint with the CRA's service complaints program. If the resolution we provide is unsatisfactory, taxpayers have the right to submit a complaint to the Office of the Taxpayers' Ombudsman.

In 2013-2014, our analysis of trends in service-related issues helped us to identify and confirm service gaps and to prioritize needs for service improvements. During the reporting period, the CRA:

- updated call centre information so our agents advise taxpayers who are updating their direct deposit information to keep their old accounts open until the first deposit is made to their new account;

# 95%

**DID YOU KNOW?**  
More than 95% of the service complaints were resolved within 30 business days

- equipped call centre agents with more information about processing times of tax returns for taxpayers who have a proposal in bankruptcy, so they can give them more accurate information; and
- updated our website to explain that business clients can request a “comfort letter” confirming a taxpayer’s business accounts are in good standing with the CRA.

**Key results:**

- We resolved 2,705 service complaints.
- 95.3% of the service complaints were resolved within 30 business days.

## Taxpayer relief

Taxpayer relief	Financial resources (in dollars)	Human resources (FTEs)
Planned	18,678,175	171
<b>Actual</b>	<b>20,945,635</b>	<b>244</b>
Difference	(2,267,460)	(73)

The CRA’s Taxpayer Relief Program helps taxpayers who may not be able to meet their tax obligations because of personal misfortune or circumstances beyond their control. When taxpayers disagree with how the CRA applied the taxpayer relief provisions, they can ask the Federal Court to intervene.

The taxpayer relief provisions give the minister the authority to cancel or waive penalties and interest otherwise payable. They also provide the discretion to allow certain late, amended, or revoked elections, and issue income tax refunds or reduce amounts payable beyond the normal three-year period. This allows the CRA to take a common-sense approach to helping taxpayers who are unable to comply with certain tax obligations, such as filing a return by its due date, or paying or remitting an amount when required.

The CRA issues media releases and posts information on its website to tell taxpayers who have been affected by disasters that they will have access to the taxpayer relief provisions if they are unable to meet their tax obligations. For example, in 2013, Canadians from several regions, including Alberta, Ontario, Quebec, and Atlantic Canada, had to rebuild because of flooding, severe weather conditions, and other tragic events. On July 25, 2013, the Minister

## Tax relief in extraordinary circumstances

Disasters struck some Canadian communities during 2013, disrupting the lives of thousands of families and interrupting the affairs of hundreds of businesses. Severe spring flooding in western Canada and extreme weather in other regions forced many taxpayers to spend weeks preoccupied with preserving and restoring their property and their belongings. Then in July 2013, tragedy struck Lac Mégantic, Québec when a rail derailment and the resulting fire caused significant loss of life and destruction of property, impacting the entire community for many months.

These extraordinary events made it impossible for some taxpayers to file on time which, under normal circumstances, would expose them to penalties. Fortunately, the CRA was able to waive such penalties for many of the affected taxpayers through the tax relief provisions of the *Income Tax Act*. The Tax relief program helped the affected taxpayers to focus their efforts on helping their families and neighbours while their communities recovered from disaster.

announced taxpayer relief measures for Canadians affected by the disaster in Lac-Mégantic, Quebec.

The Taxpayer Relief Program has received significantly more requests over the past several years as Canadians become more familiar with options available to them when they encounter challenges complying with their tax obligations. The increased volumes have put pressure on the CRA’s ability to provide timely responses. To relieve these pressures, the CRA has invested significant resources to improve timeliness. We invested in system enhancements allowing for better file management, training, and better tools to help staff address requests.



The CRA website tells taxpayers how to submit a taxpayer relief request, what information to include, and what the time limit is for requesting relief.

**Key results:**

- Under taxpayer relief provisions, we cancelled and waived \$414.2 million in penalties and interest for 382,758 requests (taxpayer-requested and automated).
- We introduced system enhancements and streamlined procedures which have improved processing times for cancelling and waiving penalties and interest.

# Performance results

Program/ sub-programs	Expected results	Performance indicators	Targets	Results
<b>Appeals</b>	Taxpayers receive a timely review of contested decisions made under legislation administered by the CRA and the handling of service complaints is timely and consistent	<p>Percentage of targeted levels of timeliness and consistency for income tax and commodity tax objections, CPP/EI appeals to the minister, and service complaints that are met or mostly met:</p> <ul style="list-style-type: none"> <li>• First contact letter for disputes within 30 calendar days (target: 85%)</li> <li>• Problem resolution program – acknowledge receipt within two business days (target: 95%)</li> <li>• Problem resolution program – resolve problem within 15 business days (target: 95%)</li> <li>• Service complaints – acknowledge receipt within two business days (target: 80%)</li> <li>• Service complaints – resolve the complaint within 30 business days (target: 80%)</li> </ul>	100%	100%
	Taxpayers receive an impartial review of contested decisions made under legislation administered by the CRA	Taxpayers receive an impartial review of contested decisions made under legislation administered by the CRA	100%	100%
<b>Income and commodity tax – Objections, determinations, and appeals to the courts</b>	Taxpayers receive a timely, impartial, and responsive review of contested decisions made under the <i>Income Tax Act</i> , the <i>Excise Act</i> , and the <i>Excise Tax Act</i>	Percentage of decisions on objections filed under the <i>Income Tax Act</i> , the <i>Excise Act</i> , and the <i>Excise Tax Act</i> completed within established time frames	85%	80% <sup>1</sup>
		Percentage of decisions on objections filed under the <i>Income Tax Act</i> , the <i>Excise Act</i> , and the <i>Excise Tax Act</i> determined to meet or exceed consistency standards	90%	96.5%
		Percentage of decisions on objections filed under the <i>Income Tax Act</i> , the <i>Excise Act</i> , and the <i>Excise Tax Act</i> determined to be impartial meets or exceeds target	95%	99.2%

Program/ sub-programs	Expected results	Performance indicators	Targets	Results
<b>Canada Pension Plan/employment insurance appeals to the Minister and appeals to the courts</b>	Taxpayers receive a timely review of contested decisions made under the <i>Canada Pension Plan</i> or the <i>Employment Insurance Act</i>	Percentage of reviews of appeals to the minister filed under the <i>Canada Pension Plan</i> or the <i>Employment Insurance Act</i> completed within established time frames	85%	76% <sup>2</sup>
	Taxpayers receive an accurate review of contested decisions made under the <i>Canada Pension Plan</i> or the <i>Employment Insurance Act</i>	Percentage of decisions regarding CPP/EI appeals to the minister determined to meet or exceed accuracy standards	90%	99.8%
	Taxpayers receive an impartial review of contested decisions made under the <i>Canada Pension Plan</i> or the <i>Employment Insurance Act</i>	Percentage of decisions of CPP/EI appeals to the minister determined to be impartial	95%	99.8%
<b>Service complaints</b>	Taxpayers are issued timely acknowledgements to their service complaints	Percentage of service complaints acknowledged within two business days	80%	85.8%
	Taxpayers receive timely resolutions to their service complaints	Percentage of service complaints resolved within 30 business days	80%	95.3%
<b>Taxpayer relief</b>	Taxpayers receive a timely response to requests for interest relief or penalty relief or both	Percentage of decisions on taxpayer relief requests determined to meet or exceed consistency standards	85%	98.5%

<sup>1</sup> Established timeframe targets were mostly met in 2013-2014. Processing improvements will continue to be implemented.

<sup>2</sup> An increase in intake in 2012-2013 as a result of changes in the Pensionable and Insurable Earnings Review program and in an increase in major investigation files resulted in unexpected increases in inventory. Consequently, 2013-2014 internal objective results on disposals were negatively affected.



**\$22B**

We paid almost  
\$22 billion in  
benefits payments

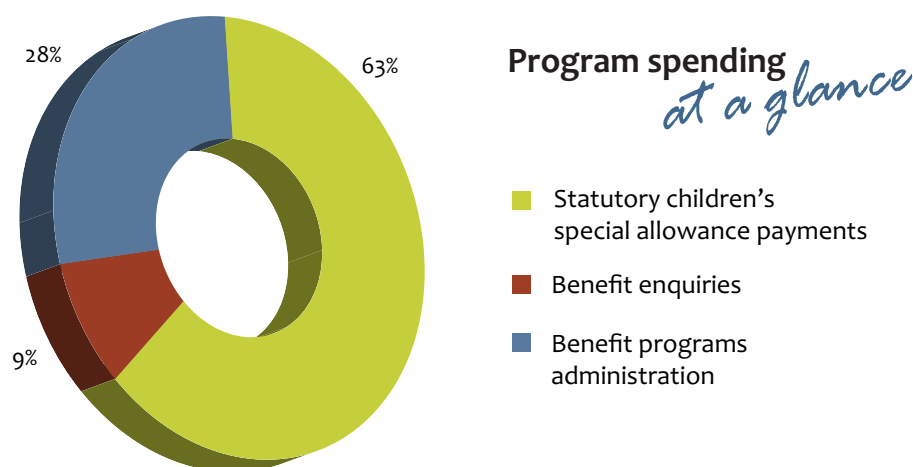
# Benefit programs

Many Canadians depend on benefit payments for a significant part of their household income. The CRA administers a range of ongoing benefits and one-time payment programs for the provinces and territories and the federal government, such as the Canada child tax benefit, the GST/HST credit, and the universal child care benefit. We ensure the right benefit payment is made to the right individual at the right time and give recipients accessible information and timely responses to their enquiries.

Benefit programs	Financial resources (in dollars)	Human resources (FTEs)
Planned	392,631,508 <sup>1</sup>	1,561
<b>Actual</b>	<b>374,414,324<sup>1,2</sup></b>	<b>1,300</b>
Difference	18,217,184	261

<sup>1</sup> Includes statutory children's special allowance payments sub-program:  
– planned spending (\$238,000,000) and actual spending (\$235,403,434)

<sup>2</sup> The figure represents the actual spending for the CRA on a modified cash basis, based on Parliamentary appropriations used. See pages 106-107 for an explanation of how actual spending relates to results in the CRA Financial Statements – Agency Activities.



## Benefit enquiries

Benefit enquiries	Financial resources (in dollars)	Human resources (FTEs)
Planned	44,807,940	515
<b>Actual</b>	<b>33,950,231</b>	<b>316</b>
Difference	10,857,709	199

For many Canadians, benefit payments account for a significant part of their household income, and it is essential the CRA give quick and helpful responses to their benefit enquiries.

Our call centres respond capably to millions of telephone enquiries each year. We met our performance targets for timely and accurate responses to enquiries about the Canada child tax benefit and the GST/HST credit.

While more users are opting for the convenience of our online tools, we are committed to maintaining our telephone enquiries service and to providing paper copies of publications to those who need them because we understand online services do not meet the needs of all benefit recipients.

### Key results:

- 5.6 million calls to our benefit enquiries line in 2013-2014.
- We met our service standard target for timeliness by answering calls within two minutes 75% of the time for Canada child tax benefit and GST/HST credit enquiries.

## Benefit programs administration

Benefit programs administration	Financial resources (in dollars)	Human resources (FTEs)
Planned	109,823,568	1,046
<b>Actual</b>	<b>105,060,659</b>	<b>984</b>
Difference	4,762,909	62

### Renewing our Benefit Infrastructure

We are updating our benefits system through a multi-year renewal project. It will ensure we continue to provide benefit recipients with timely payments and information while enabling future program growth. The renewal project will also provide a solid foundation for the benefit programs and services we deliver for the provinces and territories and the federal government.

### E-services

Our online services, supported by security procedures to protect personal information, represent the best opportunity to respond to the evolving service expectations of benefit recipients. Online services provide benefit recipients with a convenient and user-friendly experience. Canadians can apply for benefits with assurance their personal information will remain confidential.

We introduced a number of improvements to make it easier for them to receive clear information and timely services, and to enable us to respond to new opportunities for growth in program and service delivery, including those we

# 12M

### DID YOU KNOW?

We paid benefits to nearly 12 million recipients







undertake with our partners. For example, benefit recipients can now update information on the children in their care online.

### Key results:

- Benefit and credit payments made by direct deposit increased to 64.8%, moving us closer to meeting the Government of Canada's commitment to phase out federal government cheques by April 2016.
- The benefits page in **My Account** registered 3.3 million visits and the Quick Access service logged 762,330 visits.
- Electronic submission for form T1013 *Authorizing or Cancelling a Representative* increased by more than 40% in 2013-2014. The use of paper forms decreased by more than 280,000.

# 120M

**DID YOU KNOW?**  
We made more than  
120 million payments

## Partnerships

We administer benefit programs on behalf of provincial and territorial governments which reduces the need for separate calculation and delivery systems at the federal, provincial, and territorial levels. For example, in July 2013, we began administering the Prince Edward Island sales tax credit on behalf of the provincial government. This tax credit is fully funded by the province and helps households with low and modest incomes.

Similar income-based eligibility criteria are used for most programs and, through data sharing with our provincial and territorial government partners, we are able to ensure the right benefits go to the right recipients, while simplifying the application process. For example, the CRA's Automated Benefits Application system allows participating provinces and territories to offer a quick, easy, and secure way to apply for all child benefit programs for newborns. In 2013, New Brunswick became the ninth province to adopt the Automated Benefits Application.

### Key results:

- We administer 132 federal, provincial, and territorial programs and services.
- We reviewed 310,648 accounts based on our risk assessments and 66% of the files reviewed had to be adjusted.
- We processed 971,597 GST/HST credit account adjustments resulting from changes to recipient family situations such as a change in income, marriage, or a child turning 19.
- We issued 99.9% of payments on time.
- We made more than 120 million payments to close to 12 million benefit recipients.
- We paid close to \$22 billion in benefit payments.

# Performance results

Program/ sub-programs	Expected results	Performance indicators	Targets/ threshold	Results
<b>Benefit programs</b>	Benefit recipients are provided timely and accurate eligibility determinations and payments, and have access to timely and accurate information	Percentage of service standards targets that are met or mostly met relating to benefits administration and enquiries: <ul style="list-style-type: none"> <li>• Canada child tax benefit enquiries – respond to calls in the agent queue within two minutes (target: 75%)</li> <li>• GST/HST credit enquiries – respond to calls in the queue within two minutes (target: 75%)</li> <li>• Respond to benefit and credit enquiries – accuracy (target: 98%)</li> <li>• Respond to benefit and credit enquiries – within 80 calendar days – timeliness (target: 98%)</li> <li>• Processing benefit applications and marital status change forms – accuracy (target: 98%)</li> <li>• Processing benefit applications and marital status change forms – within 80 calendar days – timeliness (target: 98%)</li> <li>• Benefit validation and compliance – results of review within 45 calendar days (target: 90%)</li> <li>• Process a request to authorize or cancel a representative (electronic) within five business days (target: 90%)</li> <li>• Process a request to authorize or cancel a representative (paper) within 20 business days (target: 90%)</li> </ul>	100%	100%
		Canada child tax benefit overpayment debt as a percentage of payments issued	<0.4%	-0.04% <sup>1</sup>
<b>Benefit enquiries</b>	Benefit recipients have access to timely and accurate responses to their telephone enquiries	Percentage of Canada child tax benefit and GST/HST credit calls answered within two minutes of entering the agent queue	75%	75%
		Percentage of Canada child tax benefit and GST/HST credit callers who succeed in reaching CRA telephone service (agent or automated)	85%	85%
<b>Benefit programs administration</b>	Benefit and credit eligibility determination and payment processing are timely and accurate	Percentage of Canada child tax benefit and GST/HST credit accounts targeted under validation programs that were adjusted (validation and compliance)	50%	65.8%
		Percentage of respondents satisfied with benefit application processing time	75%	84.3%

<sup>1</sup> The cumulative Canada child tax benefit debt decreased in 2013-2014.



**40,000**

The CRA employs a  
workforce of over 40,000

# Internal services

Canada's tax administration is sustained by a solid foundation of sound financial management, secure and reliable information technology, and a diverse and high-performing workforce. Maintaining cost-effective internal services allows us to deliver and continually improve services to Canadians, achieve the highest levels of integrity and security, and respond swiftly and effectively to those who do not comply with their tax obligations.

Internal services	Financial resources (in dollars)	Human resources (FTEs)
Planned	854,769,042	7,767
<b>Actual</b>	<b>914,441,789<sup>1</sup></b>	<b>7,860</b>
Difference	(59,672,747)	(93)

<sup>1</sup> The figure represents the actual spending for the CRA on a modified cash basis, based on Parliamentary appropriations used. See pages 106-107 for an explanation of how actual spending relates to results in the CRA Financial Statements – Agency Activities.



# Blueprint 2020

In 2013, the Clerk of the Privy Council launched Blueprint 2020, a government-wide employee engagement exercise designed to shape the public service of tomorrow. Through two rounds of engagement on Blueprint 2020, CRA employees identified nine priorities to action for the CRA to achieve the Clerk's vision and provide better service to Canadians and government now and in the future.

## The CRA's Blueprint 2020 priorities

1. Streamline our system defining the competencies needed for CRA jobs
2. Improve service by using e-tools to communicate with taxpayers
3. Strengthen our performance management
4. Improve our staffing process
5. Expand the use of social media in the workplace
6. Enhance the workplace with new collaboration and mobility tools
7. Support our reputation by showcasing employee commitment to service and integrity
8. Broaden employee awareness of our services and programs
9. Reduce internal red tape

### Key results:

- More than 3,000 CRA employees took part in the first ever CRA-wide webinar to launch the CRA's engagement in Blueprint 2020.
- More than 21,000 employees participated in face-to-face events about Blueprint 2020.
- Employees accessed the Destination 2020 social media tool more than 460,000 times, posted more than 11,500 comments, and cast 70,000 votes on those comments.

## Human resource management

Our skilled employees, working in communities from coast to coast, are committed to serving taxpayers with integrity and efficiency. We updated the Agency Strategic Workforce Plan in 2013-2014 to detail how we will maintain a workforce with the expertise and experience needed to continue serving taxpayers effectively. The plan identifies five elements that will drive our human resource strategies: a culture of integrity; integrity-based leadership; qualified and skilled employees; a high-performing organization; and an agile workforce.

Being able to anticipate and quickly respond to changes in our operating environment is important to all of our

business. We implemented several actions in 2013-2014 to increase the efficiency of our human resource practices.

We aligned our HR business processes with the Common Human Resources Business Processes, which are part of a government-wide initiative to standardize some corporate functions, reduce back office functions, and streamline operations.

We streamlined and simplified our staffing policies and procedures so we can quickly adapt to evolving staffing needs. We changed our employee performance management programs to simplify the performance management process, reduce administrative burden, and improve consistency across the CRA. Our recruitment

strategies are aligned with and support federal public service renewal initiatives and meet commitments in our action plans for Blueprint 2020.

We developed a multi-pronged recruitment strategy for staffing certain jobs, achieving economies of scale through national coordination. The strategy includes partnering with government-wide stakeholders such as the Public Service Commission and external stakeholders such as professional accounting associations. We also introduced new leadership development programs to help new and experienced managers succeed in their functions.

## Employment Equity and Diversity

Recognizing that the diversity of its employee population contributes to its strength and integrity, the CRA is committed to achieving employment equity and to building and maintaining a strong and vibrant workforce representative of the Canadian population it serves. Our representation levels for all four designated groups continue to surpass labour market availability (LMA)<sup>1</sup>.

**Visible minorities:** CRA: 20.4%; LMA: 15.8%

**Women:** CRA: 61.1%; LMA: 58.8%

**Aboriginal peoples:** CRA: 3.2%; LMA: 2.4%

**Persons with disabilities:** CRA: 6.8%; LMA: 3.8%

## Official Languages

Taxpayers expect us to serve them in both official languages and we monitor our success in doing so. The Office of the Commissioner of Official Languages undertook a review of our compliance with the *Official Languages Act* for its annual report, and the results were positive. The full annual report of the Commissioner of Official Languages was released in the fall of 2014.

1. Employment equity data are for 2012-2013. Results for 2013-2014 will be tabled in Parliament in February 2015.



## Information technology

Our sophisticated information technology (IT) environment enables us to provide a responsive and secure Canadian tax and benefits delivery system. We are able to handle large volumes of tax and benefit transactions accurately, on time, efficiently and cost-effectively with a suite of modern tools, systems, and IT-enabled solutions.

We update our IT strategy annually as part of maintaining the high standards of IT service delivery and security of our data and IT assets. Our strategy includes providing ongoing maintenance for hundreds of applications and preparing our systems and infrastructure for the tax season while also planning for the CRA's future needs as technologies advance.

We regularly improve the CRA's suite of secure, online services, which most taxpayers have adopted as their preferred way to meet their tax obligations and receive their

## Sustainable development

Our sustainable development strategies focus on improving our operational efficiencies and conserving resources, helping us to reduce our environmental impact. For example, our efforts to increase electronic filing are reducing paper use: 80% of individuals and 83% of businesses filed their taxes electronically during this reporting period. Individual filing alone saved an estimated 944 million sheets of paper.

In 2013-2014, we developed our Sustainable Development Strategy 2014-2017, setting a three-year agenda for our efforts to continue greening CRA programs and operations in support of Canada's Federal Sustainable Development Strategy.

### Key results:

- We reduced office paper use by an additional 3%.
- We achieved 11.8% green procurement for goods and services. 98% of procurement officers are trained in green procurement.
- We reduced greenhouse gas emissions from our vehicle fleet by 26% since 2005-2006, by purchasing the right size of vehicles for our operational needs.
- We included sustainable development clauses and environmental specifications in 11 of 13 contracts valued at over \$1 million.<sup>1</sup>
- We have reduced the amount of paper used in external publications by 40% since 2008-2009 by increasing electronic publishing.
- We improved our average ratio of employees to printing units to 9.6:1 from 9.3:1 in 2012-2013.

1. Two contracts did not present sustainable development opportunities.

benefits. Our top priorities when changing our online systems are to protect Canadians' private information and to make the systems easy to use. The improvements implemented in 2013-2014 include secure online mail for business and expanding of payment and document submission functions. These e-services are discussed in more detail on page 25 of this report.

We strengthened our collaboration with Shared Services Canada (SSC) to ensure sound IT infrastructure services continue to be provided for the CRA. Together with SSC, we adopted a variety of governance and business processes to guide our oversight and collaboration on IT projects, and in parallel, continue to develop integrated planning processes to ensure that CRA business requirements and priorities are aligned with SSC operational plans and capacities.

We launched several initiatives aligned with SSC's agenda to provide modern, reliable, secure, and lower-cost IT infrastructure services to the Government of Canada. For example, we successfully moved a CRA data centre to a new data centre in West Quebec. We also launched the CRA Email Migration Project in support of the SSC Email Transformation Initiative to move 44 departments and agencies to a consolidated, secure, reliable and cost-effective email platform for the Government of Canada.

In support of Blueprint 2020, we began working with SSC at providing the technologies we need for greater flexibility and efficiency in the workplace, including launching a Wi-Fi pilot project and upgrading our video conferencing capabilities.

Two of our IT projects were recognized as Distinction Award honourees in the annual Government Technology Exhibition and Conference Distinction Awards, the most notable peer recognition of public sector IT accomplishments in Canada. The Electronic Transfer of Accounting Data project was noted for making it possible for businesses to send their electronic books and records securely and efficiently through the **My Business Account** portal. The **My Business Account** Enquiries Service project was noted for developing an online enquiries service that enables the CRA to provide documented, reliable responses to businesses, enhancing compliance by helping businesses better understand their obligations.

Two multi-year sustainability projects met their milestones in 2013-2014. The T1 Systems Redesign project will provide the T1 tax program with a strong and flexible foundation for receiving, processing, and distributing the revenues,



## REPORT CARD: Integrity and Security

Canadian taxpayers trust us to conduct our activities with integrity, and this trust supports their willingness to voluntarily report accurately, file on time, and pay amounts due. We implemented new measures to ensure taxpayers' information continued to be managed with a high level of integrity and security.

- We updated the CRA's Integrity Framework, Conflict of Interest Policy, and procedures for addressing employee misconduct.
- We created a business intelligence and quality assurance function and implemented procedures to improve audit quality and internal controls.
- We improved how we manage and monitor employee access to taxpayer information.
- We introduced a new level of security screening for people holding or applying for positions requiring a high degree of public trust.
- We took initial steps to establish an anonymous internal fraud and misuse reporting line.
- We updated internal investigation procedures.
- We met or exceeded Government of Canada standards for information technology security protocols, including cyber-security protocols, based on a third-party (Gartner Group) review.

benefits, and services of many federal, provincial and territorial programs. Similarly, the Benefits System Renewal project will provide efficient and flexible technologies ensuring uninterrupted service delivery and supporting benefit program growth.

The CRA continuously meets and exceeds the security standards set by the Government of Canada for protecting computerized systems. In 2013, the Gartner Group assessed current CRA IT security against industry best practices and peer organizations and found our IT security program is above average among its peers and is effective and mature.

### Integrity and security

The foundation of our tax system—that taxpayers voluntarily report accurately, file on time, and pay amounts due—is sustained in large measure by the trust Canadians have placed in us to conduct our activities with integrity. Protecting the integrity of CRA programs, data, and systems is the responsibility of every CRA employee and is incorporated into every aspect of business strategy and decision-making.

During our Blueprint 2020 engagement, CRA employees noted their pride in the CRA's reputation and asked us to do more to raise awareness of their commitment to service and

integrity. As a result, our Blueprint 2020 action plans include strategies to increase communications about employees' integrity and a commitment to add measures regarding values and ethics to executive performance agreements for 2014-2015.

In 2013-2014 we undertook a comprehensive review of our security policy instruments guiding the protection of taxpayer information and introduced new measures to strengthen our processes, better

mitigate potential risks, and support employees in carrying out their responsibilities.

We advanced several multi-year projects that are enhancing our information security. Our Identity and Access Management project and our National Audit Trail System Modernization project each contribute to securing taxpayer data and preventing inappropriate access. We also continued to enhance our business intelligence program and data mining capabilities, which help detect risk and non-compliance. Our business intelligence work is discussed in more detail on page 51 of this report.

# 944M

**DID YOU KNOW?**  
Individual e-filing saved an estimated 944 million sheets of paper in 2013-2014

We introduced a new level of security screening with additional verifications for people holding or applying for positions that require a high degree of public trust. We created a new security eLearning course and 15 “security awareness moments” videos for employees and we organized CRA educational activities in support of the government-wide Security Awareness Week.

We revised our Conflict of Interest Policy and related instruments, introducing clearer language around what must be disclosed and increasing the rigour around disclosures by implementing an electronic disclosure and assessment system. We also implemented an electronic process for conflict of interest assessments to encourage consistency and timeliness in managing disclosures and facilitates high-level reporting.

## Access to information and privacy

Oversight of privacy matters throughout the CRA was strengthened with the appointment of the Chief Privacy Officer. The volume and complexity of access to information and privacy requests continue to increase and the Chief Privacy Officer will oversee the implementation of measures responding to recommendations from the Office of the Information Commissioner of Canada and the Office of the Privacy Commissioner of Canada.

In 2013-2014 an action plan was developed to ensure accountabilities, responsibilities, and activities related to privacy were reinforced and communicated across the CRA. The Chief Privacy Officer was also appointed as chair of the Access to Information and Privacy (ATIP) Oversight Review Committee, which coordinates action on emerging ATIP issues at the CRA.

### How we keep taxpayer information confidential

Canadians trust their information is only accessed or disclosed on a need-to-know basis for authorized purposes, and is handled with the utmost regard for security. A rigorous system of checks and balances makes sure this trust is well-founded:

- We manage and monitor access to taxpayer information to detect and address any suspicious transactions in our systems.
- We segregate duties to reduce the risk the same employee will select, action, and review any particular taxpayer file.
- We do not allow employees to serve people in their professional capacity whom they know personally.
- We require employees to review and acknowledge annually their obligations under our Code of Ethics and Conduct and our Conflict of Interest Policy as a condition of employment. Misconduct is addressed appropriately.
- We provide training and management support so our employees can continue to make responsible, integrity-based decisions as their work becomes more complex.
- Our Chief Privacy Officer, appointed in 2013, helps to ensure privacy responsibilities are reinforced and understood across the CRA.
- We ensure our online services are safe and secure and we maintain the highest standards of protection and monitoring.

## Finance and administration

The CRA's achievements in 2013-2014 took place in an environment of sound comptrollership, where senior management's decisions were based on timely financial and administrative expertise.

The CRA has a well-established governance and accountability structure consisting of oversight by the Treasury Board of Canada Secretariat, the CRA's Board of Management, and the Office of the Auditor General of Canada.

Sound financial management remains a priority for the CRA. The Commissioner and Chief Financial Officer (CFO) have put in place measures supporting sound stewardship and decision-making in all aspects of financial management. These practices are regularly reviewed internally and externally and continuously improved for efficiency and effectiveness.

The CRA has a Policy Framework for Financial Management and Corporate Finance, approved by the CRA Board of Management. Under this framework, the CFO has overseen the development and maintenance of a comprehensive suite of policies and procedures supporting sound stewardship of funds allocated to the CRA and funds the CRA collects or administers on behalf of other organizations.

Effective resource management is key to the CRA's success in managing one of the Government of Canada's largest budgets. This is accomplished through the CRA's ongoing commitment to a sound base of accountabilities and financial controls over planning and budgeting, which ensure financial resources, including investments, are applied optimally and are aligned to the strategic direction and priorities of the organization.

Each year the CRA prepares financial statements, such as those in this report, which are audited by the Auditor General of Canada. The Commissioner and the CFO also attest, in the Statement of Management Responsibility for annual audited financial statements, that we have conducted an assessment of the effectiveness of our internal controls over financial reporting, in accordance with

the Treasury Board's Policy on Internal Control. The Office of the Auditor General of Canada periodically audits the segment of these controls relating to the provincial and territorial tax collection agreement programs.

Using the Board of Management Oversight Framework, the CRA Board of Management provides an annual evaluation of financial management at the CRA. Financial management was again rated as strong this past year, reflecting the Commissioner's and CFO's ongoing commitment to sound financial management.



## **Members of the Board of Management** (left to right)

Bottom Row:

Margaret Melhorn, Andrew Treusch, Richard (Rick) Thorpe, Fauzia Lalani, Luce Samoissette

Top Row:

Gordon Gillis, Richard J. Daw, James R. Nininger, Myles Bourke, Gerard J. Fitzpatrick, Raymond Desrochers, Robert (Bob) M. Manning, Norman G. Halldorson

# Agency Governance and the Board of Management

The Board of Management of the CRA consists of 15 members appointed by the Governor in Council. They include the Chair, the Commissioner, a director nominated by each province, one director nominated by the territories, and two directors nominated by the federal government. Members of the Board bring a diverse business and community perspective from the private, public, and not-for-profit sectors to the work of the CRA. The Board is responsible for overseeing the organization and administration of the CRA and the management of its resources, services, property, personnel, and contracts. It undertakes its oversight role in cooperation with CRA management to ensure the CRA fosters sound management and service delivery.

## Board priorities and accomplishments for 2013-2014

In support of the CRA during this reporting period, the Board continued to provide oversight in all areas for which it has statutory responsibilities, in line with the Board's priorities as stated in the CRA's Corporate Business Plan 2013-2014 to 2015-2016. Details on the Board's accomplishments in priority areas are provided below.

Board composition changed in 2013-2014. Ms. Susan J. McArthur's term as Chair of the Board ended on August 3, 2013. Ms. Fauzia Lalani became interim Chair until Mr. Richard (Rick) Thorpe was named Chair of the Board on October 3, 2013. The Board member from Ontario, Ms. Sylvie Tessier, left and processes are underway to replace her and to appoint a new member from British Columbia to fill the Chair's former position.

## Strategic outlook

The Board oversaw the CRA's management of tax and benefit administration in 2013-2014 while remaining committed to the government-wide goal of optimizing resources. Each quarter, the Board received updates on fiscal rebalancing and transformation measures and their

impact on the financial status and human resources of the CRA. Board members were kept fully informed of challenges in implementation and the best way to achieve the CRA's goals without undue delay and impact on operations and service to Canadians. The Board observed steady progress in implementing initiatives to reduce cost, improve efficiency, reduce red tape, and continually improve service to Canadians.

A key Board activity was providing direction on the development of the Corporate Business Plan and approving the final plan. Board members agreed to streamline work on the plan by using a common core structure, based on the CRA's spending architecture, for both Board and Treasury Board reporting.

In addition, the Board held a strategic planning meeting in June 2013, in which members gave guidance and direction to senior management on the CRA's integrated service, compliance, integrity and security strategy and the agenda for small and medium enterprises, with an emphasis on reducing red tape.

During the strategic planning meeting, the Clerk of the Privy Council was invited to speak to Board members about Blueprint 2020, the process to renew and build the public service of the future. Throughout 2013-2014, the Board continued to offer guidance and strategic advice to senior management about these efforts to improve the public

service, and monitored employee engagement in the areas concerned.

As part of its strategic oversight of the CRA, the Board provided input to the Commissioner's performance assessment and performance agreement, approving areas under its oversight, and discussed other key senior management expectations and performance, to make sure they aligned with Board priorities and objectives.

## Service to Canadians

Throughout 2013-2014, the Board continued to focus on the CRA's commitment to continually improve service to Canadians. The CRA Roadmap: Current Priorities for Service, Compliance and Integrity, which the Board approved in December 2013, clearly stated the CRA's objectives: improving service to make it easier to comply, making sure all taxpayers pay their share, and maintaining Canadians' trust.

The Board oversaw the evolution of the CRA's electronic service offerings and emphasized the ongoing need for reducing red tape, which the CRA discussed with small and medium enterprises and their representatives in a series of consultations.

Members drew on their collective experience in accounting, law, and business to provide management with an external perspective of potential benefits and challenges in the CRA's approaches to improve service and reduce red tape. The Board asked for and received updates throughout the fiscal year on service, including achievements in electronic services, and initiatives to reduce red tape.

Members also received updates on taxpayers' complaints, and the Board supported the further development of trends analysis. Other important briefings touching on service included reports on the activities of the Taxpayers' Ombudsman, and updates on the CRA's progress in administering personal information.

## People and human resources management

In 2013-2014, the Board provided oversight of people management planning, as it was aligned more closely with government-wide directions, and ensured the continued streamlining of the CRA's human resources processes. Board members were updated on simplification measures

such as disability management tools for managers, a new national service request management system, and the streamlining of executive performance management.

A Board priority in the fiscal period was ensuring the CRA has the appropriate workforce for the modern workplace. Members were active in guiding succession planning of CRA leadership. In addition, they gave direction on human resources initiatives including a robust recruitment and retention approach to address the CRA's workforce challenges, taking into account both demographics and future business needs.

The Board approved two strategic workforce plans, in June 2013 and March 2014, and supported their objectives: maintaining leadership capacity, meeting evolving business needs, and fostering employee health and wellness. The Board was shown how human resources priorities from Blueprint 2020 were being addressed, and it endorsed plans to review the competencies system to reduce red tape, to further improve the performance management process, and to simplify staffing.

The Board also continued to oversee personnel management through quarterly updates and discussions and by approving modifications to the CRA Policy on Terms and Conditions of Employment. As part of its support of a fair and healthy workplace, the Board received reports demonstrating the CRA's continued commitment to occupational health and safety, employment equity, and the respect of official languages.

## Integrity and security

The Board continued to focus on measures to foster and promote integrity and security in the CRA; to prevent, monitor, detect, and manage security breaches; and to lessen the risk of fraud.

In 2013-2014, the Board approved the finalized CRA Integrity Framework, a reference tool for employees and a declaration of the CRA as an integrity-based organization.

The Board also approved the updated CRA Conflict of Interest Policy, a core instrument within the Integrity Framework. It reinforces the integrity of the CRA by providing clear direction surrounding preventing, identifying, and managing conflict of interest situations.

Other measures presented to the Board included a new method to guide the application of disciplinary measures in response to misconduct. This new guidance also aligned the



CRA's disciplinary procedures with the recent addition to the **Taxpayers' Bill of Rights**: "You have the right to lodge a service complaint and request a formal review without fear of reprisal."

With respect to the security of tax and benefit information, the Board monitored action plans stemming from the Office of the Privacy Commissioner's audit of the administration of personal information, released on October 29, 2013. The Board also gave direction on the evolution of the Information Technology Security Program. The Board received updates twice during the year with information on security innovations, ongoing initiatives, and an overview of incidents. A third-party review conducted in the winter of 2013 found the CRA above average among its peers (including financial institutions and insurance companies) in this area.

The Board also supported the implementation of a new level of personnel security screening called Reliability Status Plus. It will strengthen security screening of employees in specific positions of trust within the CRA by identifying potential vulnerabilities and potential indicators resulting from an individual's financial situation, including tax compliance.

In addition, the Board approved the Internal Audit Charter, which meets the Institute of Internal Auditors requirements. The Charter had been recommended in the third-party review of the Corporate Audit and Evaluation Branch in 2012-2013.

## Information technology responsiveness and sustainability

The Board encouraged and supported the CRA's advances in information technology (IT), considered critical to service excellence and the implementation of government-wide priorities.

To this end, the Board reviewed and approved the renewed IT strategy 2013-2014 to 2015-2016, which was aligned with the Corporate Risk Profile and priorities from the Corporate Business Plan and Vision 2020 strategic directions.

The Board also approved the CRA IT Security Strategy 2013-2016, aligned with the CRA's strategic vision. The Security Strategy ensures the protection of the

confidentiality, integrity, and availability of taxpayer information and associated electronic services. It sets out the way the CRA will deliver security technology services efficiently and use industry-leading solutions in a cost-effective manner.

Further, the Board monitored the CRA's information technology investments and continued to oversee the management of the relationship with Shared Services Canada (SSC). Areas of oversight included the implementation of the SSC-CRA Relationship Assessment Framework, as well as an operating protocol and security governance. The Board received regular updates on government-wide and SSC transformation initiatives.

One of these major initiatives was the Data Centre Co-Location project. In July 2013, SSC's information technology infrastructure and associated CRA and Canada Border Services Agency services moved from Data Centre Heron to the new Data Centre West Québec, to support long term business, business continuity, security, and growth requirements.

## Resource optimization

The Board fulfilled its oversight responsibilities for managing CRA resources in 2013-2014 by ensuring investment decisions reflected corporate priorities, approved projects were appropriately managed, and future funding pressures were identified.

The Board was briefed on the CRA Strategic Investment Plan 2013-2014 to 2022-2023, the 10-year investment plan for the CRA's portfolio of major project investments. Board members noted the maturity and progress of the CRA's approach to investment planning.

The Board also received quarterly resource management reports on the CRA's financial position, and was regularly updated by the Office of the Auditor General. It performs its own audits and reviews the CRA's annual statements, which are then submitted for approval by the Board.

## Effective oversight and governance

In 2013-2014, the Board continued to oversee the management of enterprise risk: it approved the Risk-Based Audit and Evaluation Business Plan 2013-2016. It also received the first Chief Audit Executive Annual Report since the January 2013 merger of the former Corporate Audit and Evaluation and Enterprise Risk Management branches, making sure the risk and internal audit functions remained independent, thereby safeguarding the reliability of these functions. The Board monitored the high-performing enterprise risk management of the CRA: it studied key risk assessment results for the Corporate Risk Profile for 2013-2014, along with risk responses, accountabilities, and action plans.

In addition, the Board used a risk-based approach (for the third time) to set assessment priorities and assess CRA management processes, practices, and results through the Board of Management Oversight Framework.

The Board plays a major role in approving policy in its areas of oversight. During 2013-2014, it approved a new Information Management Policy Framework and a revised Information Management Policy, Project Management Policy and Real Property Management Policy.

## Conclusion

The Board believes it has accomplished its strategic objectives for 2013-2014. It is committed to fulfilling its mandate to provide oversight of the organization and administration of the CRA, in the areas under its purview. It has provided senior management with direction and guidance throughout 2013-2014. The Board also acknowledges the excellent co-operation and support it received from the Commissioner, senior management, and employees of the CRA.



# Board membership

The following are the Board members, as of March 31, 2014.

**Richard (Rick) Thorpe, CPA, CMA, FCMA**

Chair, Board of Management  
Penticton, British Columbia

**Myles Bourke, B.Comm., FCPA, FCA**

Corporate Director  
Lethbridge, Alberta

**Richard J. Daw, FCA, CMC**

Corporate Director  
St. John's, Newfoundland and Labrador

**Raymond Desrochers, B.Comm., CA, CFE**

Partner  
BDO CANADA LLP Chartered Accountants & Consultants  
Winnipeg, Manitoba

**Gerard J. Fitzpatrick, CPA, FCA, TEP**

Partner  
Fitzpatrick & Company Chartered Accountants  
Charlottetown, Prince Edward Island

**Gordon Gillis, B.A., LL.B.**

Corporate Director  
Eureka, Nova Scotia

**Norman G. Halldorson, B.Comm., CA, FCA**

Corporate Director  
Clavet, Saskatchewan

**Fauzia Lalani, P.Eng.**

Director, Logistics Services  
Suncor Energy Services Inc.  
Calgary, Alberta

**Robert (Bob) Manning, B.B.A.**

Associate  
Owens MacFadyen Group  
Saint John, New Brunswick

**Margaret Melhorn, B.A., M.A.**

Corporate Director  
Yellowknife, Northwest Territories

**James R. Nininger, B.Comm., M.B.A., Ph.D**

Corporate Director  
Ottawa, Ontario

**Luce Samoisette, LL.M., MS Taxation, DDN, LL.B.**

President  
Université de Sherbrooke  
Sherbrooke, Quebec

**Andrew Treusch, B.A., M.A.**

Commissioner of the Canada Revenue Agency  
Canada Revenue Agency  
Ottawa, Ontario

\*\*\*\*At the time of writing this report, processes were under way to appoint new members from British Columbia and Ontario\*\*\*\*

# Committee membership and director participation

The Board of Management is supported by four committees: they undertake much of the detailed review of items brought before the Board for its consideration. The following table shows the membership of each committee as well as directors' committee attendance over the 2012-2013 fiscal year.

Board members	Board of management (9 meetings) <sup>1</sup>	Audit committee (5 meetings) <sup>2</sup>	Governance committee (3 meetings)	Human resources committee (4 meetings)	Resources committee (4 meetings)	BoMOF sub-committee (3 meetings)
<b>Board members present throughout the fiscal year</b>						
Myles Bourke	8/9	5/5	3/3			
Richard J. Daw	8/9	4/5				
Raymond Desrochers	9/9		3/3			
Gerard J. Fitzpatrick	9/9	5/5				
Gordon Gillis	9/9		3/3	4/4		3/3
Norman G. Halldorson	9/9	5/5				3/3
Fauzia Lalani	7/7		1/2		3/3	1/1
Robert (Bob) Manning	8/9				4/4	
Margaret Melhorn	9/9			4/4	2/2	
James R. Nininger	7/9		3/3	4/4		3/3
Luce Samoissette	9/9			4/4		
Richard (Rick) Thorpe (B.C. director)	5/5				2/2	
Andrew Treusch	9/9	5/5	3/3	4/4	3/4	2/3
<b>Board members who joined during the fiscal year</b>						
Fauzia Lalani (Interim Chair)	2/2	2/2		1/1	1/1	1/1
Richard (Rick) Thorpe (Chair of the Board)	4/4	2/2	2/2	2/2	2/2	2/2
<b>Board members who departed during the fiscal year</b>						
Susan J. McArthur	3/3	1/1	1/1	1/1	1/1	
Sylvie Tessier	5/5		1/1		2/2	
<b>Average attendance per meeting</b>	<b>120/125=96%</b>	<b>29/30=97%</b>	<b>20/21=95%</b>	<b>24/24=100%</b>	<b>20/21=95%</b>	<b>15/16=94%</b>


<sup>1</sup> This includes all Board meetings and teleconferences, and the annual strategic planning meeting.

<sup>2</sup> The two teleconferences on the financial statements have been streamlined to one teleconference of the audit committee followed by one of the Board. The Commissioner-Chief Executive Officer attended as an observer in regular closed sessions.


<b>Governor in Council rates of pay</b>		
<b>Member capacity</b>	<b>Per annum retainer</b>	<b>Per diem</b>
Board chair	\$14,500 - \$17,100	\$565 - \$665
Committee chair	\$11,100 - \$13,000	\$565 - \$665
Director	\$7,300 - \$8,600	\$475 - \$550
Source: <a href="http://www.appointments-nominations.gc.ca">www.appointments-nominations.gc.ca</a>		

# Other items of interest


## Organizational structure



**The Honourable Kerry-Lynne D. Findlay**  
**Minister of National Revenue**  
 The minister is responsible for the Canada Revenue Agency.



**Richard (Rick) Thorpe**  
**Chair, Board of Management**  
 The Board is responsible for overseeing the organization and administration of the CRA and the management of its resources, services, property, personnel, and contracts.



**Andrew Treusch**  
**Commissioner of the Canada Revenue Agency**  
 The commissioner is the chief executive officer of the CRA and is responsible for its day-to-day management and direction.

<p><b>Anne-Marie Lévesque</b>                      Assistant Commissioner  <b>Appeals</b></p>	<p><b>Peter Estey</b>                      Assistant Commissioner  <b>Atlantic</b></p>	<p><b>Brian Philbin</b>                      Assistant Commissioner                      and Chief Audit Executive  <b>Audit, Evaluation, and Risk</b></p>
<p><b>Frank Vermaeten</b>                      Assistant Commissioner  <b>Assessment and Benefit Services</b></p>	<p><b>Vince Pranjivan</b>                      Assistant Commissioner  <b>Ontario</b></p>	<p><b>Roch Huppé</b>                      Assistant Commissioner                      and Chief Financial Officer  <b>Finance and Administration</b></p>
<p><b>Richard Montroy</b>                      Assistant Commissioner  <b>Compliance Programs</b></p>	<p><b>Maureen Phelan</b>                      Assistant Commissioner  <b>Pacific</b></p>	<p><b>Diane Lorenzato</b>                      Assistant Commissioner  <b>Human Resources</b></p>
<p><b>Rick Stewart</b>                      Assistant Commissioner  <b>Legislative Policy and Regulatory Affairs</b></p>	<p><b>Cheryl Bartell</b>                      Assistant Commissioner  <b>Prairie</b></p>	<p><b>John Messina</b>                      Assistant Commissioner                      and Chief Information Officer  <b>Information Technology</b></p>
<p><b>Michael Snaauw</b>                      Assistant Commissioner  <b>Taxpayer Services and Debt Management</b></p>	<p><b>Gabriel Caponi</b>                      Assistant Commissioner  <b>Quebec</b></p>	<p><b>Micheline Van-Erum</b>                      Assistant Deputy Attorney General  <b>Legal Services</b></p>
		<p><b>Susan Gardner-Barclay</b>                      Assistant Commissioner                      and Chief Privacy Officer  <b>Public Affairs</b></p>
		<p><b>Catherine Bennett</b>                      Assistant Commissioner  <b>Strategy and Integration</b></p>

As of October 2014

# Detailed tax debt management action plans

These plans track actions to address the recommendations of the Standing Committee on Public Accounts (PACP) and the Office of the Auditor General of Canada (OAG) for how the CRA collects tax debt.

Risk management		
The CRA's strategy to improve the risk management of its collections program will address OAGs recommendation 8.52: "The Canada Revenue Agency should establish a more comprehensive automated risk-scoring system for tax debt, update the risk scores on an ongoing basis, and use the risk scores to prioritize workload throughout the collections process." PACP reference #2		
Specific commitment and deliverables	Target date	Progress
Fully operational risk scores are scheduled for GST/HST programs.	2014	The data mining models for GST/HST programs have been automated and deployed.
Performance reporting		
The CRA's strategy to improve how it reports on the performance of its collections program will address OAGs recommendation 8.41: "The Canada Revenue Agency should significantly improve its management information to make it complete and comprehensive. It should develop reliable techniques and information sources to determine on a regular basis the results of its collection efforts and use that information to guide its decision-making for each of its major collection modes and actions." PACP reference #5		
Specific commitment and deliverable	Target date	Progress
Performance reporting tools are scheduled to be progressively implemented throughout all major business revenue lines.	2014	The performance reporting solution for T1 collections was deployed in June 2012. Development work on a similar solution is under way for other major business lines.
Debt management research		
The CRA's strategy to improve its debt management research will address OAGs recommendation 8.28: "The Canada Revenue Agency should identify and collect the data it needs to analyze the makeup of its tax debt and to develop better collection strategies." (considering a variety of factors including fluctuations in the economic cycle) PACP reference #4		
Specific commitment and deliverable	Target date	Progress
Research into economic indicators: develop research approach and conduct study.	Ongoing	In 2013-2014, debt management research: <ul style="list-style-type: none"> <li>completed a first study and continued to work on the employer population</li> <li>continued work on source and disposition of GST/HST</li> <li>developed a first model to forecast the level of tax debt</li> <li>continued work on trend analysis; designed samplings and prepared reports on findings for different program initiatives</li> </ul>

# Benefit programs and benefit-related services delivered by the Canada Revenue Agency

Six federal benefit programs	
Canada child tax benefit	Children's special allowances
Disability tax credit	Universal child care benefit – on behalf of Employment and Social Development Canada
Goods and services tax / harmonized sales tax credit	Working income tax benefit advance payments

Twenty-eight ongoing benefit programs for provinces and territories			
	1 <sup>st</sup> year		1 <sup>st</sup> year
British Columbia – BC family bonus	1996	Newfoundland and Labrador seniors' benefit	1999
Alberta family employment tax credit	1997	Saskatchewan low-income tax credit	2000
New Brunswick child tax benefit	1997	Newfoundland and Labrador – mother baby nutrition supplement	2001
New Brunswick working income supplement	1997	Ontario child benefit	2007
Newfoundland and Labrador harmonized sales tax credit	1997	British Columbia low-income climate action tax credit	2008
British Columbia – BC earned income benefit	1998	Ontario senior homeowners' property tax grant	2009
Saskatchewan child benefit	1998	Ontario sales tax credit	2010
Northwest Territories child benefit	1998	British Columbia harmonized sales tax credit	2010
Northwest Territories – territorial worker's supplement	1998	Nova Scotia affordable living tax credit	2010
Nova Scotia child benefit	1998	Ontario energy and property tax credit	2011
Yukon child benefit	1999	Northern Ontario energy credit	2011
Nunavut child benefit	1999	Ontario trillium benefit	2012
Nunavut – territorial worker's supplement	1999	New Brunswick school supplement	2012
Newfoundland and Labrador child benefit	1999	Prince Edward Island sales tax and credit	2013

Ten one-time payment programs			
	1 <sup>st</sup> year		1 <sup>st</sup> year
Relief for heating expenses (federal)	2000	Energy cost benefit (federal)	2005
British Columbia – BC energy rebate	2001	Alberta 2005 resource rebate	2005
Alberta energy tax refund	2001	Ontario home electricity relief	2006
Ontario taxpayer dividend	2001	British Columbia climate action dividend	2008
Nova Scotia taxpayer refund	2003	Ontario sales tax transition benefit	2010

Eighty-eight data exchange and data transfer services	
Fifty-four income verification data exchanges with provinces to support programs	Ten national child benefit supplement data exchanges with provinces and territories to facilitate the calculation of social assistance
Five data transfers with provinces to support top-ups for CRA-administered child benefit programs	Two data transfers of income and child information to support administration of the Ontario child care supplement and Quebec family allowance programs
Eight data exchanges and transfers to support the Nova Scotia pharmacare program, the British Columbia low-income climate action tax credit, Ontario senior homeowners property tax grant, Ontario sales tax credit, Ontario energy and property tax credit/Northern Ontario tax credit, Ontario trillium benefit, BC harmonized sales tax credit and to assist the ministère du Revenu du Québec in administering the Quebec Taxation Act	Nine data exchanges and data transfers to support federal administration of the employment insurance family supplement, guaranteed income supplement, Canada learning bond, additional Canada education savings grant, registered disability savings plan and Canadian disability savings grant, Old Age Security, and universal child care benefit

# Service standards

Canadians' confidence in the integrity of the tax system is essential to the CRA's success. Meeting our service standards shows that we are answering the needs of taxpayers and benefit recipients. Our service standards tell citizens what level of performance they can reasonably expect from the CRA under normal circumstances. We review our standards and targets every year and update them as needed.

## New Service Standards in 2013-2014

We introduced four new service standards:

- Charities – written enquiries – routine
- Charities – written enquiries – complex
- Processing a request to authorize or cancel a representative – paper
- Processing a request to authorize or cancel a representative – electronic

## Revised Service Standards in 2013-2014

We made changes to two of our service standards.

- The standard for processing excise tax, excise duty, softwood lumber returns, and air travellers' security charge returns was within 90 calendar days 95% of the time. As a result of our increased efficiency in processing these returns, we improved the service standard by reducing the time for assessment from 90 to 60 calendar days.
- Processing T2 corporate income tax returns included both paper and electronic returns. We created two separate service standards in 2013-2014, one for electronic and one for paper. We will assess electronically filed T2 corporate income tax returns in 45 calendar days or less and paper-filed T2 returns in 90 calendar days or less.

## Our Service Standard Results

Service	Standards	Targets	2011-2012	2012-2013	2013-2014
<b>Taxpayer and business assistance</b>					
General enquiries – telephone service level	Respond to calls in the agent queue within two minutes	80%	80.1%	82%	<b>80%</b>
Business enquiries – telephone service level	Respond to calls in the agent queue within two minutes	80%	81.2%	82%	<b>81%</b>
GST/HST rulings and interpretations – telephone enquiries	Respond to calls in the agent queue within two minutes	80%	88%	97%	<b>95%</b>
GST/HST rulings and interpretations – written enquiries	Respond to written requests for GST/HST rulings and interpretations within 45 business days of receipt in the CRA. This excludes highly technical and precedent and/or policy-setting rulings and interpretations	80%	41.9%	81%	<b>74%<sup>1</sup></b>
Charities – responding to telephone enquiries	Respond to calls in agent queue within two minutes	80%	84.1%	86.3%	<b>85.1%</b>
Charities – responding to simple applications	Respond to simple applications for charitable registration within two months, upon receipt of a complete application	80%	86%	94.5%	<b>90.9%</b>

Service	Standards	Targets	2011-2012	2012-2013	2013-2014
Charities – responding to regular applications	Respond to regular applications for charitable registration within six months, upon receipt of a complete application	80%	91.3%	97.5%	99%
Charities – written enquiries – routine	Review and respond to routine written enquiries in 30 calendar days or less of receipt	80%	N/A <sup>2</sup>	N/A <sup>2</sup>	79.8%
Charities – written enquiries – complex	Review and respond to complex written enquiries in 75 calendar days or less of receipt	80%	N/A <sup>2</sup>	N/A <sup>2</sup>	55%
Advance income tax rulings	Issue advance income tax rulings within 90 business days of receipt of all essential information from the client	85%	N/A <sup>3</sup>	74%	75% <sup>4</sup>
Technical interpretations	Issue technical interpretations within 90 business days of receipt of all essential information from the client	85%	N/A <sup>3</sup>	83%	87%
Actuarial valuation reports	Review actuarial valuation reports within nine months and provide written approval of the recommended employer contributions	80%	50.7%	52%	71%
Amendments to registered pension plans	Review pension plan amendments for compliance with the <i>Income Tax Act</i> within nine months	80%	78.7%	81%	82%
Applications to register pension plans	Complete a full review and provide a response on applications to register pension plans within 180 calendar days	85%	83.9%	90%	89%
Deferred income plans – response to written enquiries	Respond to written enquiries within 60 calendar days	80%	88.3%	98%	89%
Deferred profit sharing plans – amendments and terminations	Review requests to amend and to terminate plans within 270 days	80%	93.7%	97%	92%
Deferred profit sharing plans – reviewing applications	Review applications to register new deferred profit sharing plans within 180 days	80%	98.1%	100%	98%
Education savings plans (applications to register, amend, or terminate)	Respond to applications to approve, amend, and terminate education savings plans specimen plans within 60 calendar days	85%	97.5%	91%	92%
Retirement income funds (applications to register, amend, or terminate)	Respond to applications to register, amend, or terminate retirement income funds within 60 calendar days	80%	96.2%	99%	99%
Retirement savings plans (applications to register, amend, or terminate)	Respond to applications to register, amend, or terminate retirement savings plans within 60 calendar days	80%	94.4%	96%	99%



Service	Standards	Targets	2011-2012	2012-2013	2013-2014
<b>Assessment of returns and payment processing</b>					
Processing T1 individual income tax returns (EFILE and NETFILE)	Process electronic T1 returns (EFILE and NETFILE) within an average of two weeks of receipt	100%	1.6 weeks	1.6 weeks	<b>1.6 weeks</b>
Processing T1 individual income tax returns (paper)	Process a paper T1 return and mail a notice of assessment and refund, if applicable, in an average of four to six weeks	100%	3.9 weeks	4.3 weeks	<b>5 weeks</b>
Responding to taxpayer-requested adjustments (T1) received by internet	Complete the adjustment and mail a notice of reassessment within an average of two weeks, provided all requisite information has been received from the taxpayer	100%	1.8 weeks	2 weeks	<b>1.6 weeks</b>
Responding to taxpayer-requested adjustments (T1)	Complete the adjustment and mail a notice of reassessment within an average of eight weeks, provided all requisite information has been received from the taxpayer	100%	7 weeks	7 weeks	<b>7 weeks</b>
Processing T3 trust returns	Process T3 trust returns within four months	95%	98.7%	98.7%	<b>99.3%</b>
Processing T2 corporation income tax returns – electronic	Assess electronic T2 returns (corporation income tax) within 45 calendar days	90%	N/A <sup>2</sup>	N/A <sup>2</sup>	<b>97.1%</b>
Processing T2 corporation income tax returns – paper	Assess paper T2 returns (corporation income tax) within 90 calendar days	90%	N/A <sup>2</sup>	N/A <sup>2</sup>	<b>91.4%</b>
Processing GST/HST returns	Process GST/HST returns within 30 calendar days of receipt	95%	91%	93.8%	<b>96.5%</b>
Processing excise tax, excise duty, softwood lumber returns, and air travellers security charge returns	Assess excise tax, excise duty, softwood lumber returns, and air travellers security charge returns within 60 calendar days of receipt	95%	N/A <sup>3</sup>	N/A <sup>3</sup>	<b>97.2%</b>
<b>Compliance</b>					
Claims – SR&ED tax incentives – refundable claims	Process claims for tax incentives from businesses that conduct SR&ED in Canada within 120 calendar days from receipt of a complete claim for refundable claims	90%	96.5%	96%	<b>96%</b>
Claims – SR&ED tax incentives – non-refundable claims	Process claims for tax incentives from businesses that conduct SR&ED in Canada within 365 calendar days from receipt of a complete claim for non-refundable claims	90%	96.7%	96%	<b>96%</b>
Claims – SR&ED tax incentives – claimant-requested adjustments to refundable claims	Process claims for tax incentives from businesses that conduct SR&ED in Canada within 240 calendar days from receipt of a complete claim, for refundable claims related to adjustments requested to previously filed income tax returns	90%	95.1%	95%	<b>96%</b>

Service	Standards	Targets	2011-2012	2012-2013	2013-2014
Claims – SR&ED tax incentives – claimant-requested adjustments to non-refundable claims	Process claims for tax incentives from businesses that conduct SR&ED in Canada within 365 calendar days from receipt of a complete claim, for non-refundable claims related to adjustments requested to previously filed income tax returns	90%	94.5%	94%	93%
Claims – video and film tax credits – refundable claims – audited	Review T2 corporation income tax returns that include claims for the Canadian film or video production tax credit, the film or video production services tax credit, the BC film and television tax credit, the BC production services tax credit, the Manitoba film and video production tax credit, the Ontario film and television tax credit, and the Ontario production services tax credit within 120 calendar days from the date of receipt where audit action is undertaken	90%	79%	90.5%	96%
Claims – video and film tax credits – refundable claims – unaudited	Review T2 corporation income tax returns that include claims for the Canadian film or video production tax credit, the film or video production services tax credit, the BC film and television tax credit, the BC production services tax credit, the Manitoba film and video production tax credit, the Ontario film and television tax credit, and the Ontario production services tax credit within 60 calendar days from the date of receipt when no audit action is undertaken	90%	95.9%	96.2%	96%
<b>Appeals</b>					
First contact letter for disputes	Acknowledge taxpayer disputes within 30 calendar days after we receive them	85%	N/A <sup>5</sup>	84% <sup>5</sup>	85.2%
Service complaints – two-day acknowledgement	Acknowledge receipt of the complaint within two business days.	80%	97.2%	92%	85.8%
Service complaints – 30 day resolution	Resolve the complaint within 30 business days	80%	94.5%	94.3%	95.3%
Problem resolution program – acknowledge receipt	Acknowledge receipt of a problem within two business days	95%	97.6%	98.2%	98.3%
Problem resolution program – resolution	Resolve the problem within 15 business days. If we cannot (for example, if a case is complex), we will make contact within that time to give an anticipated date of resolution	95%	97.5%	98.2%	98.2%
<b>Benefit programs</b>					
Canada child tax benefit enquiries – telephone service level	Respond to calls in the agent queue within two minutes	75%	76%	78%	75%
GST/HST credit enquiries telephone service level	Respond to calls in the queue within two minutes	75%	76.6%	77%	75%

Service	Standards	Targets	2011-2012	2012-2013	2013-2014
Processing benefit applications and marital status change forms – timeliness	Issue a payment, notice, or explanation within 80 calendar days	98%	99%	99.8%	<b>99.5%</b>
Processing benefit applications and marital status change forms – accuracy	Accurately process the appropriate payment and notice and, if necessary, issue a letter requesting additional information	98%	97.5%	98.7%	<b>99%</b>
Responding to benefit and credit enquiries – timeliness	Respond to written enquiries and telephone referrals from call centers within 80 calendar days	98%	98.1%	98%	<b>99.1%</b>
Responding to benefit and credit enquiries – accuracy	Respond to written enquiries and telephone referrals from call centers, with correct information, and accurately process new recipient information, including issuing a payment, notice, or letter	98%	98.8%	98.1%	<b>98%</b>
Validation and compliance – results of review	Inform you of the result of our review within 45 days after we receive the information requested	90%	98.5%	99%	<b>98.9%</b>
Processing a request to authorize or cancel a representative – electronic	Process your complete electronic request to authorize or cancel a representative in five business days or less of receipt by the CRA, provided the request is complete	90%	N/A <sup>2</sup>	N/A <sup>2</sup>	<b>99.4%</b>
Processing a request to authorize or cancel a representative – paper	Process your complete paper request to authorize or cancel a representative in 20 business days or less of receipt by the CRA, provided the request is complete	90%	N/A <sup>2</sup>	N/A <sup>2</sup>	<b>96.1%</b>
<b>Internal services</b>					
Taxpayer requests for statistical tax data	Respond to taxpayer requests for statistical data within an average of 30 calendar days	100%	17 days	14 days	<b>11 days</b>

When service standards are expressed in numbers of days, they refer to calendar days, unless otherwise specified.

<sup>1</sup> Some resources diverted from providing rulings to train new technical staff and develop new initiatives (e.g., folios).

<sup>2</sup> Service standard introduced in 2013-2014; no prior-year results available.

<sup>3</sup> The service standard was revised in 2013-2014; no prior-year results available.

<sup>4</sup> Results improved (from 71% at the start of December to 74% at the end of March) when resources were reallocated and inventory management strategies were implemented.

<sup>5</sup> The measurement has been revised, affecting comparability with previous-year results, to more accurately report results by calculating the period of time when the first contact letter is sent and received, as opposed to measuring performance once the file has been closed.

## New Service Standards in 2014-2015

We will introduce a new service standard for the e-Services helpdesk. We will respond to calls in the queue within two minutes, 80% of the time. This service standard is based on the CRA's existing telephone standards for:

- individual income tax and trust enquiries
- business enquiries
- Canada child tax benefit enquiries
- goods and services tax/harmonized sales tax (GST/HST) credit enquiries



# Statement of Management Responsibility Including Internal Control over Financial Reporting

We have prepared the accompanying financial statements of the Canada Revenue Agency (CRA) according to accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. Significant accounting policies are set out in note 2 to the financial statements. Some of the information included in the financial statements, such as accruals and the allowance for doubtful accounts, is based on management's best estimates and judgment, with due consideration to materiality. The CRA's management is responsible for the integrity and objectivity of data in these financial statements. Financial information submitted to the Public Accounts of Canada and included in the CRA's Annual Report, is consistent with these financial statements.

To fulfill its accounting and reporting responsibilities, management maintains sets of accounts which provide records of the CRA's financial transactions. Management also maintains financial management and an effective system of internal control over financial reporting (ICFR) that take into account costs, benefits, and risks. They are designed to provide reasonable assurance that transactions are within the authorities provided by Parliament, and by others such as provinces and territories, are executed in accordance with prescribed regulations and the *Financial Administration Act*, and are properly recorded to maintain the accountability of funds and safeguarding of assets.

Financial management and internal control systems are reinforced by the maintenance of internal audit programs. The CRA also seeks to assure the objectivity and integrity of data in its financial statements by the careful selection, training, and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, by communication programs aimed at ensuring that its regulations, policies, standards, and managerial authorities are understood throughout the organization, and by conducting an annual assessment of the effectiveness of its system of ICFR. An assessment for the year ended March 31, 2014 was completed in accordance with the Policy on Internal Control and the results and action plans are summarized in the annex.

The system of ICFR is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments. The effectiveness and adequacy of the CRA's financial management and its system of internal control are reviewed by the work of internal audit staff, who conduct periodic audits of different areas of the CRA's operations and by the Board of Management which is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board of Management. To assure objectivity and freedom from bias, these financial statements have been reviewed by the Audit Committee and approved by the Board of Management. The Audit Committee is independent of management and meets with management, the internal auditors, and the Auditor General of Canada on a regular basis. The auditors have full and free access to the Audit Committee.

The Auditor General of Canada conducts independent audits and expresses separate opinions on the accompanying financial statements which do not include an audit opinion on the annual assessment of the effectiveness of the CRA's internal controls over financial reporting.

Approved by:

*original signed*

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Andrew Treusch  
Commissioner of Revenue and  
Chief Executive Officer of the CRA

Ottawa, Ontario  
August 26, 2014

*original signed*

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Roch Huppé  
Chief Financial Officer and Assistant Commissioner,  
Finance and Administration



# Canada Revenue Agency Financial Statements – Agency Activities







Auditor General of Canada  
Vérificateur général du Canada

## INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue

I have audited the accompanying financial statements of the Agency Activities of the Canada Revenue Agency, which comprise the statement of financial position as at 31 March 2014, and the statement of operations and agency net financial position, statement of change in agency net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Agency Activities of the Canada Revenue Agency as at 31 March 2014, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*original signed*

Michael Ferguson, CPA, CA  
FCA (New Brunswick)  
Auditor General of Canada

26 August 2014  
Ottawa, Canada

## Statement of Financial Position – Agency Activities

as at March 31  
(in thousands of dollars)

	2014	2013
<b>Liabilities</b>		
Accrued salaries	129,589	84,546
Accounts payable and accrued liabilities (note 4)	94,901	118,466
Vacation pay and compensatory leave	189,672	187,625
Employee severance benefits (note 5e)	570,114	580,511
Employee sick leave benefits (note 5e)	243,700	235,200
<b>Total liabilities</b>	<b>1,227,976</b>	<b>1,206,348</b>
<b>Financial assets</b>		
Cash	54	67
Due from the Consolidated Revenue Fund	163,405	132,003
Accounts receivable and advances (note 6)	6,624	37,348
<b>Total financial assets</b>	<b>170,083</b>	<b>169,418</b>
<b>Agency net debt</b>	<b>1,057,893</b>	<b>1,036,930</b>
<b>Non-financial assets</b>		
Prepaid expenses	11,963	10,350
Tangible capital assets (note 7)	386,327	391,779
<b>Total non-financial assets</b>	<b>398,290</b>	<b>402,129</b>
<b>Agency net financial position</b>	<b>659,603</b>	<b>634,801</b>

Contingent liabilities (note 13)

*The accompanying notes form an integral part of these financial statements.*

Approved by:

*original signed**original signed*

Andrew Treusch  
Commissioner of Revenue and Chief Executive  
Officer of the Canada Revenue Agency

Richard Thorpe, CPA, CMA, FCMA  
Chair, Board of Management

## Statement of Operations and Agency Net Financial Position – Agency Activities

for the year ended March 31  
(in thousands of dollars)

	<b>2014</b>	<b>2014</b>	<b>2013</b>
	Planned results	Actual results	Actual results
<b>Expenses (note 8)</b>			
Reporting compliance	1,215,133	1,168,252	1,212,533
Internal services	1,137,648	1,131,630	1,177,661
Assessment of returns and payment processing	704,900	739,130	711,606
Accounts receivable and returns compliance	675,935	727,397	695,252
Taxpayer and business assistance	361,730	387,674	375,450
Appeals	253,298	255,706	248,533
Benefit programs	164,284	149,618	151,272
Taxpayers' Ombudsman	3,673	2,676	2,695
<b>Total expenses</b>	<b>4,516,601</b>	<b>4,562,083</b>	<b>4,575,002</b>
<b>Non-tax revenues (note 9)</b>			
Reporting compliance	43,779	20,994	23,081
Internal services	212,026	164,473	155,430
Assessment of returns and payment processing	56,112	59,692	64,465
Accounts receivable and returns compliance	160,068	201,089	194,470
Taxpayer and business assistance	55,721	63,882	64,971
Appeals	18,995	20,461	21,671
Benefit programs	38,474	25,916	36,272
Revenues earned on behalf of Government	(68,209)	(63,006)	(63,615)
<b>Total non-tax revenues</b>	<b>516,966</b>	<b>493,501</b>	<b>496,745</b>
<b>Net cost of operations before government funding and transfers</b>	<b>3,999,635</b>	<b>4,068,582</b>	<b>4,078,257</b>
<b>Government funding and transfers</b>			
Net cash provided by the Government of Canada		3,593,613	3,817,561
Change in due from the Consolidated Revenue Fund		31,402	(43,848)
Services provided without charge from other government agencies and departments (note 10)		430,409	448,298
Net transfers of tangible capital assets from (to) other government departments (OGD)		(5,669)	680
Net cost of activities administered on behalf of Shared Services Canada (note 11)		(5,975)	-
<b>Total government funding and transfers</b>		<b>4,043,780</b>	<b>4,222,691</b>
<b>Net cost (surplus) of operations after government funding and transfers</b>		<b>24,802</b>	<b>(144,434)</b>
<b>Agency net financial position - Beginning of year</b>		<b>634,801</b>	<b>779,235</b>
<b>Agency net financial position - End of year</b>		<b>659,603</b>	<b>634,801</b>

The accompanying notes form an integral part of these financial statements.

## Statement of Change in Agency Net Debt – Agency Activities

for the year ended March 31  
(in thousands of dollars)

	2014	2013
<b>Net cost (surplus) of operations after government funding and transfers</b>	24,802	(144,434)
<b>Change in tangible capital assets</b>		
Acquisition of tangible capital assets (note 7)	77,493	60,093
Amortization of tangible capital assets (note 7)	(75,040)	(70,131)
Proceeds from disposal of tangible capital assets	(157)	(68)
Net loss on disposal/write-off of tangible capital assets	(2,079)	(2,731)
Net transfers of tangible capital assets from (to) OGD	(5,669)	680
<b>Total change in tangible capital assets</b>	(5,452)	(12,157)
<b>Change in prepaid expenses</b>	1,613	(2,603)
<b>Net increase (decrease) in agency net debt</b>	20,963	(159,194)
<b>Agency net debt - Beginning of year</b>	1,036,930	1,196,124
<b>Agency net debt - End of year</b>	<b>1,057,893</b>	<b>1,036,930</b>

The accompanying notes form an integral part of these financial statements.

## Statement of Cash Flows – Agency Activities

for the year ended March 31  
(in thousands of dollars)

	2014	2013
<b>Operating activities</b>		
Net cost of operations before government funding and transfers	4,068,582	4,078,257
<b>Items not affecting cash</b>		
Amortization of tangible capital assets (note 7)	(75,040)	(70,131)
Net loss on disposal/write-off of tangible capital assets	(2,079)	(2,731)
Services provided without charge from other government agencies and departments (note 10)	(430,409)	(448,298)
Change in financial assets other than due from the Consolidated Revenue Fund	(30,737)	28,956
Change in prepaid expenses	2,388	(2,603)
Change in liabilities	(21,628)	174,086
<b>Cash used in operating activities</b>	<b>3,511,077</b>	<b>3,757,536</b>
<b>Capital investing activities</b>		
Acquisition of tangible capital (note 7)	77,493	60,093
Proceeds from disposal of tangible capital assets	(157)	(68)
<b>Cash used in capital investing activities</b>	<b>77,336</b>	<b>60,025</b>
<b>Cash used in CRA operations</b>	<b>3,588,413</b>	<b>3,817,561</b>
<b>Cash used on behalf of Shared Services Canada for transferred activities (note 11)</b>	<b>5,200</b>	<b>-</b>
<b>Net cash provided by the Government of Canada</b>	<b>3,593,613</b>	<b>3,817,561</b>

The accompanying notes form an integral part of these financial statements.

# Notes to the Financial Statements – Agency Activities

## 1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice, and services by:

- (a) supporting the administration and enforcement of program legislation;
- (b) implementing agreements between the Government of Canada or the CRA and the government of a province, territory or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the CRA and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The CRA administers revenues, including income and sales taxes and employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and administers other amounts, including Canada Pension Plan contributions, for other groups or organizations. It is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In delivering its mandate, the CRA operates under the following program activities:

- (a) Reporting compliance: Verifies complete and accurate disclosure by taxpayers of all required information to establish tax liabilities;
- (b) Internal services: Provides internal services across the CRA, such as human resources management, financial management and information technology, to support the needs of programs and corporate obligations;
- (c) Assessment of returns and payment processing: Processes and validates taxpayer returns; registers, establishes, and maintains taxpayer accounts; and, receives payments;
- (d) Accounts receivable and returns compliance: Identifies and addresses non-compliance with taxpayer filing and remittance requirements;
- (e) Taxpayer and business assistance: Assists taxpayers in meeting their obligations under the self-assessment;
- (f) Appeals: Provides a dispute resolution process for taxpayers who disagree with decisions taken by the CRA;
- (g) Benefit programs: Provides Canadians certain income-based benefits, credits and other services on behalf of federal, provincial (except Québec), and territorial governments;
- (h) Taxpayers' Ombudsman: Addresses requests for reviews made by taxpayers and benefit recipients with respect to service matters.

## 2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities have been divided into two sets of financial statements: agency activities and administered activities. The Financial Statements - Agency Activities include those operational revenues and expenses which are managed by the CRA and utilized in running the organization. The Financial Statements - Administered Activities include those revenues and expenses that are administered on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The purpose of the distinction between agency and administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the CRA in achieving its mandate. Tax-related assets, liabilities, revenues and expenses are excluded from these financial statements because they can only accrue to a government, not to the tax agency that administers those transactions.

As required by the *Canada Revenue Agency Act*, the Financial Statements - Agency Activities have been prepared using accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The accounting principles used are based on Canadian public sector accounting standards. A summary of significant accounting policies follows:

### (a) Parliamentary appropriations

The CRA is financed by the Government of Canada through Parliamentary appropriations. Accounting for appropriations provided to the CRA does not parallel financial reporting according to Canadian public sector accounting standards, as they are based in large part on cash flow requirements. Consequently, items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position may be different from those provided through appropriations from Parliament. Note 3(b) provides a high-level reconciliation between the two bases of reporting. The planned results in the Statement of Operations and Agency Net Financial Position are the amounts reported in the Future-oriented Financial Statements - Agency Activities included in the 2013-2014 Report on Plans and Priorities.

### (b) Net cash provided by the Government of Canada

The CRA operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by the CRA is deposited to the CRF and all cash disbursements made by the CRA are paid from the CRF. The net cash provided by government is the difference between all spendable cash receipts and all cash disbursements including transactions with departments and agencies.

### (c) Expense recognition

Expenses are recognized when goods are received and/or services are rendered.

### (d) Services provided without charge from other government agencies and departments

Estimates of the cost for services provided without charge from other government agencies and departments are recorded as expenses at their estimated cost.

### (e) Revenue recognition

Non-tax revenues are recognized when the services are rendered by the CRA.

Non-tax revenues that are not available for spending cannot be used to discharge the CRA's liabilities. While management is expected to maintain accounting control, it has no authority regarding the disposition of non-spendable revenues. As a result, non-spendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented as a reduction of the CRA's gross revenues.

### (f) Vacation pay and compensatory leave

Vacation pay and compensatory leave expenses are accrued as the benefits are earned by the employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.

**(g) Employee benefits****(a) Pension benefits**

All eligible CRA employees participate in the Public Service Pension Plan administered by the Government of Canada. The CRA's contributions reflect the full cost as employer. These amounts are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the plan. The CRA's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the CRA. Current legislation does not require the CRA to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

**(b) Health and dental benefits**

The Government of Canada sponsors employee benefit plans (health and dental) in which the CRA participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The CRA's contributions to the plans, which are provided without charge by the Treasury Board Secretariat, are recorded at cost based on a percentage of the salary expenses and charged to personnel expenses in the year incurred. They represent the CRA's total obligation to the plans. Current legislation does not require the CRA to make contributions for any future unfunded liabilities of the plans.

**(c) Severance benefits**

Some employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. These benefits represent an obligation of the CRA that entails settlement by future payments. The liability resulting from the benefits earned by CRA employees is calculated using information from an actuarial valuation based on the projected benefit method prorated on services. Changes in actuarial assumptions and any variance between the expected and the actual experience of the severance benefits plan give rise to actuarial gains or losses. These gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees starting in the fiscal year following the one in which they arose.

**(d) Sick leave benefits**

Employees are eligible to accumulate sick leave benefits until retirement or termination according to their terms of employment. Sick leave benefits are earned based on employee services rendered and are paid upon an illness or injury related absence. These are accumulating non-vesting benefits that can be carried forward to future years, but are not eligible for payment on retirement or termination, nor can these be used for any other purpose. A liability is recorded for unused sick leave credits expected to be used in future years in excess of future allotments, based on an actuarial valuation using an accrued benefit method. Changes in actuarial assumptions and any variance between the expected and the actual experience of the sick leave benefits plan give rise to actuarial gains or losses. These gains or losses are amortized on a straight-line basis over the expected average remaining service life of the employees starting in the fiscal year following the one in which they arose.

**(h) Due from the Consolidated Revenue Fund (CRF)**

Amounts due from the CRF are the result of timing differences between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the CRA is entitled to draw from the CRF without further authorities to discharge its liabilities.

**(i) Accounts receivable and advances**

Accounts receivable and advances are stated at the lower of cost and net recoverable value. An allowance for doubtful accounts is recorded where recovery is considered uncertain.



**(j) Tangible capital assets**

All initial costs of \$10,000 or more incurred by the CRA to acquire or develop tangible capital assets are capitalized and amortized over the useful lives of the assets. Similar items under \$10,000 are expensed.

Tangible capital assets are amortized on a straight-line basis over the estimated useful lives of assets as follows:

<b>Asset class</b>	<b>Useful life</b>
Machinery, equipment, and furniture	10 years
In-house developed software	5-10 years
Vehicles and other means of transportation	5 years
Information technology equipment	5 years
Purchased software	3 years

Assets under construction/development are recorded as costs are incurred and are not amortized until completed and put into operation.

**(k) Contingent liabilities**

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable, the CRA's best estimate of the contingency is disclosed in the notes to the financial statements.

**(l) Foreign currency translation**

Transactions involving foreign currencies are translated into Canadian dollars by applying the exchange rate in effect at the time of those transactions. Realized foreign exchange gains and losses resulting from foreign currency transactions are included in the other services and expenses category in note 8 - Segmented information - Expenses.

**(m) Financial instruments**

The CRA uses non-derivative financial instruments in the course of its operations. Those financial instruments gave rise to the following financial assets and financial liabilities that are measured at cost or amortized cost, as per the table below.

<b>Financial assets and financial liabilities</b>	<b>Measurement</b>
Cash	Cost
Accounts receivable and advances	Amortized cost
Accrued salaries	Cost
Accounts payable and accrued liabilities	Cost
Vacation pay and compensatory leave	Cost

**(n) Measurement uncertainty**

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of liabilities, assets, revenues, expenses and related disclosure reported on the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance and sick leave benefits, contingent liabilities, the useful life of tangible capital assets, services provided without charge and the allowance for doubtful accounts are the most significant items where estimates and assumptions are used. Actual results could differ significantly from the current estimates. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the period in which they become known.

### 3. Parliamentary appropriations

The CRA receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Financial Position and the Statement of Operations and Agency Net Financial Position in one year may be funded through Parliamentary appropriations in prior, current, or future years. Accordingly, the CRA has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled below.

(a) Reconciliation of Parliamentary appropriations provided and used:

	2014	2013
	(in thousands of dollars)	
Parliamentary appropriations — provided:		
Vote 1— Operating expenditures, contributions and recoverable expenses on behalf of the <i>Canada Pension Plan</i> and the <i>Employment Insurance Act</i>	3,392,504	3,582,681
Vote 5 - Capital expenditures	110,012	83,433
Spending of revenues received through the conduct of operations pursuant to section 60 of the <i>Canada Revenue Agency Act</i>	164,016	166,977
Spending of proceeds from disposal of surplus Crown assets	222	133
Statutory expenditures:		
Contributions to employee benefit plans	458,805	463,604
Disbursements to provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i> <sup>1</sup>	42,345	136,913
Children's special allowance payments <sup>1</sup>	235,403	238,007
Other	1,267	1,647
	4,404,574	4,673,395
Less:		
Appropriations available for future years <sup>2</sup> :		
Vote 1	(292,514)	(262,896)
Vote 5	(46,711)	(36,930)
Appropriations lapsed:		
Vote 1	(2,489)	(54,410)
Vote 5	-	(690)
Expenditures related to administered activities <sup>1</sup>	(277,750)	(374,930)
	(619,464)	(729,856)
<b>Total Parliamentary appropriations used</b>	<b>3,785,110</b>	<b>3,943,539</b>

<sup>1</sup> In accordance with the division of activities for financial reporting purposes outlined in note 2, the payments under the *Softwood Lumber Products Export Charge Act, 2006* and the *Children's Special Allowances Act* are reported as federal administered expenses on the Statement of Administered Expenses and Recoveries of the CRA's Financial Statements - Administered Activities.

<sup>2</sup> Pursuant to section 60(1) of the *Canada Revenue Agency Act*, the balance of money appropriated by Parliament for the use of the CRA that remains unexpended at the end of the fiscal year lapses at the end of the following fiscal year.

## (b) Reconciliation of net cost of operations before government funding and transfers to current year Parliamentary appropriations used:

	2014	2013
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	4,068,582	4,078,257
Expenses not requiring use of current year appropriations:		
Amortization of tangible capital assets (note 7)	(75,040)	(70,131)
Adjustment to prior years' accruals	2,277	2,664
Loss on disposal/write-off of tangible capital assets	(2,204)	(2,789)
Services provided without charge from other government agencies and departments (note 10)	(430,409)	(448,298)
Other	(20,874)	17,179
	(526,250)	(501,375)
Changes to non financial assets affecting appropriations:		
Tangible capital assets acquisitions (note 7)	77,493	60,093
Less: Variation in prior years expenses capitalization	109	(3,941)
Variation in prepaid expenses	2,388	(2,603)
	79,990	53,549
Changes in future funding requirements:		
Vacation pay and compensatory leave	(2,046)	(4,648)
Employee severance benefits	10,398	151,802
Employee sick leave benefits	(8,500)	(500)
	(148)	146,654
Non-tax revenues available for spending (note 9)	162,936	166,454
<b>Total Parliamentary appropriations used</b>	<b>3,785,110</b>	<b>3,943,539</b>

**4. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within 30 days of year-end.

	2014	2013
	(in thousands of dollars)	
Accounts payable and accrued liabilities – Related parties	33,453	28,809
Accounts payable and accrued liabilities – External	61,448	89,657
	<b>94,901</b>	<b>118,466</b>

## 5. Employee benefits

### (a) Pension benefits

The CRA and all eligible employees contribute to the Public Service Pension Plan (Pension plan), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec pension plans benefits and they are indexed to inflation.

Both the CRA and the employees contribute to the Pension plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to the *Jobs and Growth Act, 2012*, employee contributors have been divided into two groups - Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013.

Each group has a distinct contribution rate. The current year expense for the CRA's contributions for Group 1 members represents approximately 1.6 times (1.7 times in 2012-2013) the contributions by employees and, for Group 2 members, approximately 1.5 times (1.6 times in 2012-2013) the contributions of employees.

The contributions to the Pension plan for the year were as follows:

	<b>2014</b>	<b>2013</b>
	(in thousands of dollars)	
CRA's contributions	322,586	331,013
Employees' contributions	203,861	194,713

The CRA's responsibility with regard to this Pension plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

### (b) Health and dental benefits

The CRA contributes for all eligible employees to the Public Service Health Care Plan and Public Service Dental Care Plan, which are sponsored by the Government of Canada. The CRA's responsibility with regard to these plans is limited to its contributions (refer to note 10).

### (c) Severance benefits

The CRA provides severance benefits to entitled employees based on eligibility, years of service and salary upon termination of employment. These severance benefits are unfunded. Benefits will be paid from future appropriations.

### (d) Sick leave benefits

Employees are credited, based on service, a maximum of 15 days annually for use as paid absences, due to illness or injury. Employees are allowed to accumulate unused sick leave credits each year. Accumulated credits may be used in future years to the extent that the employee's illness or injury exceeds the current year's allocation of credits. The use of accumulated sick leave balance for sick-leave compensation ceases on termination of employment. These sick leave benefits are unfunded. They will be paid from future appropriations.

## (e) Valuation of benefits

Annually, as at March 31 of each year, the CRA obtains an actuarial valuation of the accrued employee severance and sick leave benefit obligations for accounting purposes.

Changes from the prior year in the actuarial value of these accrued employee benefit obligations that is used to determine the related employee benefits liabilities presented in the Statement of Financial Position as at March 31 were as follows:

	Severance benefits		Sick leave benefits	
	2014	2013	2014	2013
	(in thousands of dollars)			
Accrued employee benefits obligations, beginning of year	580,511	732,313	235,200	234,700
Benefits expenses (note 8):				
Benefits earned	28,117	45,214	41,300	41,400
Plan amendment	-	4,076	-	-
Plan curtailment	-	(27,209)	-	-
Plan settlement	-	(12,299)	-	-
	28,117	9,782	41,300	41,400
Interest on average accrued benefit obligations (note 8)	15,226	18,249	6,300	6,500
Benefits paid	(53,740)	(184,651)	(39,100)	(39,500)
Actuarial (gain)/loss	(50,158)	4,818	(28,900)	(7,900)
Accrued employee benefits obligations, end of year	519,956	580,511	214,800	235,200
Unamortized actuarial gain	50,158	-	28,900	-
<b>Employee benefits liability</b>	<b>570,114</b>	<b>580,511</b>	<b>243,700</b>	<b>235,200</b>

## (f) Actuarial assumptions

Actuarial assumptions are used to determine the severance and sick leave accrued benefit obligations and include estimates of the discount rate and yearly salary increase. These assumptions are reviewed at March 31 of each year and are based on management's best estimate. The actuarial valuation as at March 31, 2014 for both severance and sick leave benefit obligations used a discount rate of 3.53% and salary growth of 2.0% - 2.6% (2.68% and 2.6% - 2.7% respectively as at March 31, 2013).

## 6. Accounts receivable and advances

	2014	2013
	(in thousands of dollars)	
Accounts receivable - Related parties	2,622	33,438
Accounts receivable - External	562	809
Advances to employees	1,454	1,081
Salary overpayments	2,773	2,811
	7,411	38,139
Less: Allowance for doubtful accounts	(787)	(791)
<b>Total accounts receivable and advances</b>	<b>6,624</b>	<b>37,348</b>

## 7. Tangible capital assets

Tangible capital asset class	Cost				Closing balance
	Opening balance	Acquisitions	Disposals and adjustments	Transfers to OGD	
	(in thousands of dollars)				
Machinery, equipment and furniture	11,424	333	(679)	(3,632)	7,446
Software (purchased and in-house developed and/or in development)	764,293	76,457	(2,595)	(1,156)	836,999
Vehicles and other means of transportation	2,246	246	(467)	(29)	1,996
Information technology equipment	20,964	457	(223)	(14,438)	6,760
<b>Total</b>	<b>798,927</b>	<b>77,493</b>	<b>(3,964)</b>	<b>(19,255)</b>	<b>853,201</b>

Tangible capital asset class	Accumulated amortization				Closing balance
	Opening balance	Amortization expense	Disposals and adjustments	Transfers to OGD	
	(in thousands of dollars)				
Machinery, equipment and furniture	5,433	681	(595)	(1,112)	4,407
Software (purchased and in-house developed and/or in development)	382,601	73,906	(490)	(1,058)	454,959
Vehicles and other means of transportation	1,447	275	(426)	(19)	1,277
Information technology equipment	17,667	178	(217)	(11,397)	6,231
<b>Total</b>	<b>407,148</b>	<b>75,040</b>	<b>(1,728)</b>	<b>(13,586)</b>	<b>466,874</b>

Tangible capital asset class	2014 Net book value	2013 Net book value
		(in thousands of dollars)
Machinery, equipment and furniture	3,039	5,991
Software (purchased and in-house developed and/or in development)	382,040	381,692
Vehicles and other means of transportation	719	799
Information technology equipment	529	3,297
<b>Total</b>	<b>386,327</b>	<b>391,779</b>

The cost of software in development, which is not amortized, is \$80,843,958 as at March 31, 2014 (\$59,055,301 as at March 31, 2013).

## 8. Segmented information - Expenses

The following table presents the expenses by program activity and expense category as described in note 1 of these financial statements.

	Reporting compliance	Internal services	Assessment of returns and payment processing	Accounts receivable and returns compliance	Taxpayer and business assistance	Appeals programs	Benefit programs	Taxpayers' Ombudsman	2014	2013
(in thousands of dollars)										
<b>Personnel:</b>										
Salaries	715,832	514,841	335,576	421,368	234,769	111,399	72,962	1,529	2,408,276	2,381,913
Other allowances and benefits (including employee benefits described in note 5)	293,859	205,794	132,091	179,317	94,063	45,897	28,059	670	979,750	979,491
	1,009,691	720,635	467,667	600,685	328,832	157,296	101,021	2,199	3,388,026	3,361,404
Professional and business services	19,913	241,429	5,092	23,151	5,648	75,774	1,267	78	372,352	368,636
Accommodation	90,256	83,535	41,756	65,132	41,633	17,344	9,940	214	349,810	348,320
Federal sales tax administration costs by the Province of Québec	-	-	142,772	-	-	-	-	-	142,772	142,222
Transportation and communications	17,182	24,748	42,738	10,794	3,070	752	16,069	55	115,408	126,048
Amortization of tangible capital assets (note 7)	11,462	11,441	23,558	17,895	2,727	1,092	6,865	-	75,040	70,131
Other services and expenses	5,065	2,145	2,771	2,843	1,093	1,469	13,268	72	28,726	39,120
Interest on average accrued benefit obligations (note 5)	6,404	4,608	2,966	3,810	2,086	998	640	14	21,526	24,749
Materials and supplies	2,635	7,741	7,087	1,256	699	484	183	9	20,094	23,951
Repair and maintenance	309	15,868	825	35	40	7	17	1	17,102	30,274
Equipment purchases	4,472	8,447	1,340	1,378	807	294	312	6	17,056	25,788
Advertising, information and printing services	186	7,946	150	49	438	5	7	24	8,805	8,815
Equipment rentals	677	1,382	399	369	172	130	29	4	3,162	2,755
Loss on disposal/write-off of tangible capital assets	-	1,705	9	-	429	61	-	-	2,204	2,789
<b>Total expenses</b>	<b>1,168,252</b>	<b>1,131,630</b>	<b>739,130</b>	<b>727,397</b>	<b>387,674</b>	<b>255,706</b>	<b>149,618</b>	<b>2,676</b>	<b>4,562,083</b>	<b>4,575,002</b>

## 9. Segmented information - Non-tax revenues

The following table presents the revenues generated by program activity and revenue category as described in note 1 of these financial statements.

	Assessment of Accounts						Benefit programs	2014	2013
	Reporting compliance	Internal services	Assessment of returns and payment processing	receivable and returns compliance	Taxpayer and business assistance	Appeals			
<b>Non-tax revenues credited to Vote 1</b>									
Fees for administering the <i>Employment Insurance Act</i>	-	30,075	17,138	91,303	32,996	10,703	579	182,794	182,573
Fees for administering the <i>Canada Pension Plan</i>	-	27,520	18,409	78,588	19,104	4,150	-	147,771	147,718
	-	57,595	35,547	169,891	52,100	14,853	579	330,565	330,291
<b>Non-tax revenues available for spending</b>									
Services fees	569	49,839	4,463	566	264	-	795	56,496	61,214
Administration fees - provinces and territories	16,669	43,792	13,317	3,917	1,181	2,517	22,722	104,115	102,539
Miscellaneous spendable revenues	441	14	3	-	1,866	-	1	2,325	2,701
	17,679	93,645	17,783	4,483	3,311	2,517	23,518	162,936	166,454
<b>Non-tax revenues not available for spending</b>									
Recovery of employee benefit costs relating to non-tax revenues credited to Vote 1 and revenues available for spending	3,315	12,808	6,362	26,715	8,471	2,344	1,819	61,834	60,717
Miscellaneous non-tax revenues	-	425	-	-	-	747	-	1,172	2,898
	3,315	13,233	6,362	26,715	8,471	3,091	1,819	63,006	63,615
Total non-tax revenues before revenues earned on behalf of Government									
	20,994	164,473	59,692	201,089	63,882	20,461	25,916	556,507	560,360
Revenues earned on behalf of Government	(3,315)	(13,233)	(6,362)	(26,715)	(8,471)	(3,091)	(1,819)	(63,006)	(63,615)
<b>Total non-tax revenues</b>	<b>17,679</b>	<b>151,240</b>	<b>53,330</b>	<b>174,374</b>	<b>55,411</b>	<b>17,370</b>	<b>24,097</b>	<b>493,501</b>	<b>496,745</b>

(in thousands of dollars)



## 10. Related party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. Transactions with Crown corporations entered into by the CRA are in the normal course of business and on normal trade terms applicable to all individuals and enterprises. Transactions with other Government of Canada departments and agencies are conducted on a cost recovery basis, except for transfers of tangible capital assets that are carried out at net book value.

During the year, the CRA received various services without charge from other government agencies and departments. The estimated costs for significant services provided without charge that have been recorded include:

	2014	2013
	(in thousands of dollars)	
Employer's contribution to the health and dental insurance plans – Treasury Board Secretariat	208,083	235,116
Information technology services - Shared Services Canada (note 11)	175,502	167,493
Legal services – Justice Canada	38,168	37,402
Audit services – Office of the Auditor General of Canada	2,662	2,520
Payroll services – Public Works and Government Services Canada	4,553	4,476
Workers' compensation benefits – Employment and Social Development Canada	1,441	1,291
<b>Total</b>	<b>430,409</b>	<b>448,298</b>

## 11. Transfer to Shared Services Canada

Effective April 3, 2013, the CRA transferred responsibilities over the acquisition and provision of hardware and software for workplace technology devices to Shared Services Canada in accordance with Order in Council (OIC) P.C. 2013-0368. As a first phase, the responsibilities and the related costs for activities related to the software portion of workplace technology devices incurred by the CRA in the course of fiscal year 2014 were transferred to Shared Services Canada.

The transferred expenses and prepaid expenses totaled \$5,975,108 as at March 31, 2014 and the CRA used \$5,199,621 of its net cash provided by the Government of Canada in fiscal year 2014 to settle them. These costs were included as services provided without charge by Shared Services Canada in note 10 of these financial statements.

## 12. Board of Management

Pursuant to the *Canada Revenue Agency Act*, a Board of Management is appointed to oversee the organization and administration of the CRA and the management of its resources, services, property, personnel and contracts. The expenses relating to the board's activities for the year included in the net cost of operations were as follows:

	2014	2013
	(in thousands of dollars)	
<b>Board of Management</b>		
Compensation	290	304
Travel	77	101
Professional services and other expenses	81	94
	448	499
<b>Other related costs</b>		
Corporate Secretariat support	650	647
<b>Total</b>	<b>1,098</b>	<b>1,146</b>

### 13. Contingent liabilities

The CRA is a defendant in certain cases of pending and threatened litigation which arose in the normal course of business of agency activities as defined in note 2. The current best estimate of the amount to be paid in respect of the cases identified as likely to be lost has been recorded in accounts payable and accrued liabilities. All other cases, excluding those assessed as unlikely to be lost, are considered contingent liabilities and the related amounts are disclosed whenever the amount of the contingency can be reasonably estimated. As at March 31, 2014, contingent liabilities for claims and pending and threatened litigation have been estimated by management at \$11,481,104 (\$9,882,645 as at March 31, 2013).

### 14. Financial risk management

The CRA uses non-derivative financial instruments in the course of its operations that give rise to financial assets and financial liabilities. Those financial liabilities comprise accrued salaries, accounts payable and accrued liabilities, vacation pay and compensatory leave. Cash, accounts receivables and advances represent those financial assets.

The CRA is exposed to credit risk, liquidity risk and market risk in connection with its financial instruments.

The credit risk is the risk that another party owing money to the CRA would fail to discharge its obligation creating a financial loss for the CRA. The maximum exposure of the CRA to the credit risk amounted to \$6,624,223 as of March 31, 2014 (\$37,347,968 as of March 31, 2013), which is equal to the carrying value of its accounts receivable and advances. As the vast majority of the CRA's accounts receivable and advances are either with other government departments or employees, the credit risk is low.

The liquidity risk is the risk that the CRA would encounter difficulty in meeting its obligations associated with its financial liabilities. The CRA's liquidity risk is minimal given that the CRA receives most of its funding through annual Parliamentary appropriations and maintains strong controls over expenditure management.

The market risk is defined as the risk that future cash flows of a financial instrument would fluctuate because of changes in currency rates, interest rates and/or other rates. The CRA's exposure to market risk is limited to fluctuations in the currency rates and the impact of such variations on CRA's cash flows is negligible as its financial transactions in foreign currency are immaterial.

The CRA's exposure to these risks and the policies and processes to manage and measure them did not change significantly from the prior year.

### 15. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

# Financial Statements Discussion and Analysis – Agency Activities (unaudited)

## Introduction

This section of the financial statements provides unaudited complementary and supplementary information on Agency Activities, on an accrual basis, in respect of matters reported in the audited financial statements. Responsibility for the preparation of this financial statements discussion and analysis rests with the CRA's management.

## Capacity to deliver services

The CRA's workforce of over 40,000 employees is fundamental to the achievement of its mandate. In the course of 2013-2014, this workforce was comprised on average of 80% permanent employees, 18% term employees and 2% students.

The CRA's employees are located throughout Canada, in the following operational regions: Ontario (31%), Headquarters (24%), Prairies (14%); Québec (12%); Pacific (11%) and Atlantic (8%). They provide services to taxpayers in over 35 tax services offices and tax centers, as well as program services and internal services supporting those programs.

The CRA's information technology (IT) capacity is also critical to its ability to deliver services to Canadians. It involves an extensive IT infrastructure, significantly managed by Shared Services Canada (SSC), as well as the development and maintenance of applications across a distributed computing environment.

## Risk management

The CRA recognizes that a variety of risks could have potential implications on its financial position and operations. Its Enterprise Risk Management (ERM) Division of the Audit, Evaluation, and Risk Branch plays a key role in ensuring that risks are identified, impacts are assessed and strategies for risk management are adopted, notably by producing the CRA Corporate Risk Profile.

Further details on ERM at the CRA are discussed in this annual report. This financial statements discussion and analysis will elaborate on specific financial risks throughout its content, where applicable.

## Financial highlights

Four developments have significantly influenced the 2013-2014 results in the financial statements.

### CRA Resource Management

With financial flexibility of \$339.2M at year-end, the CRA has managed well within the expenditure authorities approved by Parliament for 2013-2014. This amount, largely planned and available for use in 2014-2015, is a crucial element of the current Resource Management Strategy for addressing known and emerging financial challenges.

The Government announced a two-year operating freeze in Budget 2014, which means the CRA will not be compensated for salary increases which take effect during this period. For 2013-2014, the delays in the ratification of collective agreements required the establishment of a provision for retroactive payments, contributing to the increase in the CRA's financial flexibility.

The CRA is currently implementing transformational measures announced in both Budget 2012 and 2013, which will reach maturity in 2016-2017 and 2015-2016, respectively. During 2013-2014, the CRA continued to position itself for end-state, further contributing to the year-over-year growth in financial flexibility.

As part of its multi-year resource management strategy, the CRA continuously reviews and revises plans and priorities to ensure the effective use of government resources and the achievement of its core business outcomes. In 2013-2014, the majority of key performance targets were met or exceeded.

## Budget 2013 Implementation

As part of the Economic Action Plan 2013 (Budget 2013), the CRA was one of two government organizations asked to review its internal operations in the National Capital Region (NCR). As a result, the CRA identified savings totalling some \$19 million in 2013-2014, growing to \$61 million in 2015-2016. These back-office changes, which will reduce duplication of effort and allow the CRA to conduct business more efficiently, will not impact service levels, compliance activities, or the security of taxpayer information.

Budget 2013 also introduced a number of measures to close tax loopholes, address aggressive tax planning, reduce international tax evasion and aggressive tax avoidance, and improve the integrity of the tax system. For fiscal year 2013-2014, the implementation and administration costs of \$12 million (excluding employee benefit plans and accommodation) associated with those measures were managed within the CRA's existing Parliamentary appropriations.

## Budget 2012 Implementation

In 2013-2014, the CRA continued to contribute to the deficit reduction effort of the Government of Canada, with planned savings of \$253 million at maturity. In 2013-2014, the CRA achieved savings of \$59 million, which represents an increase of \$31 million over the prior year. The savings target was achieved with minimal impact on the existing workforce as the vast majority of employees impacted by Budget 2012 savings measures have either been placed in other positions within the CRA, or have left the organization on a voluntary basis.

## Shared Services Canada

SSC has been responsible for the delivery of IT infrastructure services to the CRA since November 2011. In April 2013, an Order in Council provided SSC with an additional mandate to acquire and provide workplace technology devices software and hardware to departments and agencies. In 2013-2014, all funding intended for software purchases was removed from the CRA's budgets, totaling \$12 million. The timing for the transfer of funding and expenditures associated with workplace technology devices hardware acquisitions has yet to be finalised.

The cost of IT services provided without charge by SSC are reported as professional services in the financial statements (note 10).

# Discussion and analysis

## Net cost of operations before government funding and transfers

The CRA's 2013-2014 net cost of operations before government funding and transfers amounted to \$4,068.6 million, decreasing by \$9.7 million from the \$4,078.3 million net cost of operations before government funding and transfers in 2012-2013.

Details of the net cost of operations before government funding and transfers are illustrated below (see note 8 of the Financial Statements - Agency Activities for a further breakdown of expenses by category):

**Figure 1: Details on the net cost of operations before government funding and transfers**

	2014	2013	Difference
	(in thousands of dollars)		
Personnel	3,388,026	3,361,404	26,622
Accommodation	349,810	348,320	1,490
IT equipment and services	325,059	340,058	(14,999)
Transportation	113,729	124,870	(11,141)
Professional and business services excluding IT	149,304	148,642	662
Federal sales tax administration costs – Province of Québec	142,772	142,222	550
Other	93,383	109,486	(16,103)
<b>Total expenses</b>	<b>4,562,083</b>	<b>4,575,002</b>	<b>(12,919)</b>
Less: Non-tax revenues	493,501	496,745	(3,244)
<b>Net cost of operations before government funding and transfers</b>	<b>4,068,582</b>	<b>4,078,257</b>	<b>(9,675)</b>

Comparative figures have been reclassified with the current year presentation.

Personnel expenses (salaries, other allowances and benefits) are the CRA's primary costs, representing 74% of total expenses while the remaining 26% of expenses are comprised of various other costs such as accommodation, information technology equipment and services.

The increase in personnel costs of \$26.6 million is mostly attributable to economic salary increases and increments pursuant to collective agreement provisions, increases in employee severance benefits expenses offset by lower salary expenses resulting from a slight reduction of workforce and a decrease in the employer's contributions to the health and dental insurance plans.

Non-personnel expenses have decreased by \$39.5 million in 2013-2014. This variance mainly results from a decrease in the purchases and maintenance of computer equipment and software in which the transfer of IT responsibilities to SSC contributed, a decrease in the interest on accrued employee benefits along with a decrease in postage and travel expenses. While the CRA significantly reduced its footprint in 2013-2014, accommodation expenses have remained stable as the savings will be achieved in 2014-2015 onward.

Non-tax revenues slightly decreased in 2013-2014, mostly as a result of IT services now being provided to the Canada Border Services Agency (CBSA) by SSC rather than by the CRA.

## Financial position

The change in the agency net financial position compared to the previous year is as follows:

**Figure 2: Statement of Financial Position**

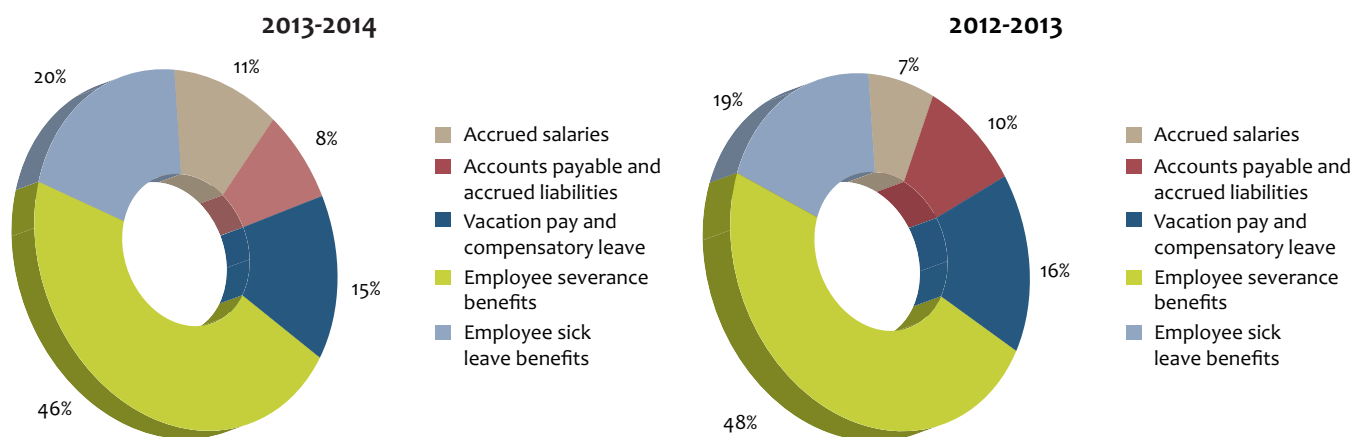
	2014	2013	Difference
	(in thousands of dollars)		
Liabilities	1,227,976	1,206,348	21,628
Financial assets	170,083	169,418	665
Agency net debt	1,057,893	1,036,930	20,963
Non-financial assets	398,290	402,129	(3,839)
<b>Agency net financial position</b>	<b>659,603</b>	<b>634,801</b>	<b>24,802</b>

The increase in the agency net financial position is mainly attributable to an increase in accrued salaries partly offset by a decrease in accounts payable and accrued employee severance benefits as explained below.

## Liabilities

Employee benefits are the CRA's most significant liability. They include obligations for severance and sick leave benefits as well as vacation pay and compensatory leave accrual. Employee severance benefits remain the CRA's most important obligation as illustrated in the table below.

**Figure 3: Liabilities by category**



Employee sick leave and severance benefits combined account for 66% of the CRA total liabilities in 2013-2014. These are significant liabilities that require the use of management estimates and assumptions to determine their present value as at March 31 of every year. As such, there lies a financial risk of imprecision in the financial position of the CRA where actual liabilities and the related expenses may differ significantly from current estimates. To minimize this risk, the CRA makes use of the expertise of the Office of the Chief Actuary, who provides an actuarial valuation report yearly, discussing the actuarial assumptions and method used to determine the actuarial present value of those employee benefits. Actuarial assumptions used by the CRA are consistent with those used by the Government of Canada.

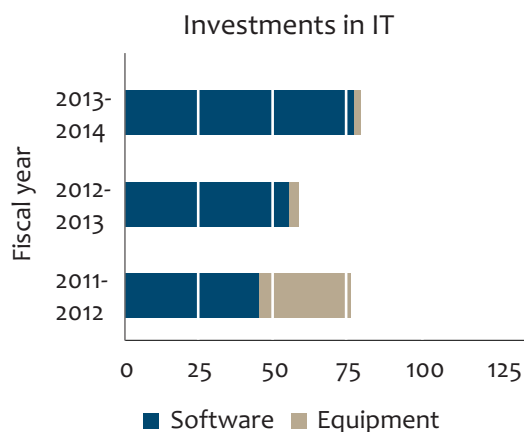
## Non-financial assets

Non-financial assets are comprised of 97% tangible capital assets. The CRA managed a capital budget of \$110.0 million for the year 2013-2014 (\$83.4 million for 2012-2013), of which \$46.7 million (\$36.9 million for 2012-2013) remains available for use in future years in accordance with the CRA's multi-year resource management strategy.

The net book value of tangible capital assets remained fairly stable in 2013-2014 with a net decrease of \$5.5 million mainly related to the transfer of assets to the CBSA and to SSC. The vast majority of tangible capital assets owned by the CRA relates to IT, specifically in-house developed software. As a large organization responsible for delivering an extensive range of tax and benefits programs on behalf of the federal and of provincial governments, the CRA has specialized software needs that are primarily fulfilled internally through the development of in-house tailored applications by the CRA employees.

To prioritize investment decisions regarding in-house developed software and support the effective management of resources, the CRA Resource and Investment Management Committee (RIMC) oversees investment projects above \$1 million. All projects brought to the RIMC require a formal attestation from the ERM Division that the CRA risk management process was followed and that sound risk information forms part of the submission. The attestation process takes place at various project development stages. Enterprise risk information is used to inform the development of the CRA Strategic Investment Plan, a long-term plan of significant future investments. Alignment with the priorities outlined in the Corporate Risk Profile is one of the considerations used to inform the priority ranking of initiatives.

Investments in in-house developed software represent an increasingly significant portion of the CRA's total investments in IT, with \$76.5 million in software acquisitions compared to \$0.5 million in hardware acquisitions in 2013-2014 (\$57.6 million and \$1.9 million respectively in 2012-2013), as illustrated in the table below. The decrease in IT equipment acquisitions is attributable to the transfer to SSC of email, data centers and network services responsibilities in November 2011.

**Figure 4: Breakdown of investments in IT**

## Five year comparative financial information

Below are tables that provide a five year comparison of financial information based on the accounting policies explained in note 2 to the audited financial statements.

**Figure 5: Statement of Financial Position**

	2010	2011	2012	2013	2014
	(in thousands of dollars)				
<b>Liabilities</b>					
Accrued salaries	49,785	56,568	78,257	84,546	129,589
Accounts payable and accrued liabilities	183,818	184,086	152,187	118,466	94,901
Lease obligations for tangible capital assets	14,732	13,304	-	-	-
Vacation pay and compensatory leave	176,953	180,775	182,977	187,625	189,672
Employee severance benefits	554,363	633,270	732,313	580,511	570,114
Employee sick leave benefits	-	-	234,700	235,200	243,700
<b>Total liabilities</b>	<b>979,651</b>	<b>1,068,003</b>	<b>1,380,434</b>	<b>1,206,348</b>	<b>1,227,976</b>
<b>Financial assets</b>					
Cash	93	84	77	67	54
Due from the Consolidated Revenue Fund	181,212	223,385	175,851	132,003	163,405
Accounts receivable and advances	43,174	7,737	8,382	37,348	6,624
<b>Total financial assets</b>	<b>224,479</b>	<b>231,206</b>	<b>184,310</b>	<b>169,418</b>	<b>170,083</b>
<b>Agency net debt</b>	<b>755,172</b>	<b>836,797</b>	<b>1,196,124</b>	<b>1,036,930</b>	<b>1,057,893</b>
<b>Non-financial assets</b>					
Prepaid expenses	17,299	21,940	12,953	10,350	11,963
Tangible capital assets	530,425	539,471	403,936	391,779	386,327
<b>Total non-financial assets</b>	<b>547,724</b>	<b>561,411</b>	<b>416,889</b>	<b>402,129</b>	<b>398,290</b>
<b>Agency net financial position</b>	<b>207,448</b>	<b>275,386</b>	<b>779,235</b>	<b>634,801</b>	<b>659,603</b>

Comparative figures have been reclassified with the current year presentation.

**Figure 6: Segmented information - Expenses**

	2010	2011	2012	2013	2014
	(in thousands of dollars)				
Personnel:					
Salaries	2,301,210	2,331,814	2,360,040	2,381,913	2,408,276
Other allowances and benefits	929,087	1,077,517	1,184,690	979,491	979,750
	<b>3,230,297</b>	<b>3,409,331</b>	<b>3,544,730</b>	<b>3,361,404</b>	<b>3,388,026</b>
Professional and business services	210,024	204,313	259,437	368,636	372,352
Accommodation	331,587	327,413	344,894	348,320	349,810
Federal sales tax administration costs by the Province of Québec	148,437	142,179	141,067	142,222	142,772
Transportation and communications	197,804	194,861	160,653	126,048	115,408
Amortization of tangible capital assets	86,838	94,564	94,770	70,131	75,040
Other services and expenses	39,042	39,896	47,102	39,120	28,726
Materials and supplies	37,067	30,557	26,319	23,951	21,526
Repair and maintenance	71,087	94,849	68,769	30,274	20,094
Equipment purchases	56,195	45,821	63,924	25,788	17,102
Interest on average accrued benefit obligations	-	-	-	24,749	17,056
Advertising, information and printing services	17,756	10,775	8,836	8,815	8,805
Equipment rentals	4,755	4,322	3,611	2,755	3,162
Loss on disposal/write-off of tangible capital assets	10,432	6,699	19,929	2,789	2,204
<b>Total expenses</b>	<b>4,441,321</b>	<b>4,605,580</b>	<b>4,784,041</b>	<b>4,575,002</b>	<b>4,562,083</b>

Comparative figures have been reclassified with the current year presentation.



**Figure 7: Segmented information - Non-tax revenue**

	2010	2011	2012	2013	2014
	(in thousands of dollars)				
<b>Non-tax revenues credited to Vote 1</b>					
Fees for administering the <i>Employment Insurance Act</i>	167,067	171,287	176,355	182,573	182,794
Fees for administering the <i>Canada Pension Plan</i>	133,774	135,688	138,828	147,718	147,771
	300,841	306,975	315,183	330,291	330,565
<b>Non-tax revenues available for spending</b>					
Services fees	155,001	153,234	138,698	61,214	56,496
Administration fees - provinces and territories	55,397	87,995	103,315	102,539	104,115
Miscellaneous spendable revenues	2,506	2,403	2,444	2,701	2,325
	212,904	243,632	244,457	166,454	162,936
<b>Non-tax revenues not available for spending</b>					
Recovery of employee benefit costs relating to non-tax revenues credited to Vote 1 and revenues available for spending	53,248	57,986	61,242	60,717	61,834
Miscellaneous non-tax revenues	2,428	1,684	1,470	2,898	1,172
	55,676	59,670	62,712	63,615	63,006
Total non-tax revenues before revenues earned on behalf of Government	569,421	610,277	622,352	560,360	556,507
Revenues earned on behalf of Government <sup>1</sup>	-	(59,670)	(62,712)	(63,615)	(63,006)
<b>Total non-tax revenues</b>	<b>569,421</b>	<b>550,607</b>	<b>559,640</b>	<b>496,745</b>	<b>493,501</b>

Comparative figures have been reclassified with the current year presentation.

<sup>1</sup> The CRA's accounting policy for non-spendable revenues was modified for fiscal year 2010-2011 onward, presenting those revenues as earned on behalf of the Government of Canada in reduction of the CRA's gross revenue.

## Outlook

Looking ahead, the CRA will continue to modernize its services and compliance activities to improve the efficiency and effectiveness of its operations and programs while contributing to the Government of Canada's goal of returning to a budgetary balance. In 2014-2015, the third consecutive year of measures announced in Budget 2012, further savings will be achieved through various initiatives including the deployment of a new storage model for records management, enhancing tax collection strategies and increasing internet filing for individual tax returns. In addition, as announced in Budget 2013, the CRA will continue to streamline internal operations in the National Capital Region (NCR) over the next two fiscal years.



Canada Revenue Agency  
Financial Statements –  
Administered Activities





Auditor General of Canada  
Vérificateur général du Canada

## INDEPENDENT AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency and the Minister of National Revenue

I have audited the accompanying statement of administered assets and liabilities of the Canada Revenue Agency as at 31 March 2014, and the statement of administered revenues and pension contributions, statement of administered expenses and recoveries and statement of administered cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (together “the financial information”). The financial information has been prepared by management using the basis of accounting described in Note 2.

### *Management's Responsibility for the Financial Information*

Management is responsible for the preparation and fair presentation of this financial information in accordance with the basis of accounting described in Note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial information in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

My responsibility is to express an opinion on the financial information based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, the financial information presents fairly, in all material respects, the administered assets and liabilities of the Canada Revenue Agency as at 31 March 2014, and the results of its administered operations and its administered cash flows for the year then ended in accordance with the basis of accounting described in Note 2.

### *Emphasis of Matter*

Without modifying my opinion, I draw attention to Note 2 to the financial information, which describes the purpose and basis of accounting for reporting activities administered by the Canada Revenue Agency on behalf of others. This financial information may not be suitable for another purpose. Management prepares a separate set of financial statements to report the operational revenues and expenses of the Canada Revenue Agency.

*original signed*

Michael Ferguson, CPA, CA  
FCA (New Brunswick)  
Auditor General of Canada

26 August 2014  
Ottawa, Canada

## Canada Revenue Agency Statement of Administered Assets and Liabilities

as at March 31  
(in thousands of dollars)

	2014	2013
<b>Administered assets</b>		
Cash on hand	7,489,261	6,474,930
Amounts receivable from taxpayers (note 3)	90,955,765	88,959,530
Amounts receivable under the tobacco civil settlements (note 4)	398,444	462,917
<b>Total assets</b>	<b>98,843,470</b>	<b>95,897,377</b>
 <b>Administered liabilities</b>		
Amounts payable to taxpayers (note 5)	52,605,357	54,888,038
Amounts payable to provinces (note 6)	648,017	536,642
Deposit accounts (note 7)	162,330	149,450
	53,415,704	55,574,130
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (note 8)	45,427,766	40,323,247
<b>Total liabilities</b>	<b>98,843,470</b>	<b>95,897,377</b>
Contingent liabilities (note 9)		

*The accompanying notes form an integral part of these financial statements.*

Approved by:

*original signed*

*original signed*

\_\_\_\_\_  
Andrew Treusch  
Commissioner of Revenue and Chief Executive  
Officer of the Canada Revenue Agency

\_\_\_\_\_  
Richard Thorpe, CPA, CMA, FCMA  
Director and Chair,  
Board of Management

## Canada Revenue Agency Statement of Administered Revenues and Pension Contributions

for the year ended March 31  
(in thousands of dollars)

	2014	2013
<b>Federal administered revenues</b>		
Income tax revenues		
Individuals and Trusts (note 10)	130,894,581	125,817,451
Corporations	36,587,157	34,985,855
Non-resident tax withholdings	6,404,440	5,072,674
	173,886,178	165,875,980
Other taxes, duties and charges		
Goods and services tax (note 11)	11,493,496	10,343,005
Energy taxes	5,425,949	5,324,250
Other excise taxes and duties	3,359,545	3,328,525
Miscellaneous charges (note 12)	714,727	795,723
	20,993,717	19,791,503
Employment insurance premiums	22,160,249	20,795,737
Interest, penalties, and other revenues (note 13)	5,267,408	3,802,556
<b>Revenues administered on behalf of the Government of Canada</b>	<b>222,307,552</b>	<b>210,265,776</b>
 <b>Provincial and territorial governments and First Nations administered revenues</b>		
Income tax revenues		
Individuals and Trusts	58,438,947	54,702,467
Corporations	13,424,320	13,046,291
	71,863,267	67,748,758
Provincial portion of harmonized sales tax (note 14)	22,224,003	27,021,435
Other revenues (note 15)	207,966	59,383
<b>Revenues administered on behalf of provincial and territorial governments and First Nations</b>	<b>94,295,236</b>	<b>94,829,576</b>
<b>Pension contributions, interest, and penalties administered on behalf of the Canada Pension Plan (note 16)</b>	<b>43,264,617</b>	<b>41,742,977</b>
<b>Total administered revenues and pension contributions</b>	<b>359,867,405</b>	<b>346,838,329</b>

The accompanying notes form an integral part of these financial statements.

## Canada Revenue Agency Statement of Administered Expenses and Recoveries

for the year ended March 31  
(in thousands of dollars)

	2014	2013
<b>Federal administered expenses</b>		
Transfers to individuals		
Child tax benefits	10,401,573	10,265,789
Universal child care benefits	2,728,757	2,709,407
Working income tax benefit	1,231,341	1,146,416
Children's special allowances	235,403	238,007
Refundable medical expense supplement	139,497	135,863
	<u>14,736,571</u>	<u>14,495,482</u>
Transfers to corporations		
Refundable investment tax credit	1,389,776	1,542,917
Film and video tax credits	322,611	327,012
	<u>1,712,387</u>	<u>1,869,929</u>
Other federal expenses		
Provision for doubtful accounts (note 3)	3,722,605	3,215,136
Interest expense	280,936	550,533
Transfers to provinces for softwood lumber products export charge	42,345	136,913
	<u>4,045,886</u>	<u>3,902,582</u>
<b>Total</b>	<b><u>20,494,844</u></b>	<b><u>20,267,993</u></b>
<b>Federal administered recoveries</b>		
Old age security benefits	(1,342,851)	(1,214,065)
Employment insurance benefits	(212,474)	(224,036)
	<b><u>(1,555,325)</u></b>	<b><u>(1,438,101)</u></b>
<b>Net expenses and recoveries administered for the Government of Canada</b>	<b><u>18,939,519</u></b>	<b><u>18,829,892</u></b>
<b>Provincial and territorial administered expenses</b>		
Transfers to individuals		
Ontario energy and property tax credit	1,138,612	1,259,221
Family benefit programs	1,120,812	1,060,368
British Columbia low-income climate action tax credit	191,989	194,160
Ontario senior homeowners' property tax grant	179,585	188,411
Other property tax credits	129,953	143,905
Other transfers	342,426	304,251
	<u>3,103,377</u>	<u>3,150,316</u>
Transfers to corporations		
Refundable investment tax credits	818,318	847,238
Film and television production services tax credits	722,904	711,141
	<u>1,541,222</u>	<u>1,558,379</u>
<b>Expenses administered for provinces and territories</b>	<b><u>4,644,599</u></b>	<b><u>4,708,695</u></b>
<b>Provision for doubtful accounts administered for the Canada Pension Plan (note 3)</b>	<b><u>83,519</u></b>	<b><u>87,762</u></b>
<b>Total net administered expenses and recoveries</b>	<b><u>23,667,637</u></b>	<b><u>23,626,349</u></b>

The accompanying notes form an integral part of these financial statements.



## Canada Revenue Agency Statement of Administered Cash Flows

for the year ended March 31  
(in thousands of dollars)

	2014	2013
Total administered revenues and pension contributions	359,867,405	346,838,329
Total net administered expenses and recoveries	(23,667,637)	(23,626,349)
Revenues paid or payable directly to a province	(162,582)	(22,011)
Changes in administered assets and liabilities:		
Cash on hand	(1,014,331)	(1,246,663)
Amounts receivable from taxpayers	(1,996,235)	(4,688,915)
Amounts receivable under the tobacco civil settlements	64,473	63,615
Amounts payable to taxpayers	(2,282,681)	3,931,769
Amounts payable to provinces	111,375	(121,121)
Deposit accounts	12,880	20,898
<b>Net cash deposited in the Consolidated Revenue Fund of the Government of Canada (note 8)</b>	<b>330,932,667</b>	<b>321,149,552</b>
Consisting of:		
Cash deposits to the Consolidated Revenue Fund	451,259,475	436,106,648
Cash refunds/payments from the Consolidated Revenue Fund	(120,326,808)	(114,957,096)
<b>Net cash deposited in the Consolidated Revenue Fund of the Government of Canada (note 8)</b>	<b>330,932,667</b>	<b>321,149,552</b>

*The accompanying notes form an integral part of these financial statements.*

# Notes to the Financial Statements – Administered Activities

## 1. Authority and objectives

The Canada Revenue Agency (CRA) is an agent of Her Majesty in right of Canada under the *Canada Revenue Agency Act*. The CRA is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the CRA is to support the administration and enforcement of tax legislation and other related legislation. The CRA provides support, advice and services by:

- (a) supporting the administration and enforcement of the program legislation;
- (b) implementing agreements between the Government of Canada or the CRA and the government of a province, territory, or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the CRA and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The CRA administers revenues, including income and sales taxes and Employment insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal, provincial, territorial, and First Nations governments, and administers other amounts, including Canada Pension Plan contributions, for other groups or organizations. It is responsible for administering and enforcing the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *Canada Revenue Agency Act*, the *Children's Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the goods and services tax (GST) and the harmonized sales tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others including various provincial acts.

In the province of Quebec, Revenu Québec (RQ) acts as an agent of the CRA in administering and enforcing the GST, except for GST in respect of selected listed financial institutions. The CRA monitors cash transfers made by RQ, reports the GST revenues administered on its behalf, and transfers funds out of the Consolidated Revenue Fund to RQ so it can issue refunds.

Under an agreement with the province of Nova Scotia, the CRA receives worker's compensation payments and transfers these to the province. The CRA's mandate for administering customs legislation is limited to the collection functions noted under Part V.1 of the *Customs Act*. The CRA also provides collection services to Employment and Social Development Canada for certain accounts receivable under various acts.

## 2. Summary of significant accounting policies

For financial reporting purposes, the CRA's activities have been divided into two sets of financial statements: agency activities and administered activities. The purpose of these administered activities statements is to give information about the tax-related revenues, expenses, assets, and liabilities that the CRA administers on behalf of the federal, provincial, and territorial governments, First Nations, and other organizations. The CRA administers individual income tax for all provinces except Quebec, and corporation income tax for all provinces except Quebec and Alberta. The Financial Statements – Agency Activities include the operational revenues and expenses that the CRA manages and uses to run the organization.

The *Canada Revenue Agency Act* requires the CRA to prepare financial statements in accordance with accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. As a result, CRA follows those accounting principles to account for the federal administered activities. In addition, activities administered for the provincial and territorial governments, First Nations and other organizations are accounted for on the same basis as those administered for the federal government, and may differ from the accounting principles used by those provincial and territorial governments, First Nations and other organizations. These stated accounting policies are based on Canadian public sector accounting standards.

A summary of the significant accounting policies follows:

**(a) Revenue and pension contributions recognition**

Revenues and pension contributions are recognized in the year in which the event that generates the revenue or the pension contribution occurs and when the effective date of the related legislation has passed and either the legislation, regulation or by-laws have been approved by the legislature or the ability to assess and collect tax has been provided through legislative convention.

The Canadian tax system is based on self-assessment, so taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The CRA has implemented systems and controls to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include audits of taxpayer records when the CRA decides they are necessary, but these procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. The CRA is unable to estimate the amount of unreported tax.

An assessment (or reassessment) of tax includes all decisions and other steps made or taken by the Minister of National Revenue and officials of the CRA under the federal, provincial, and territorial acts or sections of the acts the CRA administers to calculate tax payable by taxpayers. When verifying a taxpayer's return, the CRA uses the various tax acts it administers and other criteria it developed that are designed to substantially meet the provisions of these acts. Reassessments include changes to previously assessed taxes payable at the request of the taxpayer, for example to claim a subsequent loss carry-back, or changes the CRA initiated as a result of applying procedures to verify reporting compliance, such as taxpayer audits.

Revenues are reported net of tax concessions. As foregone revenue, tax concessions do not give rise to assets or expenses of the taxing government. Refundable tax credits, deductions, or exemptions provided by the federal, provincial, territorial or First Nations governments are considered tax concessions when they provide tax relief to taxpayers and relate to the types of taxes that are a revenue source administered by CRA. When the CRA does not administer the related tax revenue, these refundable tax credits, deductions, or exemptions are accounted for as transfers made through the tax system.

The following policies are applied for specific streams:

**(i) Income taxes, Canada Pension Plan contributions, and Employment insurance premiums:**

Income tax revenues are recognized when the taxpayer has earned income that is subject to tax. Income is calculated net of tax deductions and credits allowed under the *Income Tax Act*, including refundable taxes resulting from current-year activity.

Canada Pension Plan (CPP) contributions from employees, employers and self-employed persons are recognized when the pensionable income is earned. Employment insurance (EI) premiums are recognized as revenue in the period the insurable earnings are earned. For non-resident taxpayers (individuals and corporations), revenues are recognized when the taxpayers receive income from which tax is withheld on active and inactive income they earned in Canada.

These revenues and pension contributions are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed/reassessed based on cash received that relates to the fiscal year ended March 31. Revenues and pension contributions for the fiscal year also include adjustments between the estimated revenues of previous years and actual amounts, as well as revenues from reassessments relating to prior years. An additional estimate of future reassessments is only recorded when it can be reliably determined. This is limited to assessments under objection or appealed to various courts.

**(ii) Other taxes, duties and charges:**

Goods and services tax (GST) and harmonized sales tax (HST) revenues on domestic goods and services, as well as the Quebec sales tax in respect of selected listed financial institutions are recognized at the time the goods are sold or the services provided. Revenues are reported net of input tax credits, GST/HST rebates, and the GST quarterly tax credits in the case of GST revenues. Input tax credits are the recovery of GST/HST paid or owed on purchases related to domestic and imported commercial activities of the taxpayer. Rebates are granted in various circumstances, for example to relieve the tax burden in areas where the cost of housing is very high, or to allow for the recovery of taxes on purchases where the purchaser cannot claim an input tax credit. The GST quarterly tax credit for low-income individuals and families is recorded in the period it relates to. It is intended to offset the cost of the tax for low-income individuals and families.

For excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Tax Act*. For excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act* and the *Excise Act, 2001*.

These revenues are measured from amounts assessed, and from estimates of amounts not yet assessed based on cash received or historical information, that relate to the fiscal year ended March 31. Miscellaneous charges are recognized as revenue when they are earned.

(iii) Interest, penalties, and other revenues:

Interest, penalties, and other revenues are recorded when they are earned. Except for the portion related to CPP which is credited to the CPP account, all interest and penalty revenues are reported as revenues administered for the federal government as stated in the terms of the tax collection agreements with the provinces and territories. Interest and penalties are recorded net of amounts waived under the various tax acts.

**(b) Expenses**

(i) Transfers:

Transfers are recognized in the year during which the events giving rise to them occur, provided that the transfer is authorized and all eligibility criteria have been met by the recipient, and a reasonable estimate of the amounts can be made. Transfers made through a tax system are considered authorized when the related tax measures are authorized. Transfers to provinces for the softwood lumber products export charge are recorded as an expense in the same year that the related softwood lumber products export charge revenues are recognized.

(ii) Interest expense:

Refunds may arise late, largely from the resolution of long-standing corporation tax files in favour of the taxpayer. Interest is accrued on refunds from the date that the tax instalment was initially paid to the date that the case is resolved. The CRA records the interest expense in the fiscal year it relates to.

(iii) Administered recoveries:

Recoveries of old age security and EI benefits are recognized when assessed. Amounts not yet assessed are estimated. The CRA reports only recoveries assessed through the individual income tax system. Recoveries determined by other federal government departments are not reported in these financial statements.

**(c) Cash on hand**

Cash on hand refers to amounts received in the CRA's offices or by its agents up to March 31 but not yet deposited to the credit of the Consolidated Revenue Fund of the Government of Canada. CRA or its agents deposit funds to the Consolidated Revenue Fund on a daily basis.

**(d) Amounts receivable from taxpayers**

Amounts receivable from taxpayers include taxes, interest, penalties, and other revenues assessed or estimated by the CRA but not yet collected. A significant portion of the receivable balance results from recording accrued receivables that relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

**(e) Allowance for doubtful accounts**

The allowance for doubtful accounts is management's best estimate of the collectability of amounts that have been assessed, including the related interest and penalties, but not yet paid. The allowance for doubtful accounts has two components. A general allowance is calculated based on the age and type of tax accounts using rates based on historical collection experience. A specific allowance is calculated based on an annual review of all accounts over \$10 million.

The allowance for doubtful accounts is adjusted every year through a provision for doubtful accounts and is reduced by amounts written off as uncollectible during the year. The annual provision is reported in the Statement of Administered Expenses and Recoveries. Except for the portion related to CPP contributions, which is charged to the CPP account, the provision is charged to expenses administered for the federal government because it assumes all collection risks, as stated in the terms of the tax collection agreements with the provinces, territories, and First Nations.

**(f) Amounts payable to taxpayers**

Amounts payable to taxpayers include refunds and related interest assessed or estimated by the CRA that were not paid up to March 31. A significant portion of the amount payable results from recording accrued payables that relate to the current year but are not due for payment until the next fiscal year. They include refunds resulting from assessments

completed after March 31, and estimates of refunds for individual and trust income tax and corporation income tax not yet assessed.

**(g) Contingent liabilities**

Contingent liabilities are potential liabilities resulting from, for example, previously assessed taxes recorded as revenue that might become actual liabilities if one or more future events occurs or does not occur. If the future event is likely to occur or does not occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and the revenues are reduced. If the likelihood cannot be determined or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

**(h) Measurement uncertainty**

To prepare these statements, management has to make estimates and assumptions that affect the amounts of assets, liabilities, revenues, expenses, and recoveries reported. For these financial statements items, measurement uncertainty is inherent but inestimable. Estimates are used to record unassessed tax revenues and the related amounts receivable and payable, as well as the allowance for doubtful accounts. In particular, estimates are made to determine individual and trust income tax revenues, corporation income tax revenues, non-resident tax withholdings, GST/HST revenues, energy taxes, other excise tax and duty revenues, EI premiums, CPP contributions, and the related amounts receivable and payable.

A key assumption used in estimating tax revenues is that tax installments and historical information on refund rates, payments received upon filing tax returns and amounts receivable assessed are good indicators of the amount of tax revenue earned to March 31 that has not yet been assessed. Another assumption is that historical tax assessment information is a good basis to allocate tax revenues between their various components (for example, between federal, provincial and territorial tax revenues). Relevant factors such as new administered activities, legislative changes and economic factors may also be considered. Finally, the key assumption used to estimate the general allowance for doubtful accounts is that historical collection information is a good indicator of uncollectible receivables.

Estimates are based on the best information available at the time of preparation of these statements and management believes these estimates and assumptions to be reasonable. Actual results could differ significantly from the estimates and any differences are recorded in the year the actual amounts are determined. Management monitors the accuracy of the estimates and the underlying assumptions through annual validation procedures and adjusts its estimation models as required.

**3. Amounts receivable from taxpayers**

Amounts receivable from taxpayers include taxes, interest, penalties, and other revenues assessed or estimated by the CRA but not yet collected. A significant portion of the receivable balance results from recording accrued receivables that relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

The following table shows details of the amounts receivable from taxpayers as reported in the Statement of Administered Assets and Liabilities. Amounts receivable from individuals and employers include Canada Pension Plan contributions and Employment insurance premiums as applicable.

	2014		2013	
	Gross	Allowance for doubtful accounts	Net	Net
	(in thousands of dollars)			
Income taxes				
Individuals	52,161,538	(6,621,152)	45,540,386	42,593,659
Employers	16,444,572	(944,913)	15,499,659	15,937,043
Corporations	15,409,462	(2,151,715)	13,257,747	11,884,485
Non-residents	1,442,342	(138,538)	1,303,804	1,074,332
GST/HST	16,516,538	(2,702,600)	13,813,938	15,576,546
Excise taxes and duties and miscellaneous charges	1,578,832	(38,601)	1,540,231	1,893,465
<b>Total</b>	<b>103,553,284</b>	<b>(12,597,519)</b>	<b>90,955,765</b>	<b>88,959,530</b>

Changes in the allowance for doubtful accounts include the following:

	Allowance for doubtful accounts	Provision for doubtful accounts	Write-offs	Allowance for doubtful accounts
	March 31, 2013	March 31, 2013	March 31, 2013	March 31, 2014
	(in thousands of dollars)			
Income taxes				
Individuals	(6,488,468)	(1,785,205)	1,652,521	(6,621,152)
Employers	(1,078,471)	(193,481)	327,039	(944,913)
Corporations	(1,869,359)	(874,690)	592,334	(2,151,715)
Non-residents	(134,327)	(88,130)	83,919	(138,538)
GST/HST	(2,622,996)	(874,701)	795,097	(2,702,600)
Excise taxes and duties and miscellaneous charges	(51,627)	10,083	2,943	(38,601)
<b>Total</b>	<b>(12,245,248)</b>	<b>(3,806,124)</b>	<b>3,453,853</b>	<b>(12,597,519)</b>

The provision of \$3,806 million (\$3,303 million in 2013) reported above includes an amount of \$3,722 million (\$3,215 million in 2013) recorded as an expense administered on behalf of the federal government (see Note 2(e)) and \$84 million (\$88 million in 2013) charged against expenses administered on behalf of the Canada Pension Plan.

#### 4. Amounts receivable under the tobacco civil settlements

On July 31, 2008, the federal and provincial governments entered into civil settlement agreements with two tobacco companies to resolve potential civil claims. Under the terms of the agreements, payments totalling \$850 million are to be made to Canada, for Canada and the provinces. The federal government's share is \$325 million and the provincial governments' share is \$525 million. The settlement agreements state that the amounts will be fully paid by 2023. Up to \$800 million is expected to be received in the first 10 years of the agreements and about \$50 million in the following five years. These amounts are recorded at the nominal value.

The following table gives details of the amounts receivable related to the tobacco civil settlement agreements:

	2014			2013		
	Government of Canada share	Provincial share	Total	Government of Canada share	Provincial share	Total
	(in thousands of dollars)					
Balance, beginning of year	230,000	232,917	462,917	264,000	262,532	526,532
Amounts received during the year	(34,000)	(30,473)	(64,473)	(34,000)	(29,615)	(63,615)
<b>Balance, end of year</b>	<b>196,000</b>	<b>202,444</b>	<b>398,444</b>	<b>230,000</b>	<b>232,917</b>	<b>462,917</b>

## 5. Amounts payable to taxpayers

The following table gives details of the amounts payable to taxpayers as reported in the Statement of Administered Assets and Liabilities:

	2014	2013
	(in thousands of dollars)	
Individuals	32,149,939	31,991,799
Corporations	9,806,505	11,512,693
GST/HST	10,524,546	11,028,436
Employers and non-residents	75,232	296,423
Excise taxes and duties and miscellaneous charges	49,135	58,687
<b>Total</b>	<b>52,605,357</b>	<b>54,888,038</b>

## 6. Amounts payable to provinces

The following table gives details of amounts payable to provinces as reported in the Statement of Administered Assets and Liabilities:

	2014	2013
	(in thousands of dollars)	
Provincial share of the tobacco civil settlements (note 4)	202,444	232,917
Amounts payable to Quebec:		
Individual income tax withholdings	227,549	195,876
GST refunds issued by Quebec	88,953	83,438
Quebec sales tax in respect of selected listed financial institutions	117,242	18,417
British Columbia sales tax transitional measures	12,588	-
Nova Scotia worker's compensation	2,080	2,765
Ontario corporation income tax and opportunities fund	1,212	2,738
Softwood lumber products export charge net of costs incurred by the federal government	(4,051)	491
<b>Total</b>	<b>648,017</b>	<b>536,642</b>

The CRA is acting as an agent for the provinces under the tobacco civil settlements. The CRA's liability to the provinces for their expected share of the settlement amounts is limited to the amounts that will ultimately be collected from the tobacco companies.

Amounts payable to provinces, territories, and other organizations, which are settled by other departments such as the Department of Finance for provincial, territorial, and First Nations taxes, are not recorded in these financial statements because these amounts are outside the CRA's responsibility.

The CRA received \$258 million in Nova Scotia worker's compensation payments during the year (\$249 million in 2013), these payments are transferred directly to the province. Since this is a flow through arrangement, it is not reported as administered revenues.

## 7. Deposit accounts

Deposit accounts are established to record cash and securities required to guarantee payment of GST for non-resident registrants and certain licensees for excise taxes, which are both payable pursuant to the *Excise Tax Act*. The following table shows activity on the deposit accounts as reported in the Statement of Administered Assets and Liabilities:

	2014	2013
	(in thousands of dollars)	
Balance, beginning of year	149,590	128,692
Receipts and other credits	48,231	52,474
Payments and other charges	(35,451)	(31,576)
<b>Balance, end of year</b>	<b>162,370</b>	<b>149,590</b>
Securities held in trust	(40)	(140)
<b>Net deposit accounts</b>	<b>162,330</b>	<b>149,450</b>

## 8. Net amount due to the Consolidated Revenue Fund

The net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet received and/or deposited in the fund) and administered liabilities payable by the CRA out of the fund.

The net cash deposited in the Consolidated Revenue Fund of the Government of Canada includes amounts the CRA receives on behalf of the federal government, provinces, territories, and other organizations and deposits in the fund, less refunds and payments issued from the fund during the year.

The following table shows the change in the net amount due to the Consolidated Revenue Fund during the fiscal year:

	2014	2013
	(in thousands of dollars)	
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the beginning of the year	40,323,247	38,282,830
Total administered revenues and pension contributions	359,867,405	346,838,329
Total net administered expenses and recoveries	(23,667,637)	(23,626,349)
Revenues paid or payable directly to a province	(162,582)	(22,011)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	(330,932,667)	(321,149,552)
<b>Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year</b>	<b>45,427,766</b>	<b>40,323,247</b>



## 9. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are under objection or are being appealed to the Tax Court of Canada, the Federal Court of Canada, or the Supreme Court of Canada. As of March 31, 2014, \$22,230 million was under objection at the CRA level (\$20,566 million for 2013) and \$4,715 million was being appealed to the courts (\$5,080 million for 2013). The CRA has recorded, in the amounts payable to taxpayers or in reduction of the amounts receivable from taxpayers, as applicable, the estimated amount of objections or appeals that are considered likely to be lost and that can be reasonably estimated.

## 10. Quebec abatement

The Quebec abatement is provided to Quebec residents under the *Income Tax Act (ITA)* and the *Federal-Provincial Fiscal Arrangement Act*. Residents of Quebec subtract 16.5 per cent of the Basic Federal Tax owed to the Government of Canada when compiling their taxes while the government of Quebec receives additional tax room. In accordance with the *Federal-Provincial Fiscal Revision Act, 1964* and the *Federal-Provincial Fiscal Arrangement Act*, the Government of Quebec pays the federal government the value of the Quebec Abatement through an equivalent reduction in transfer payments to the province of Quebec for programs delivered by the federal government.

The Quebec Abatement reduces the federal tax payable under the ITA and is therefore accounted for as a tax concession netted against individual income tax revenues. For the fiscal year ended March 31, 2014, the Quebec abatement assessed by CRA was \$3,975 million (\$3,998 million for 2013).

## 11. Goods and services tax revenues

The GST reported on the Statement of Administered Revenues and Pension Contributions includes the federal portion of HST. It is net of input tax credits (ITC), rebates, and the GST quarterly tax credit for low-income individuals and families that the CRA administers. It does not include GST revenues on imported goods, which are administered and reported by the Canada Border Services Agency. The CRA has sole responsibility for administering all ITC, including those claimed on imported goods. ITC relating to GST on imports are not accounted for separately from ITC relating to GST on domestic transactions.

The following table shows details of the GST revenues that the CRA administers for the Government of Canada as reported in the Statement of Administered Revenues and Pension Contributions:

	<b>2014</b>	<b>2013</b>
	(in thousands of dollars)	
Gross GST revenues	150,234,833	137,259,616
ITC	(128,821,525)	(117,530,871)
GST revenues net of ITC	21,413,308	19,728,745
GST rebates	(5,809,564)	(5,355,266)
GST quarterly tax credits for low-income individuals and families	(4,110,248)	(4,030,474)
<b>GST net revenues</b>	<b>11,493,496</b>	<b>10,343,005</b>

## 12. Miscellaneous charges

The following table details the miscellaneous charges that the CRA administers for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	<b>2014</b>	<b>2013</b>
	(in thousands of dollars)	
Softwood lumber products export charge	52,779	160,147
Air travellers security charge	661,948	635,576
<b>Total</b>	<b>714,727</b>	<b>795,723</b>

## 13. Interest, penalties, and other revenues

Various tax legislations give the CRA the authority, under certain conditions, to assess interest and penalties related to taxes due and regulations that taxpayers have not complied with. Interest is charged on overdue balances using rates determined quarterly, which in most cases are based on the ninety day Treasury Bills rate rounded plus 4%. The interest rate applicable as at March 31, 2014 on most overdue balances was 5% (5% in 2013). The CRA has the authority to waive the interest and penalties that would normally be charged under certain circumstances such as processing delays caused by the CRA, financial hardship experienced by taxpayers, or other extraordinary circumstances.

Other revenues consist of miscellaneous fees and charges such as court fines and administration charges for dishonoured payments.

The following table gives details on interest, penalties, and other revenues that the CRA administers for the federal government as reported in the Statement of Administered Revenues and Pension Contributions:

	<b>2014</b>	<b>2013</b>
	(in thousands of dollars)	
Gross interest and penalties	5,491,414	4,064,285
Interest and penalties waived under authority of the <i>Income Tax Act</i>	(232,774)	(270,333)
Net interest and penalties	5,258,640	3,793,952
Fines imposed under various acts	7,353	12,346
Other revenues (expenses)	1,415	(3,742)
<b>Interest, penalties, and other revenues</b>	<b>5,267,408</b>	<b>3,802,556</b>

## 14. Provincial portion of harmonized sales tax

During the year, CRA administered the provincial portion of the HST for the provinces of Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador and Prince Edward Island. CRA recorded these revenues in accordance with the accounting policies described in Note 2.

Effective April 1, 2013 the province of British Columbia returned to the provincial sales tax regime. CRA continues to administer HST for that province for the period from July 2010 to March 2013. CRA started to administer the HST for the province of Prince Edward Island, effective April 1, 2013.

The provincial portion of HST reported on the Statement of Administered Revenues and Pension Contributions is net of input tax credits (ITC), rebates and credits accounted as tax concessions. It includes the recaptured ITC, which applies to certain types of supplies purchased by large businesses. It does not include ITC that importers claim for the GST they paid on commercial imports and it does not include the provincial portion of HST collected on imported goods, which is administered and reported by the Canada Border Services Agency.

The following table details the provincial portion of HST revenues as reported in the Statement of Administered Revenues and Pension Contributions:

	<b>2014</b>	<b>2013</b>
	(in thousands of dollars)	
Provincial portion of gross HST revenues	105,772,495	120,582,358
Provincial portion of ITC	(78,152,620)	(87,107,526)
Provincial portion of HST rebates	(888,745)	(1,146,346)
Recaptured ITC	581,270	629,225
Transitional tax	34,487	47,226
HST provincial rebates	(3,816,510)	(4,310,690)
<b>Provincial portion of HST net revenues before credits</b>	<b>23,530,377</b>	<b>28,694,247</b>
<b>Provincial sales tax credits</b>		
Ontario sales tax credit	(1,168,025)	(1,233,577)
British Columbia harmonized sales tax credit	(16,636)	(317,790)
Nova Scotia affordable living tax credit	(66,434)	(66,936)
Newfoundland and Labrador harmonized sales tax credit	(40,415)	(39,193)
Ontario sales tax transition benefit	(10,392)	(15,316)
Prince Edward Island sales tax credits	(4,472)	-
<b>Total provincial sales tax credits</b>	<b>(1,306,374)</b>	<b>(1,672,812)</b>
<b>Net Provincial portion of HST</b>	<b>22,224,003</b>	<b>27,021,435</b>

## 15. Other revenues

The following table gives details of other revenues the CRA administers for provincial and territorial governments and First Nations as reported in the Statement of Administered Revenues and Pension Contributions. As provided under an agreement reached with the Government of Canada on March 28, 2012, the CRA started to administer the Quebec sales tax in respect of selected listed financial institutions as of January 1, 2013.

	<b>2014</b>	<b>2013</b>
	(in thousands of dollars)	
Quebec sales tax in respect of selected listed financial institutions	162,582	22,011
First Nations sales tax and GST	21,022	21,893
First Nations income tax	24,362	15,479
<b>Total</b>	<b>207,966</b>	<b>59,383</b>

## 16. Pension contributions, interest, and penalties administered on behalf of the Canada Pension Plan

The following table shows details of the transactions the CRA administers on behalf of the Canada Pension Plan as reported in the Statement of Administered Revenues and Pension Contributions:

	<b>2014</b>	<b>2013</b>
	(in thousands of dollars)	
Pension contributions	43,082,324	41,578,539
Interest and penalties	182,293	164,438
<b>Total</b>	<b>43,264,617</b>	<b>41,742,977</b>

## 17. Related-party transactions

The CRA is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The CRA deposits all monies received to the Consolidated Revenue Fund (CRF), and the Department of Finance makes payments out of the CRF to provinces, territories, and other organizations for amounts such as provincial, territorial, and First Nations taxes, for which the CRA administers the revenue. Old age security benefit recoveries, Canada Pension Plan contributions (net of overpayments refunded by the CRA), and Employment insurance premiums are credited to Employment and Social Development Canada, which administers the Old Age Security program, the Canada Pension Plan, and the Employment Insurance Operating Account. The CRA also administers a refund set-off program that can use individuals' tax refunds to pay debts they owe under federal, provincial, or territorial programs.

The CRA provides collection services to the Canada Border Services Agency under Part V.I of the *Customs Act*. It also provides collection services to Employment and Social Development Canada for certain accounts receivable under the *Canada Education Savings Act*, the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Canada Pension Plan*, and the *Old Age Security Act*. The related payments are made directly to either the Canada Border Services Agency or Employment and Social Development Canada, who are responsible for their deposits to the CRF, as well as their accounting and reporting. These payments are not recorded in the CRA's accounts.

Employment insurance premiums administered on behalf of the federal government include the employer's share that the federal government pays. The GST declared to the CRA includes the GST the federal government pays to its suppliers on domestic purchases. The GST that other federal government departments collect is deposited to the CRF, declared to the CRA, and included in the GST domestic revenues.

# Financial Statements Discussion and Analysis – Administered Activities (unaudited)

## Introduction

The Financial Statements - Administered Activities reflect the total assets and liabilities, tax and non-tax revenues, expenses and recoveries, and cash flows administered by the Canada Revenue Agency on behalf of the Government of Canada, provinces, territories, First Nations, and other government organizations. Revenues and expenses are recognized on an accrual basis.

## Tax revenues

The Canada Revenue Agency collects the majority of federal tax revenues. Other agencies and departments, such as the Canada Border Services Agency, account for the balance of total federal revenues reported in the Public Accounts of Canada. For further information on revenues collected by the Government of Canada as a whole, please refer to the Annual Financial Report of the Government of Canada, available at [www.fin.gc.ca/purl/afr-eng.asp](http://www.fin.gc.ca/purl/afr-eng.asp).

### Revenues administered on behalf of the Government of Canada

Federal Administered Revenues (\$000)	2014	2013	+(-)	%
<b>Income tax revenues</b>				
Individuals and trusts	130,894,581	125,817,451	5,077,130	4.0%
Corporations	36,587,157	34,985,855	1,601,302	4.6%
Non-resident tax withholdings	6,404,440	5,072,674	1,331,766	26.3%
	173,886,178	165,875,980	8,010,198	4.8%
<b>Other taxes, duties, and charges</b>				
Goods and services tax	11,493,496	10,343,005	1,150,491	11.1%
Energy taxes	5,425,949	5,324,250	101,699	1.9%
Other excise taxes and duties	3,359,545	3,328,525	31,020	0.9%
Miscellaneous charges	714,727	795,723	(80,996)	(10.2%)
	20,993,717	19,791,503	1,202,214	6.1%
Employment insurance premiums	22,160,249	20,795,737	1,364,512	6.6%
Interest, penalties, and other revenues	5,267,408	3,802,556	1,464,852	38.5%
	27,427,657	24,598,293	2,829,364	11.5%
<b>Revenues Administered on behalf of the Government of Canada</b>	<b>222,307,552</b>	<b>210,265,776</b>	<b>12,041,776</b>	<b>5.7%</b>

Revenues were \$222.3 billion in 2014, approximately \$12.0 billion higher than in 2013. All administered revenues were higher except miscellaneous charges.

### Individuals and trusts income tax

Individuals and trusts income tax revenues increased by \$5,077.1 million, or 4.0%. The increase reflects the growth in employment and wages, and is in line with the increase in individual taxable income.

### Corporations income tax

Corporate income tax revenues increased by \$1,601.3 million or 4.6%. The increase reflects economic growth and strong corporate earnings.

## Non-resident tax withholdings

Non-resident tax withholdings revenues increased by \$1,331.8 million or 26.3%. This reflects the strong growth in investment income such as interest and corporate dividends paid to non-residents.

## Goods and services tax

GST revenues increased by \$1,150.5 million or 11.1%. The increase reflects the growth in retail sales as well as the impact of low accrued revenue estimates in 2013.

## Energy taxes

Energy taxes increased by \$101.7 million or 1.9%. The increase is attributable to slightly higher gasoline and diesel fuel consumption.

## Other excise taxes and duties

Other excise taxes and duties increased by \$31.0 million or 0.9%. Revenues were stable as the increase in the Cigarette Inventory Tax was offset by lower beer duty revenues.

## Miscellaneous charges

Miscellaneous charges decreased by \$81.0 million or 10.2%. The decrease is largely attributable to a reduction in Softwood Lumber Export Charge revenues as a result of the increase in the price of lumber.

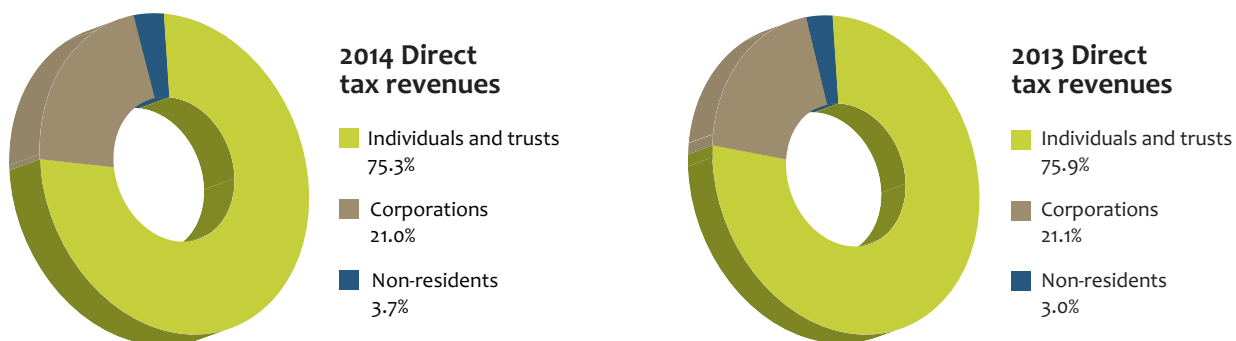
## Employment insurance premiums

Employment insurance (EI) premiums increased by \$1,364.5 million or 6.6%. The increase results from the growth in employment and wages, as well as an EI premium rate increase.

## Interest, penalties, and other revenues

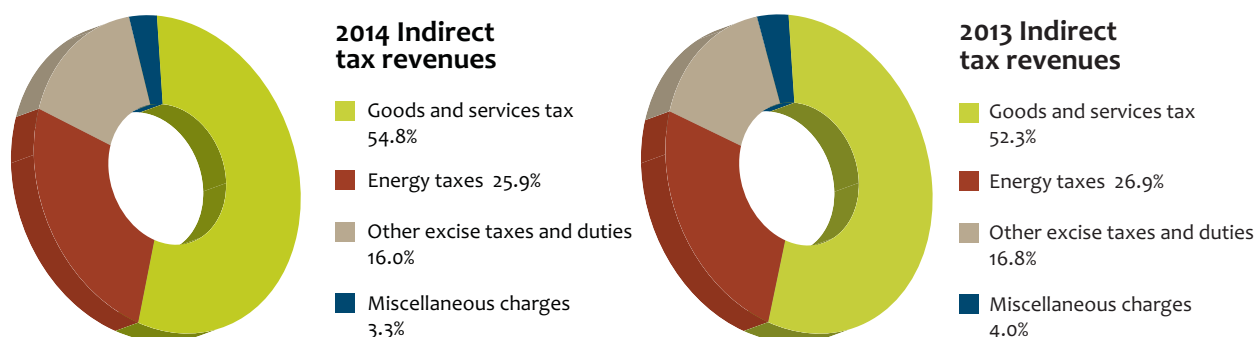
Interest, penalties, and other revenues increased by \$1,464.9 million or 38.5%. The increase results from large corporate tax reassessments, higher tax receivables, and a slight increase in the average interest rate charged during the year.

**Figure 1: Direct tax revenues**



As shown in Figure 1, the distribution of direct tax revenues remained stable in 2014.

Figure 2: Indirect tax revenues



As shown in Figure 2, the distribution of indirect tax revenues remained relatively stable in 2014.

### Revenues administered on behalf of the provincial and territorial governments, First Nations, and the Canada Pension Plan

Provincial and territorial governments, First Nations, and Canada Pension Plan (\$'000)	2014	2013	+(-)	%
Income Tax – individuals and trusts	58,438,947	54,702,467	3,736,480	6.8%
Income Tax – corporations	13,424,320	13,046,291	378,029	2.9%
Provincial portion of harmonized sales tax	22,224,003	27,021,435	(4,797,432)	(17.8%)
Other revenues	207,966	59,383	148,583	250.2%
<b>Revenues administered on behalf of provincial and territorial governments and First Nations</b>	<b>94,295,236</b>	<b>94,829,576</b>	<b>(534,340)</b>	<b>(0.6%)</b>
<b>Pension contributions, interest and penalties administered on behalf of the Canada Pension Plan</b>	<b>43,264,617</b>	<b>41,742,977</b>	<b>1,521,640</b>	<b>3.6%</b>

Provincial, territorial, and First Nations revenues were \$94.3 billion in 2014, approximately \$534 million lower than in 2013. Canada Pension Plan revenues were \$43.3 billion in 2014, \$1.5 billion more than in 2013.

#### Income tax revenues - Individuals and trusts

Individuals and trusts income tax revenues increased by \$3,736.5 million, or 6.8%. The increase reflects the growth in employment and wages, and is in line with the increase in individual taxable income. Various provincial legislative changes also contributed to the increase.

#### Income tax revenues - Corporations

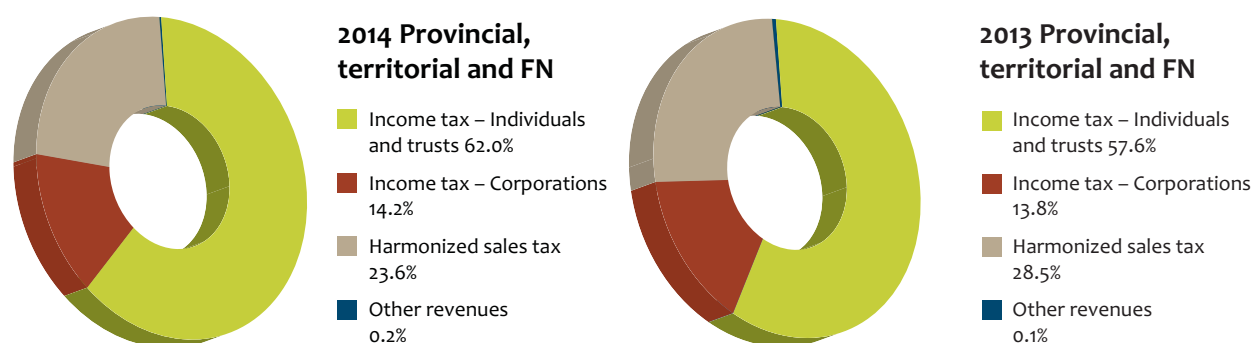
Corporate income tax revenues increased by \$378.0 million or 2.9%. The increase reflects economic growth and strong corporate earnings, partly offset by large reassessments.

#### Provincial portion of harmonized sales tax (HST)

Provincial HST revenues decreased by \$4,797.4 million or 17.8%. The decrease reflects British Columbia's return to the provincial sales tax regime, offset in part by the growth in retail sales.

#### Other revenues

Other revenues increased by \$148.6 million or 250.2%. The increase is largely due to a full year of Quebec sales tax revenues from selected listed financial institutions, which CRA began to administer on January 1, 2013.

**Figure 3: Revenues administered on behalf of the provincial and territorial governments and First Nations**

As shown in Figure 3, the distribution of revenues administered on behalf of the provincial and territorial governments, and First Nations changed moderately in 2014, as HST revenues declined with the departure of British Columbia from the HST allocation framework.

### Revenues administered on behalf of the Canada Pension Plan

Canada Pension Plan revenues rose by \$1,521.6 million or 3.6%. The increase reflects the growth in employment and wages.

### Expenses and recoveries administered on behalf of the Government of Canada and provincial and territorial governments

Administered expenses and recoveries (\$'000)	2014	2013	+(-)	%
Federal administered expenses	20,494,844	20,267,993	226,851	1.1%
Federal administered recoveries	(1,555,325)	(1,438,101)	(117,224)	8.2%
<b>Net expenses and recoveries administered for the Government of Canada</b>	<b>18,939,519</b>	<b>18,829,892</b>	<b>109,627</b>	<b>0.6%</b>
<b>Provincial and territorial administered expenses</b>	<b>4,644,599</b>	<b>4,708,695</b>	<b>(64,096)</b>	<b>(1.4%)</b>
<b>Provision for doubtful accounts administered for the Canada Pension Plan</b>	<b>83,519</b>	<b>87,762</b>	<b>(4,243)</b>	<b>(4.8%)</b>
<b>Total net administered expenses and recoveries</b>	<b>23,667,637</b>	<b>23,626,349</b>	<b>41,288</b>	<b>0.2%</b>

Net federal expenses and recoveries were \$18,939.5 million in 2014, \$109.6 million higher than in 2013. Net provincial and territorial expenses were \$4,644.6 million, \$64.1 million lower than in 2013.

### Federal administered expenses

Federal administered expenses increased by \$226.9 million or 1.1%. The provision for doubtful accounts increased due to higher write-offs, in particular for individual and corporate tax. Interest expense was lower due to a decline in interest expense on corporate tax accounts as a result of fewer reassessments. This was offset in part by higher child tax benefits, which rose due to the indexation of entitlements.

### Federal administered recoveries

Federal administered recoveries rose by \$117.2 million or 8.2% due to higher Old Age Security (OAS) recoveries. This increase reflects a higher number of OAS benefit recipients and a growth in taxable income.



## Expenses administered for provinces and territories

Net expenses administered for provinces and territories decreased by \$64.0 million or 1.4%. The decrease is due to lower Ontario energy and property tax credits. This was partially offset by higher family benefit programs, which reflected higher Ontario Child Benefit entitlement amounts.

## Provision for doubtful accounts administered for the Canada Pension Plan

The provision for doubtful accounts administered for the Canada Pension Plan (CPP) decreased by \$4.2 million or 4.8%. This decline was mostly due to a reduction in the allowance for doubtful accounts on source deductions receivables.

**Figure 4: Expenses and recoveries administered on behalf of the Government of Canada and provincial and territorial governments**



As shown in Figure 4, the distribution of expenses and recoveries administered on behalf of the Government of Canada and the provincial and territorial governments remained stable in 2014.



# Summary of the assessment of effectiveness of the system of internal control over financial reporting and the action plan of the Canada Revenue Agency

## Fiscal year 2013-2014

Annex to the Statement of Management Responsibility Including Internal Control Over Financial Reporting (unaudited)

### 1. Introduction

This document provides summary information on the measures taken by the Canada Revenue Agency (CRA) to maintain an effective system of internal control over financial reporting (ICFR), including information on internal control management, assessment results, and related action plans.

Detailed information on the CRA's authority, mandate, and program activities can be found in the 2013-2014 Departmental Performance Report at [www.cra-arc.gc.ca/gncy/prfrmnc\\_rprts/menu-eng.html](http://www.cra-arc.gc.ca/gncy/prfrmnc_rprts/menu-eng.html) and the 2013-2014 Report on Plans and Priorities [www.cra-arc.gc.ca/gncy/rprts/menu-eng.html](http://www.cra-arc.gc.ca/gncy/rprts/menu-eng.html).

### 2. CRA system of internal control over financial reporting

#### 2.1 Internal control management

The CRA has a well-established governance and accountability structure to support the CRA's assessment efforts and oversight of its system of internal control. A CRA internal control management framework, approved by the Commissioner and the Board of Management, is in place and includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- Values and ethics;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- At least semi-annual monitoring of and regular updates on internal control management, as well as the provision of related assessment results and action plans to the Commissioner, senior management, and the Board of Management.

A CEO/CFO Certification Steering Committee comprised of Branch Assistant Commissioners with ownership of key controls provides support to the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) in relation to control activities. In addition, the Audit Committee of the Board of Management provides advice on the adequacy and functioning of the CRA's risk management, control and governance frameworks and processes.

#### 2.2 Service arrangements relevant to financial statements

The CRA relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

##### Common Arrangements:

- Public Works and Government Services Canada centrally administers the payments of salaries and the procurement of some goods and services in accordance with the CRA's Delegation of Authority and provides accommodation services.
- Treasury Board Secretariat provides the CRA with information used to calculate various accruals and allowances.
- The Department of Justice provides legal services to the CRA.

- Shared Services Canada provides information technology (IT) infrastructure services to the CRA in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and the CRA.

#### **Specific Arrangements:**

- Revenu Québec is responsible for the joint administration of the goods and services tax and Quebec sales tax for businesses in the Province of Quebec.
- The Department of Finance provides the CRA with the federal and provincial shares of Goods and Services Tax/Harmonized Sales Tax (GST/HST) revenues that are used to determine provincial payments for the HST.
- The Canada Border Services Agency provides to CRA the relevant amount collected from GST/HST registrants.
- Department of Finance and Employment and Social Development Canada provide estimates of Canada Pension Plan and Employment Insurance revenues respectively for the months of January to March.

Other government departments rely on the CRA for the processing of certain transactions or information that affect financial statements as follows:

- Canada Border Services Agency for information technology services, including commensurate internal controls testing for general computer controls, as well as collection services on their behalf for duties, taxes, fees, penalties, or other amounts owing under the *Customs Act*, *Customs Tariff*, *Excise Tax Act*, *Excise Act, 2001*, and/or related regulations.
- Department of Finance for the determination of tax receivables and payables under tax collection agreements with provincial and territorial governments and First Nations.
- Employment and Social Development Canada for the collection of its accounts receivable and the administration of a number of activities related to the Canada Pension Plan and Employment Insurance Operating Account.

### **3. CRA assessment results during fiscal year 2013-2014**

During 2013-2014, the CRA completed the design effectiveness testing of several programs. Ongoing monitoring was performed according to plan.

#### **3.1 Design effectiveness testing of key controls**

In 2013-2014, the CRA completed design effectiveness testing of the T1 Unapplied Tax program, which falls under the Tax Collection Agreements (TCAs) with the provinces and territories and was subsequently audited by the OAG as required by the TCAs. Additionally, the CRA completed design effectiveness testing of three GST/HST programs, namely Credits, Returns and Rebates.

As a result of design effectiveness testing, the CRA identified the following required remediation:

- though progress has been made, the need to continue to implement the action plans and to improve the process surrounding the granting and monitoring of access to prevent segregation of duty conflicts and to ensure minimum access;
- the need to improve the retention of documentation for audit trail purposes to show that monitoring of inventory levels and aging of workload items is being performed consistently for administered activities programs;
- the need to improve controls surrounding the processing of GST/HST elections filed by registrants (which affect their master data and filing requirements) such as procedures, review process and system validities; and
- the need to complete the threat and risk assessment for some systems or to keep evidence that they were reviewed on an annual basis.

### 3.2 Ongoing monitoring of key controls

In 2013-14, the CRA completed planned ongoing monitoring of the following processes:

1. entity-level controls;
2. general computer controls; and
3. all business processes related to
  - a. procurement and vendor master data, and
  - b. financial close and reporting.

As a result of ongoing monitoring, the CRA identified the following required remediation:

- though progress has been made, the need to improve the process surrounding the granting and monitoring of access to prevent segregation of duty conflicts, ensuring minimum access, especially across different business lines.

## 4. CRA action plan

### 4.1 Progress during fiscal year 2013-2014

During 2013-2014, the CRA continued to make significant progress in assessing and improving its key controls. The following table summarizes the CRA's progress based on the plans identified in the previous fiscal year's annex.

Progress during fiscal year 2013-2014	
Element in previous year's action plan	Status
Agency Activities ongoing monitoring	Ongoing monitoring testing completed for entity-level controls, general computer controls, procurement and vendor master data, and financial close and reporting.
Goods and Services Tax/Harmonized Sales Tax (GST/HST) programs design effectiveness testing and remediation	Design effectiveness completed, remediation action plans identified.
T1 unapplied taxes/source deduction programs design effectiveness testing and remediation	Design effectiveness completed, remediation action plans advanced.
Finalize documenting the scope and control framework for the T3 Program	Documentation of the control framework has been finalized as planned. Design effectiveness testing plans are in place to conduct the assessment as planned in 2014-2015.
Follow-up of activities requiring remediation from previous assessments	<p>The CRA has followed up on all the action plans from the:</p> <ul style="list-style-type: none"> <li>• 2012-2013 agency activities testing as part of ongoing monitoring;</li> <li>• T2 design effectiveness assessment and OAG audit report as at November 30, 2008;</li> <li>• T1 design effectiveness assessment and OAG audit report as at November 30, 2010; and</li> <li>• T2 operating effectiveness assessment and OAG audit for the six-month period ending March 31, 2013.</li> </ul> <p>Overall results have been positive and the majority of the recommendations made have been implemented.</p>

### 4.2 Status and action plan for the next fiscal year and subsequent years

CRA has continued to make significant progress on assessing its internal controls over financial reporting throughout the numerous programs that CRA administers. It is recognized that implementation for all its processes requires multi-year initiatives and the following table reflects the fact that significant key control areas have been completed and that plans are in place to ensure substantial coverage is achieved over the next three years. At that time, the CRA will be applying its rotational ongoing

monitoring plan to reassess control performance on a risk basis across all control areas, with the exception of those under the scope of TCA assessments as explained in footnote 3 below.

The status and action plan for the completion of the identified control areas for the next fiscal year and for subsequent years are shown in the following table.

Status and Action Plan for the Next Fiscal Year and Subsequent Years			
Key control areas	Design effectiveness testing and remediation	Operational effectiveness testing and remediation	Ongoing monitoring rotation <sup>1</sup>
<b>Administered Activities under the Tax Collection Agreements with the provinces and territories</b>			
T1 individual income tax (legacy system)	Complete		
T1 unapplied taxes/source deductions <sup>2</sup>	Complete		
T1 individual income tax (T1 System Redesign) <sup>3</sup>	2016-2017	Future years <sup>4</sup>	Future years <sup>4</sup>
T2 corporation income tax	Complete	Complete	Future years <sup>4</sup>
T3 trust income tax	2014-2015	Future years <sup>4</sup>	Future years <sup>4</sup>
<b>Other Administered Activities</b>			
Goods and services tax/Harmonized sales tax	Complete	2016-2017	Future years
Non-resident income tax	2015-2016	Future years	Future years
Excise tax	Future years	Future years	Future years
Benefits	Future years	Future years	Future years
<b>Agency Activities</b>			
Entity level controls <sup>5</sup>	Complete	Complete	2014-2015
IT general controls under CRA management <sup>5</sup>	Complete	Complete	2014-2015
Capital assets	Complete	Complete	2014-2015
Procurement and vendor master data	Complete	Complete	2015-2016
Payroll	Complete	Complete	2014-2015
Budget and projections	Complete	Complete	2014-2015
Financial close and reporting			2015-2016

<sup>1</sup> The frequency of the ongoing monitoring of key control areas is risk-based and occurs over a three-year cycle.

<sup>2</sup> The design effectiveness testing was performed in 2013-14 as a partial scope of the T1 individual income tax program. In the future, it will be assessed as an integral component of the T1 program.

<sup>3</sup> The legacy T1 system is being upgraded through the T1 System Redesign initiative. This initiative is a multi-year project that will significantly modify systems and business processes related to the processing of T1 returns. Due to the magnitude of these changes, it was determined that design effectiveness testing of the new processes and systems would be appropriate as a next step.

<sup>4</sup> The CRA performs the readiness testing for engagements related to the TCA with the Provinces and Territories and submits the results along with a controls assessment report to the OAG who audits them in accordance with the Canadian Standard on Assurance Engagements 3416. TCA related control assessments do not go into a regular ongoing monitoring phase because complete re-assessment engagements are required to fully test all control activities to ensure that the selected income tax program is still designed and operating effectively. As such, the timing and frequency of these complete control assessment audits are determined in conjunction with the OAG and will continue to be conducted on a rotational annual basis as long as the tax collection agreements are in place.

<sup>5</sup> Entity Level Controls and IT general controls under CRA management are also evaluated through the Administered Activities projects.

# Canada Revenue Agency – Unaudited supplementary financial information

## Financial performance information – Parliamentary appropriations

### Introduction

This section of the Annual Report to Parliament 2013-2014 provides the details of the CRA's resource management performance for the purpose of reporting to Parliament on the use of appropriations in 2013-2014. This complements the information provided in the spending profile sections under each program and satisfies the reporting requirements set for annual reports to Parliament.

### Financial reporting methodologies

The CRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and, in this section, the CRA reports its expenditures and performance, together with details on the management of Parliamentary appropriations on the same basis. In addition to its reporting requirements, the CRA also has to prepare its annual financial statements in accordance with the accounting principles applied in preparing the financial statements of the Government of Canada (full accrual accounting basis). Accordingly, the audited Statement of Operations and Agency Net Financial Position – Agency Activities on page 99 includes certain items such as services received without charge from other government departments and federal agencies. A reconciliation can be found in note 3 on page 106.

The CRA has prepared and included future-oriented financial statements in the 2013-2014 Report on Plans and Priorities. As directed by the Treasury Board of Canada Secretariat, this future-oriented financial information was prepared on an accrual basis to strengthen accountability and improve transparency and financial management. As part of the analysis of net cost of operations, the annual report compares actual results to the initial future-oriented financial statements contained in the 2013-2014 Report on Plans and Priorities.

### CRA financial information

#### Activities of the Canada Revenue Agency 2013-2014

	(in dollars)	(FTEs)
Main Estimates <sup>1</sup>	4,276,823,253	39,371
Planned Spending <sup>2</sup>	4,270,563,206	39,371
Total Authorities <sup>3</sup>	4,404,573,298	-
Actual Spending	4,062,859,356	38,729

<sup>1</sup> Spending authorized by Parliament at the beginning of the fiscal year.

<sup>2</sup> Main Estimates authorities plus other amounts anticipated to be authorized during the fiscal year.

<sup>3</sup> Total spending authorized by Parliament during the fiscal year.

The Financial Statements – Agency Activities reports \$3,785.1 million as total Parliamentary appropriations used (Note 3b on page 107 shows the reconciliation to the net cost of operations in the annual report). The difference from the \$4,062.9 million reported in this section is explained by two items reported in the Financial Statements – Administered Activities: the statutory disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*, \$42.3 million; and the children's special allowance payments, \$235.4 million.

## Overview

For 2013-2014, Parliament approved \$4,276.8 million through the Main Estimates, as shown in the CRA's 2013-2014 Report on Plans and Priorities.

The 2013-2014 Main Estimates were adjusted to include:

- \$299.8 million for the carryforward from 2012-2013;
- \$84.0 million for severance payments, parental benefits, and vacation credits;
- \$5.9 million for funding various collective agreements;
- \$16.3 million for adjustments to employee benefit plans costs; and
- \$1.4 million for court awards and Crown assets disposal.

These increases were offset by the following reductions:

- \$240.7 million for decreased disbursements to provinces under the *Softwood Lumber Products Export Charge Act, 2006*;
- \$29.8 million for a decrease in spendable revenues, mainly for providing services to the Canada Border Services Agency and to the province of Ontario;
- \$6.6 million for the transfer to Shared Services Canada to adjust the initial transfer amount; and
- \$2.6 million for a decrease in children's special allowance payments.

This resulted in total approved authorities of \$4,404.6 million for 2013-2014, representing an in-year increase of 3.0% over the Main Estimates.

Of the \$4,404.6 million total authority, CRA's actual spending totalled \$4,062.9 million, resulting in \$341.7 million remaining unexpended at year-end. After deducting unused resources related primarily to Government advertising campaigns, accommodation and real property services, and employee benefit plans associated with converting operating costs to personnel costs, the remaining \$339.2 million is available for use by the CRA in 2014-2015 under its statutory two-year spending authority. This amount represents 7.7% of the total authority.

The CRA's two-year spending authority enables the CRA to be more strategic in using public funds by taking a multi-year view of plans and budgets. The financial flexibility in 2013-2014 was somewhat higher than usual due to restraint measures the CRA introduced in response to the operating budget freeze implemented by the Government in Budget 2010 and the Budget 2012 Spending Review. This increased carryforward was part of the CRA's strategy to address unfunded operating pressures in 2014-2015, including amounts set aside in anticipation of wage settlements for the period under the operating budget freeze.

## Revenues administered by the Canada Revenue Agency

Total revenues administered by the CRA amount to some \$359.9 billion in 2013-2014, an increase of 3.8% from the \$346.8 billion administered in 2012-2013.

(in dollars)	2013-2014	2012-2013
Federal government	222,307,552,000	210,265,776,000
Provincial, territorial governments and First Nations	94,295,236,000	94,829,576,000
Canada Pension Plan	43,264,617,000	41,742,977,000
<b>Total</b>	<b>359,867,405,000</b>	<b>346,838,329,000</b>



## List of supplementary information tables

All electronic supplementary information tables listed below can be found at:  
[www.cra.gc.ca/gncy/prfrmnc\\_rprts/menu-eng.html](http://www.cra.gc.ca/gncy/prfrmnc_rprts/menu-eng.html).

- CRA sustainable development strategy
- details on transfer payment programs
- internal audits and evaluations
- response to parliamentary committees and external audits
- sources of responsible and non-responsible non-tax revenue
- details on project spending
- user fees reporting