

**Session:** *Evolution in Audit Approaches by Tax Authorities*

**Presenters:** *Brian Erard (B. Erard & Associates), Alan Plumley (Internal Revenue Service), Gina Jelmini (Canada Revenue Agency)*

**Session Description:** Data analytics, Impact on tax base, Deployment of additional resources, Sharing of best practices globally

---

### Outline of Presentation

*Brian Erard (B. Erard & Associates) and Alan Plumley (Internal Revenue Service)*

#### Data analytics

- Expanded use of information
  - 3rd party information matching
    - Credit/debit card merchant payments
    - Basis reporting for securities
    - International tax
    - Other?
  - Big data (examples? – perhaps talk with Jeff Butler)
  - Data warehousing advances
- More sophisticated modeling efforts
  - Auto-classification for audit selection
  - ID theft modeling and pre-refund audits
  - Analysis of taxpayer networks
  - Two-stage workload selection (filter then prioritize)
  - Estimating marginal benefit/cost

#### More focus on issue-based audit selection

- Heavier reliance on correspondence audits with individuals
- "Compliance Campaigns" for large and international business audits

#### Improvements in case management and data collection

#### Quantifying Progress

- Indicators of effectiveness and their limitations
  - Direct revenue from audits
  - No-change rates
  - Recommended assessments vs final assessment and \$ collected
  - Time to complete audits
  - Subsequent year compliance

#### The Road Ahead

---

*Gina Jelmini (Canada Revenue Agency)*

**CRA strategies to tackle international tax evasion and aggressive tax avoidance**

*The presentation will focus on the effective use of tools and partnerships to identify and bring into compliance those who try to avoid or evade paying the taxes that they owe with a particular focus on international tax non-compliance. The presentation will touch on CRA's strategy to achieve better audit results, combined with activities that promote awareness, contribute to deterrence, voluntary compliance, and public perceptions of fairness. The presentation will discuss CRA's innovative compliance approaches that leverage increasing sources of data and techniques to identify taxpayer behaviours and populations that represent a high risk of non-compliance.*

*Finally, the presentation will highlight our key international partnerships and projects such as those relating to risk assessment approaches for large enterprises and our work with other tax administrations through the Joint International Taskforce on Shared Intelligence and Collaboration network (JITSIC) on the Paradise Papers and Panama Papers.*

Offshore tax evasion and tax avoidance have become more complex, global and aggressive thereby presenting increasing challenges to tax administrations around the world. In response, the Government of Canada has made a commitment to crack down on international tax non-compliance and the promotion of illegal tax schemes, and the Canada Revenue Agency (CRA) is addressing these challenges on multiple fronts to ensure that the tax system is responsive and fair for all Canadians.

### **Tools, Advanced Analytics and Business Intelligence**

By using tools and business intelligence effectively, the CRA is casting a wider net to identify aggressive tax planning and is focusing resources in the areas of highest risk, both domestically and internationally. Our enhanced analytics and focused offshore business intelligence activities ensure the CRA can more effectively analyze the increasing data it receives and validate the compliance of taxpayers thereby giving assurance that the tax paid is accurate. Furthermore, there is a downstream impact on the revenue generating activities of the CRA, insofar as the techniques drive the identification of higher risk files for audit.

### **Approach to Identifying high risk taxpayers**

The development of a robust offshore business intelligence infrastructure, including advanced analytics and data mining capabilities, will ensure broader coverage and treatment of Canadian taxpayers who represent any risk of non-compliance. For instance, with electronic funds transfers, the CRA has the ability to more fully examine potential international tax evasion and aggressive tax avoidance across an entire jurisdiction. With regard to the Paradise Papers, the CRA is using its business intelligence tools to analyze the large volume of data from the leak. It is starting audits and will cross-reference this information with all available data it has already obtained through existing tools, such as EFTs, tax returns, foreign reporting forms, and Canadian asset holdings.

By having efficient technologies and skilled resources to mine and interpret the vast array of data, the CRA will be well-positioned to proactively identify specific taxpayer behaviours and jurisdictions of concern and to address and deter offshore non-compliance. These investments will also enhance the CRA's risk assessment capabilities, which will identify higher risk files for audit.

### **International Partnerships**

CRA works with the tax authorities of other countries to benefit from their experience to ensure that CRA's data mining and analysis techniques become and remain among the most sophisticated in the world.

The presentation will touch on CRA's work with the Organisation for Economic Co-operation and Development (OECD) Forum on Tax Administration which provides a venue for tax administrations to share best practices and develop new ideas to enhance tax administration, including those that involve IT, data mining and advanced analytics.

