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## Policy Forum: Re-Envisaging the Canada Revenue Agency—From Tax Collector to Benefit Delivery Agent

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### PRÉCIS

Au Canada, le régime fiscal ne sert pas uniquement à percevoir des recettes; c'est aussi un instrument important pour atteindre divers objectifs de politique sociale. Devenu étroitement lié au système de soutien du revenu, il sert maintenant de mécanisme de versement de nombreuses prestations clés de soutien du revenu. En tant qu'outil d'administration des prestations, le système fiscal présente des avantages, mais il est également problématique. Premièrement, il repose sur l'autocotisation, ce qui veut dire qu'il incombe aux déclarants individuels de fournir au gouvernement des informations complètes et précises sur les impôts sur le revenu qu'ils doivent. Cependant, les personnes qui n'ont pas d'impôt à payer ne sont pas légalement tenues de produire une déclaration de revenus et, par conséquent, beaucoup ne le font peut-être pas. Dans le contexte du versement des prestations, le recours à l'autocotisation risque de laisser de côté de nombreuses personnes admissibles à des prestations de revenu. Deuxièmement, les particuliers ne produisent généralement une déclaration de revenus par autocotisation qu'une fois par an. Par conséquent, le système fiscal n'a pas pu réagir aux chocs dramatiques de revenu en cours d'année qui se sont produits pendant la pandémie de COVID-19. Nous indiquons des moyens de moderniser le système fiscal canadien et de le rendre plus réactif et rationalisé pour le versement des prestations. Des réformes telles que des formulaires d'impôt préremplis et des déclarations en temps réel pourraient grandement améliorer la capacité de l'Agence du revenu du Canada à verser les prestations de revenu, ainsi que la capacité des gouvernements fédéral

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et provinciaux à atteindre leurs objectifs sociaux, notamment ceux énoncés dans les stratégies pour la réduction de la pauvreté du Canada et des provinces.

## ABSTRACT

In Canada, the tax system is not used just to raise revenue; it is also an important instrument for achieving various social policy objectives. As a result, the tax system has become closely intertwined with the income support system; it now serves as the delivery mechanism for many key income support benefits. As a benefit administration tool, the tax system has advantages, but it is also problematic. First, it relies on self-assessment, which means that the onus is on individual taxpayers to provide complete and accurate information to the government on the income taxes that they owe. However, persons who have no tax liability are not legally required to file tax returns, and therefore many may not do so. In the context of benefit delivery, the reliance on self-assessment risks missing many individuals who are eligible to receive income benefits. Second, individuals generally file a self-assessed tax return only once a year. As a result, the tax system could not respond to the dramatic in-year income shocks that occurred during the COVID-19 pandemic. We identify ways to modernize Canada's tax system and make it more responsive and streamlined for the purposes of benefit delivery. Reforms such as pre-filled tax forms and real-time reporting could greatly improve the ability of the Canada Revenue Agency to deliver income benefits, and the ability of the federal and provincial governments to meet social objectives, including those set out in Canada's and the provinces' poverty reduction strategies.

**KEYWORDS:** BENEFITS ■ SUPPORT ■ TAX SYSTEMS ■ SOCIAL POLICY ■ CANADA REVENUE AGENCY

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## INTRODUCTION

Canada's income tax system is not used just to raise revenue; it is also an important instrument for achieving various social policy objectives. As a result, the tax system is now closely intertwined with the income support system. Many key income benefits are either delivered through the tax system, like the Canada child benefit (CCB), or are dependent on information provided by the tax system, like the guaranteed income supplement.

The incorporation of these social objectives means that the mandate of the Canada Revenue Agency (CRA) has expanded to include the administration of income benefits and related programs in addition to tax administration.<sup>1</sup> As a benefit

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1 Canada Revenue Agency, "Mission, Vision, Promise, and Values" ([www.canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/mission-vision-promise-values.html](http://www.canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/mission-vision-promise-values.html)).

administrator, the CRA has advantages over other agencies, notably over other governmental entities that administer programs such as provincial social assistance. These advantages include a one-stop shop for benefit access, as opposed to having to navigate a myriad of benefits through different agencies;<sup>2</sup> lower administrative costs; lower stigma attached to benefit receipt; and the integration of revenue and redistributive objectives into one administration.<sup>3</sup> Despite these advantages in benefit delivery, the CRA's current authority and structure hamper its ability to be effective in delivering on social objectives associated with these benefits. In this article, we discuss the principal features that prevent the CRA from being a more effective benefit administrator for the purposes of achieving social objectives. Then, on the basis of a scan of practice in other countries, we suggest reforms that would make the CRA a more effective vehicle for delivering social benefits.

We argue that, in order to be a more effective benefit administrator, the CRA should ensure that everyone who is entitled to benefits receives those benefits. The minister of national revenue's 2019 mandate letter agrees with this sentiment, stating that modernizing the CRA includes proactively contacting Canadians who are entitled to but are not receiving tax benefits.<sup>4</sup> The Taxpayer Bill of Rights sets out as the first right "the right to receive entitlements."<sup>5</sup> Regardless of this recognition, the CRA appears to limit its service focus to those who already interact with the agency. In particular, the CRA's mandate includes "[contributing] to the economic and social well-being of Canadians by making sure that . . . clients receive the benefits for which they are eligible."<sup>6</sup> The term "clients" is not defined, but from the context, it appears to refer to persons and entities that file tax returns. That is, the CRA ensures that persons who interact with the agency receive the benefits for which they apply and are eligible, or for which there is automatic assessment (dependent on the benefit). However, for non-filers who do not interact with the CRA, there appears to be no such assurance.<sup>7</sup> This interpretation is supported by Macnaughton, who

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2 See Gillian Petit and Lindsay M. Tedds, "Overview of the System of Income and Social Support Programs in British Columbia, 2020," research paper commissioned by the Expert Panel on Basic Income, British Columbia (available at <https://bcbasicincomepanel.ca/papers>), for a detailed description and visualizations of the complexity of the system.

3 Lindsay M. Tedds, *Implementing a Basic Income Guarantee Through the Personal Income Tax System: Benefits, Barriers, and Bothers*, Research Paper no. 25 (Thunder Bay, ON: Northern Policy Institute, 2017) ([www.northernpolicy.ca/upload/documents/publications/reports-new/tedds\\_big-and-pit-en.pdf](http://www.northernpolicy.ca/upload/documents/publications/reports-new/tedds_big-and-pit-en.pdf)).

4 Canada, Office of the Prime Minister, Minister of National Revenue Mandate Letter, December 13, 2019.

5 Canada Revenue Agency, *Taxpayer Bill of Rights Guide: Understanding Your Rights as a Taxpayer* (<https://www.canada.ca/content/dam/cra-arc/formspubs/pub/rc17/rc17-19e.pdf>), at 40.

6 Canada Revenue Agency, *Summary of the Corporate Business Plan 2020-21 with Perspectives to 2022-23* (Ottawa: CRA, 2020), at 2.

7 The community volunteer income tax program, which offers free tax preparation clinics, does attempt to help individuals who would not otherwise file a tax return. However, these clinics

has noted that there is no specific statement in the Taxpayer Bill of Rights regarding direct action that the CRA will take to deliver on the commitment to ensure that taxpayers receive the benefits to which they are entitled under the law, though public statements seem to imply that the CRA does proactively assess tax returns for underclaimed credits.<sup>8</sup>

To be more effective as a delivery vehicle for social benefits, the CRA also needs to be more responsive to real-time fluctuations in income. Currently, there is potentially a large time lag between when persons become eligible for (and need) benefits and when they receive the benefits. For example, consider a person (Ms. A) with a job in an initial year (say, 2017) with pay that is too high to qualify for the Canada workers benefit (CWB). If Ms. A lost that job in February 2018, replacing it with a lower-paid job that did qualify for the CWB, she would not be assessed for that benefit until she filed her next tax return (in the spring of 2019).<sup>9</sup> This delay may drive Ms. A deeper into financial insecurity: she may not qualify for provincial social assistance (a more timely option) given that she worked in the past and may therefore have assets above social assistance thresholds, and her earnings from the new lower-paid job may be higher than social assistance income eligibility thresholds. Further, given the low benefit rates while on provincial social assistance, quitting even a low-paying job to collect provincial social assistance may make Ms. A worse off financially if she has to divest herself of assets (including savings).<sup>10</sup> She may then resort to other actions that provide timely cash assistance, such as taking out loans, with long-term ramifications.<sup>11</sup>

Both of these administrative shortcomings—not ensuring that those who are entitled to benefits receive them and the unresponsiveness of benefits—reduce the ability of federal and provincial governments to achieve poverty reduction goals when the CRA is the delivery vehicle. For example, the federal poverty reduction

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reach only those who engage with them. Persons who do not engage with either a clinic or the CRA do not receive the benefits that they are entitled to.

- 8 Alan Macnaughton, “Takeup of Social Benefits Delivered Through the Personal Income Tax System: Evidence-Based Analysis,” in Jinyan Li, J. Scott Wilkie, and Larry F. Chapman, eds., *Income Tax at 100 Years: Essays and Reflections on the Income War Tax Act* (Toronto: Canadian Tax Foundation, 2017), 18:1-14, at 18:2.
- 9 Unlike other refundable tax credits, like the CCB or the goods and services tax credit, the CWB is claimed and paid out immediately after taxes are filed. Recipients can opt to receive up to 50 percent of the CWB benefit in four separate advance payments.
- 10 In 2019, provincial social assistance rates for single childless adults ranged from \$7,131 per year in New Brunswick to \$11,386 per year in Newfoundland and Labrador. This is less than what can be made working a part-time, full-year job at \$14 per hour. Jennifer Laidley and Hannah Aldridge, *Welfare in Canada, 2019* (Toronto: Maytree, November 2020) ([https://maytree.com/wp-content/uploads/Welfare\\_in\\_Canada\\_2019.pdf](https://maytree.com/wp-content/uploads/Welfare_in_Canada_2019.pdf)).
- 11 This example makes no claims about the incentive effects of the CWB and how those effects may be changed (or not) by the responsiveness of the CWB.

strategy's goal of protecting Canadians against falling into poverty<sup>12</sup> will be hard to meet with the type of response lags described in our example. Similarly, if families with low income are not being assessed for the CCB and provincial child benefits because they do not interact with the CRA, the ability of both levels of government to meet their stated child poverty reduction goals is limited.

This article is organized as follows. In the next section, we examine the problem of the lack of receipt of benefits by some eligible persons that arises from self-assessment and the absence of a requirement to file. We examine the use of pre-filled tax forms by other tax authorities, discuss how this could help to ensure that more eligible persons receive CRA-delivered benefits, and suggest what would be required for Canada to implement such a system. We then look at the problem that once-a-year tax filing creates for the responsiveness of CRA-delivered benefits and assess how real-time reporting used by other tax authorities could make benefits more responsive. We examine some notable difficulties with real-time reporting and the assessment of benefits, and how these could be handled.

## PRE-FILLED TAX FORMS

The current administration of the tax system is based predominantly on the notion of self-assessment. Self-assessment means that the onus is on individual taxpayers to provide complete and accurate information to the government each year on their income earned and income taxes payable, and generally to do so by April 30 of the subsequent year. The CRA then uses information provided by an impartial third party to verify that provided by the taxpayer, a practice referred to as third-party reporting or matching. For example, all employers are required to report to the tax authority on a T4 information slip the wage income of their employees, on or before the last day of February of the year following that to which the income information applies. While not all income is subject to such reporting, a significant amount is. This means that the CRA knows a fair amount about much, if not all, of the income earned by a significant number of taxpayers.<sup>13</sup> This self-assessed reporting regime with matching verification has remained fundamentally unchanged since at least 1906, when it was used as a municipal finance tool in Saint John, New Brunswick, and subsequently when it was carried over into provincial income tax legislation.<sup>14</sup>

12 Employment and Social Development Canada, *Opportunity for All: Canada's First Poverty Reduction Strategy* (Ottawa: ESDC, 2018), at 6.

13 Canada Revenue Agency, "Income Statistics 2019 (2017 Tax Year), Final Table 2 for All Canada, All Returns by Total Income Class (All Items Are in Thousands of Dollars)" ([www.canada.ca/content/dam/cra-arc/prog-policy/stats/t1-final-stats/2017-tax-year/table2\\_ac-eng.pdf](http://www.canada.ca/content/dam/cra-arc/prog-policy/stats/t1-final-stats/2017-tax-year/table2_ac-eng.pdf)).

14 A 1906 tax report discussed the unfairness of employers' reporting employee payroll to city assessors in Saint John ("New Taxation Scheme for City of Saint John," *Saint John Daily Sun*, November 6, 1906, at 1). Self-assessment and third-party reporting in legislation appeared in 1936 in the Saint John City Assessment Act, 1936 (New Brunswick), c. C95, schedules 47 and 48, and were incorporated into income tax acts in other provinces as they were created (see, for

This process of self-assessment has some advantages; however, as a benefit administration tool, it is problematic. The onus is on the taxfiler to file a tax return, but tax filing may not occur. While there are a number of rules governing who is required to file a tax return,<sup>15</sup> only those individuals with tax payable are legally required to file a tax form. If an individual has no tax liability, either because his or her income is equal to or below the basic personal exemption amount or because sufficient (or more than sufficient) tax was withheld by the employer and remitted to the CRA, either the individual is not obliged to submit a tax return (if no tax is payable) or the failure to file a return would not likely give rise to any financial penalty, even if completing and submitting one would provide a refund. Individuals who do not file a tax return are excluded from being assessed for (and receiving if eligible) any CRA-delivered benefits associated with that tax year. While the CRA has some measures in place to identify and contact individuals who may lose benefits because they have not filed a return,<sup>16</sup> if an individual has not been a client—that is, has not filed a tax return either recently or ever—he or she is unlikely to be included in this initiative.

The requirement to file a tax return in order to receive CRA-delivered benefits imposes a barrier to access, especially for those individuals who are most likely to need such benefits. Robson and Schwartz<sup>17</sup> estimate that about 12 percent of working-age Canadians do not file a tax return, resulting in about \$1.7 billion of unclaimed benefits in 2015. They also find that persons in families with a disposable income below the market basket measure (MBM) poverty line were 8.6 percentage points less likely to file a tax return than persons in families with income greater than 200 percent of the MBM threshold. In the city of Calgary, an estimated 97 percent of the homeless population do not file tax returns,<sup>18</sup> and an estimated one-third of social assistance recipients in Ontario do not file returns.<sup>19</sup> Finally, it has been estimated

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example, Ontario's Income Tax Act, SO 1936, c. 1, schedule 39). We thank Shirley Tillotson for her help on this point.

- 15 Government of Canada, "Do You Have To File a Return?" ([www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/you-have-file-a-return.html](http://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/you-have-file-a-return.html)).
- 16 Canada Revenue Agency, "The Canada Revenue Agency Is Resuming Additional Activities: Know When We're Contacting You and How To Avoid Scams," September 17, 2020 ([www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2020/canada-revenue-agency-resuming-additional-activities-know-were-contacting-how-avoid-scams.html](http://www.canada.ca/en/revenue-agency/news/newsroom/tax-tips/tax-tips-2020/canada-revenue-agency-resuming-additional-activities-know-were-contacting-how-avoid-scams.html)).
- 17 Jennifer Robson and Saul Schwartz, "Who Doesn't File a Tax Return? A Portrait of Non-Filers" (2020) 46:3 *Canadian Public Policy* 323-39.
- 18 Alicia Kalmanovitch, Nick Falvo, Britney Ardelli, Laurel Collier, Megan Hodgins, Megan Donnelly, and Joel Sinclair, *Point-in-Time Count Report, Spring 2018* (Calgary: Calgary Homeless Foundation, 2018) ([http://calgaryhomeless.com/content/uploads/Calgary\\_PiT\\_Report\\_2018.pdf](http://calgaryhomeless.com/content/uploads/Calgary_PiT_Report_2018.pdf)).
- 19 John Stapleton, *A Fortune Left on the Table: Why Should Low-Income Adults Have To Pass Up Government Benefits?* (Toronto: Open Policy Ontario, 2018) (<https://openpolicyontario.s3.amazonaws.com/uploads/2018/06/INFORMAL-A-Fortune-Left-R3.pdf>).

that 40 percent of eligible First Nations families do not receive the CCB.<sup>20</sup> While the federal government has committed to simplifying the CCB application form to help address barriers to new immigrants and indigenous people,<sup>21</sup> and to increase the tax-filing rate in indigenous communities by at least 10 percent by 2020,<sup>22</sup> the ongoing gap impedes the ability of governments to reduce child poverty.

To expand the reach of CRA-delivered benefits, the tax-filing onus could be reversed. Rather than individuals completing their own tax form and the CRA verifying it, tax forms could be pre-filled by the CRA using the information already received through third-party reporting, and then distributed to the individual for verification. During the verification stage, the individual can change the information and add new information to the tax form. This phase is important not only to include income that is not yet subject to third-party reporting, but also to claim important tax credits, such as the medical expenses tax credit, for which the required information is known only by the individual. Many organizations have been actively calling for the government to implement a pre-filled tax form.<sup>23</sup> More recently, in the September 2020 speech from the throne, the Liberal government pledged to “work to introduce free, automatic tax filing for simple returns to ensure citizens receive the benefits they need.”<sup>24</sup>

As mentioned, the CRA collects third-party information on a large amount of income. Organizations that provide T slips to taxpayers, such as employers who provide T4s stating an employee’s wages/salary, provincial social assistance providers who provide T5007s stating a recipient’s social assistance income, and financial institutions that provide T3s and T5s stating investment income, provide the same information to the CRA. Pre-filled tax forms require the CRA to use this third-party information more efficiently.

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20 Prosper Canada, *Increasing Indigenous Benefit Take-Up in Canada: 2018 Federal Budget Submission* (Toronto: Prosper Canada, 2018) (<http://prosperscanada.org/getattachment/f4add5df-0edb-4883-b804-60661f500c56/Increasing-Indigenous-benefit-take-up-in-Canada.aspx>).

21 Jordan Press, “CRA Program That Helps Poor File Taxes Sees Boost in Returns in Push To Lift More People out of Poverty,” *National Post*, July 22, 2019 (<https://business.financialpost.com/personal-finance/taxes/cra-program-to-help-poor-file-taxes-yields-noticeable-bump-in-people-helped>).

22 David McKie, “Many Indigenous Families Not Applying for Canada Child Benefit: Documents,” *CBC*, July 21, 2017 ([www.cbc.ca/news/politics/canada-child-benefit-indigenous-1.4211545](http://www.cbc.ca/news/politics/canada-child-benefit-indigenous-1.4211545)).

23 “Do You Have To File a Return?” supra note 15; Canadian Chamber of Commerce, *50 Years of Cutting and Pasting: Modernizing Canada’s Tax System* (Ottawa: Canadian Chamber of Commerce, 2019) (<https://bellevillechamber.ca/photos/custom/news/190214-50YearsOfCuttingAndPastingModernizingCanadasTaxSystem.pdf>); and Canadians for Tax Fairness, “Platform for Tax Fairness” ([www.taxfairness.ca/sites/default/files/resource/c4tf\\_federal\\_election\\_2019\\_platform\\_proposals.pdf](http://www.taxfairness.ca/sites/default/files/resource/c4tf_federal_election_2019_platform_proposals.pdf)).

24 Canada, Governor General, *A Stronger and More Resilient Canada: Speech from the Throne To Open the Second Session of the Forty-Third Parliament of Canada*, September 23, 2020, at 22.

A number of countries employ pre-filled tax forms; as of 2017, they were used by 40 out of 58 developing and developed countries examined by the Organisation for Economic Co-operation and Development (OECD), with notable outliers including Canada and the United States.<sup>25</sup> Denmark was the first country to adopt pre-filled (paper) tax forms in 1988. In Denmark, 100 percent of taxfilers receive a pre-filled tax form and only 22 percent of those forms are adjusted by the taxfiler.<sup>26</sup>

Canada has made some advances in moving toward pre-filled forms. Since 2016, the CRA has offered “Auto-fill.” Auto-fill uses available third-party information to pre-fill tax forms for Canadian taxpayers who voluntarily choose to have their tax forms pre-populated, have a My Account through the CRA, and are using certified software.<sup>27</sup> Auto-fill is limited: tax forms are not pre-filled automatically, nor is anything done for persons who do not file a return. In 2016, the CRA developed a pilot project that would allow it to prepare tax returns for low- or fixed-income Canadians. The pilot project was quietly cancelled in 2018 after an agreement was signed between the CRA and the tax preparation software industry.<sup>28</sup>

On the one hand, providing pre-filled tax forms would ensure that persons who are more likely not to file tax returns (for example, low-income persons, social assistance recipients, new immigrants, and indigenous persons) and who are more likely to be eligible for CRA-delivered benefits receive those benefits. On the other hand, there are concerns that pre-filled tax forms may result in increased errors, increased tax evasion (particularly among taxfilers with more complex returns), and increased administrative burdens. Here we discuss how pre-filling may be done in steps, first for those for whom pre-filling is more beneficial, and second for those with more complex returns, along with the concerns related to these steps.

Aligned with the commitment in the speech from the throne, pre-filling could first be implemented for “simple” tax returns—that is, for persons with only employment income or social assistance income in the relevant tax year (such as income for which there is already substantial third-party reporting and income with relatively simple deductions and credits) and for persons who have no or limited tax liability. This would increase access to CRA-delivered benefits for individuals who

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25 Organisation for Economic Co-operation and Development, *Tax Administration 2019: Comparative Information on OECD and Other Advanced and Emerging Economies* (Paris: OECD, 2019) (<https://doi.org/10.1787/74d162b6-en>).

26 Organisation for Economic Co-operation and Development, *Using Third Party Information Reports To Assist Taxpayers Meet Their Return Filing Obligations—Country Experiences with the Use of Pre-Populated Personal Tax Returns* (Paris: OECD, Centre for Tax Policy and Administration, March 2006) ([www.oecd.org/tax/administration/36280368.pdf](http://www.oecd.org/tax/administration/36280368.pdf)), at 13.

27 Government of Canada, “Auto-Fill My Return” ([www.canada.ca/en/revenue-agency/services/e-services/about-auto-fill-return.html](http://www.canada.ca/en/revenue-agency/services/e-services/about-auto-fill-return.html)).

28 Christopher Nardi, “‘They Already Have All the Freaking Information’: Federal Government Announces Plan To File Some People’s Taxes for Them,” *National Post*, September 25, 2020 (<https://nationalpost.com/news/politics/they-already-have-all-the-freaking-information-federal-government-revives-plan-to-file-some-peoples-taxes-for-them>).

would be most benefited by them. Also, because of the simplicity of the returns and substantial third-party reporting, the scope for non-compliance would be limited.<sup>29</sup>

In the second step, to move toward a complete system of pre-filled tax forms, more accurate pre-filled forms would need to be provided. The success of pre-filled tax forms in countries that have adopted them has been attributed to a number of pre-existing factors, including high-integrity taxpayer identifiers, a comprehensive system of third-party reporting, a high degree of automation among information suppliers, and a compatible legislative framework, including limited non-standard deductions.<sup>30</sup> Canada already has high-integrity tax identifiers (social insurance numbers). However, Canada is lacking in the other requisite dimensions. First, third-party reporting would need to be expanded. Currently, in most cases, self-employment income is not subject to third-party reporting. As a result, the CRA fails to capture information on the income of an important segment of the Canadian workforce, including those employed in precarious, non-standard, and contract work. However, this shortcoming can be addressed, to some extent, through changes in reporting similar, for example, to the treatment of self-employment income paid by public entities, which is reported on a T4A. Other challenges are posed by foreign income (both earned and investment), rental income, most capital gains, interest on private loans, business income, and cash receipts (which are hard to track under any system).

Along with expanding third-party reporting, timing issues would need to be examined. For example, most third-party reports must be submitted to the CRA by the end of February. However, T3 slips, which report income paid by mutual funds, exchange-traded funds, income trusts, real estate investment trusts, and limited partnerships, do not have to be mailed out until the end of March. Moving to a date earlier in the year may be difficult for trustees.<sup>31</sup> As a result, the CRA may have to delay the completion of pre-filled tax forms for persons with T3s.

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29 California used pre-filled forms for simple returns in its “ReadyReturn” pilot project in 2005 (for the 2004 filing year). See Brian Erard, “California,” in François Vaillancourt, ed., *Pre-filled Personal Income Tax Returns: A Comparative Analysis of Australia, Belgium, California, Quebec, and Spain* (Vancouver: Fraser Institute, June 2011), 39–62. Erard argues that there was little non-compliance among pre-filled forms in California’s ReadyReturn pilot project because of its targeting to those with simple tax returns.

30 Idawati Ibrahim and Jeff Pope, “The Viability of a Pre-Filled Income Tax Return System for Malaysia” (2011) 17:2 *Journal of Contemporary Issues in Business and Government* 85–101; R. Highfield, “Pre-Populated Income Tax Returns: The Next ‘Big Thing’ in Reform of the Administration of Australia’s Personal Income Tax System,” paper presented at the Seventh International Tax Administration Conference, ATAX, University of New South Wales, Australia, 2006; and Organisation for Economic Co-operation and Development, *Third-Party Reporting Arrangements and Pre-Filled Tax Returns: The Danish and Swedish Approaches* (Paris: OECD, Centre for Tax Policy and Administration, January 2008) ([www.oecd.org/tax/forum-on-tax-administration/publications-and-products/admin/39948012.pdf](http://www.oecd.org/tax/forum-on-tax-administration/publications-and-products/admin/39948012.pdf)).

31 Arthur Drache, “No Quick Fix for T3 Time Lag,” *National Post*, May 29, 2007.

Canada also lacks a compatible legislative framework: deductions, tax credits, and other items of income must be verifiable by the CRA for an effective system of pre-filled returns. The current tax legislation is complex. For example, rental income is not submitted by third parties but is reported by the owner of the rented property, and persons with rental income can deduct related expenses from that income. Currently, both of those items—income and deductions for expenses—would be difficult (if not impossible) to pre-fill on a tax form. In contrast, in Denmark persons renting out a property must use an agency (which includes Airbnb), and the agency must report rental income to the tax administration.<sup>32</sup> Further, the owner of the rental can choose to use either a standard deduction or an accounting deduction. Automatic pre-filling of the standard deduction is relatively straightforward. Persons with rental expenses higher than the standard deduction can elect to deduct their actual expenses from rental income, which is not pre-filled.<sup>33</sup>

A number of concerns arise with pre-filling and third-party reporting. First, there is a worry that the risk of errors will increase, including overestimating or underestimating tax liabilities.<sup>34</sup> That is, the CRA could make an error in pre-populating the tax form and the taxpayer might not notice or choose not to notice (for example, because correcting the error would increase the tax liability). To avoid technology-related errors, particularly in “simple” returns, before implementation the CRA should perform extensive testing of pre-filling. Further, it should be clear that the legal obligation remains on taxfilers to ensure that their tax forms are correct, and that they should double-check their pre-populated information. It has also been shown that the use of behavioural “nudges,” such as a message that pops up when income information entered is different from the norm, can reduce revenue loss from underreporting of income in pre-populated tax forms.<sup>35</sup> Extending third-party reporting also raises the possibility of increased errors in submitted information. It will be important to enforce legal obligations related to information filing to ensure that third parties have a stake in the tax filings.

Second, pre-filled returns may alter incentives for full reporting of incomes. Sending individuals a pre-filled tax return for their review and approval or correction would raise a new kind of risk for accurate and complete income reporting.

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32 In Denmark, since 2018, persons renting out a property have been encouraged to use an agency, but only Airbnb is required to report rental income to the tax agency. As of 2021, all persons renting out property will be required to use an agency, which will then report the rental income. See Denmark, Customs and Tax Administration, “Renting Out a Room or Property You Live In” (<https://skat.dk/skat.aspx?oid=2285757>).

33 For more information, see *ibid.*

34 Kevin Brookes and Pascale Déry, “Should the Government Pre-Fill Your Tax Return?” *Ideas for a More Prosperous Society*, August 21, 2018 ([www.iedm.org/83710-should-government-pre-fill-your-tax-return](http://www.iedm.org/83710-should-government-pre-fill-your-tax-return)).

35 Miguel A. Fonseca and Shaun B. Grimshaw, “Do Behavioural Nudges in Pre-Populated Tax Forms Affect Compliance? Experimental Evidence with Real Taxpayers” (2017) 36:2 *Journal of Public Policy & Marketing* 213-26 (<https://doi.org/10.1509%2Fjppm.15.128>).

Under the current system, taxpayers do not know exactly what information on their income the CRA possesses beyond items on T slips that they have received. Thus, taxpayers may feel that it is risky not to report all sources of income, including items for which they did not receive a T slip, such as foreign income or interest on private loans. In contrast, when receiving a pre-filled tax return, taxpayers may assume that the income items on the return are the entirety of what the CRA knows; they may thus perceive less risk in omitting other income sources that were not tracked on T slips. Whether this matter is significant in either quantitative or behavioural terms is unknown.

Third, there is a worry that increasing third-party reporting requirements will increase the cost of compliance by third parties.<sup>36</sup> These additional administrative costs can be lessened through third-party consultations before implementation, combined with the development of a third-party reporting system that is integrated with existing payroll software.<sup>37</sup> When Ireland rolled out its pay-as-you-earn (PAYE) modernization program effective January 2019, third parties (employers) that already used payroll software faced no additional burdens, given that the data to be reported were limited to those already collected by payroll software, and the reporting system and software were integrated.<sup>38</sup> The CRA could take a similar approach, integrating not just the reporting system and payroll software, but also software used to generate (for example) investment income reports and social assistance reports. For employers who manually process payroll and other third-party reporters who manually process relevant reports, payroll software or other software may be an additional overhead cost.

There will also be increased administrative costs to the CRA. Pre-filing shifts the costs from the taxpayer to the payer (third-party reporter) and the CRA. However, these costs should not be substantial since the CRA already checks tax forms after they have been filed and already provides Auto-fill. Further, as evidenced in the rollout of ReadyReturn in California, costs borne by the CRA because of pre-filing would likely be larger in the first year (and the development phase) because of technology adaptations, but those costs would decrease over time.<sup>39</sup>

Fourth, concerns may arise related to the response rate of individuals verifying their pre-filled tax form. In all jurisdictions where pre-filled tax forms are used, there is a notice period, during which taxpayers can change the pre-populated tax form by including missing information. Some administrations that use pre-filled

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36 Brookes and Déry, *supra* note 34.

37 See the next section for discussion of the implementation of Ireland's RTR system. Third parties were extensively consulted, and existing UK software was adapted and integrated with the extant processes.

38 Ireland, Revenue, Irish Tax and Customs, *PAYE Modernisation: Report on Public Consultation Process* (Dublin: Revenue, Irish Tax and Customs, 2017), at 9 ([www.revenue.ie/en/corporate/documents/consultations/pay-modernisation-consultation-report.pdf](http://www.revenue.ie/en/corporate/documents/consultations/pay-modernisation-consultation-report.pdf)).

39 Erard, *supra* note 29.

tax forms also operate under a system where, if the individual does not change the tax form or provide notification of acceptance, it is deemed “accepted” and filed as is. Of the 40 countries that use pre-filing, 10 use deemed acceptance.<sup>40</sup> Deemed acceptance can ensure that individuals who do not verify their information have their taxes filed, so that they receive the benefits they are entitled to (that is, benefits that do not require any additional information); however, deemed acceptance may also increase the rate of error.

Fifth, there is a need to ensure that individuals actually receive their pre-filled tax forms for verification and acceptance. Information on individuals often becomes obsolete between tax seasons, as people move, change their names, update their banking information, or die.<sup>41</sup> Another problem would be the delivery of pre-filled tax forms to migrant workers who work part of the year in Canada and then return to their country of origin. The government maintains no super-database of all Canadians, including their bank accounts and addresses. The CRA lacks important real-time information that would allow for seamless delivery of pre-filled tax forms to the entire population. While the CRA may not have access to this information, that is not to say that this information does not already exist across ministries and governments in Canada. An advanced “eGovernment” system would help the implementation of pre-filled tax forms be more successful.<sup>42</sup>

Estonia and Finland have developed and implemented an advanced system of eGovernment whereby information on the individual is asked for only once by any government agency, and that data point is stored only once, thus minimizing the collection of data. The individual owns and controls the data via an electronic identity card and can change or delete the data at any time; that is, the data are not under institutional control, although each agency is responsible for data privacy.<sup>43</sup> In Estonia, as of 2017, 4,196 government services were offered online through the eGovernment information system, with only three services not being available online (that is, having to be obtained in person): getting an ID card, getting married, and conducting real estate transactions.<sup>44</sup> Because of this detailed information, pre-populated tax forms in Estonia include employment income (via digitized linked employer reporting), the number of days sick and sick leave taken (via the digitized

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40 OECD, *Tax Administration 2019*, supra note 25.

41 Jennifer Robson, “Why Can’t They Just Send Us All a Cheque?” *C.D. Howe Institute Intelligence Memo*, April 3, 2020 ([www.cdhowe.org/sites/default/files/IM-Robson-2020-0403.pdf](http://www.cdhowe.org/sites/default/files/IM-Robson-2020-0403.pdf)).

42 As noted above, the legal obligation to file taxes would remain on the taxfiler even with pre-filing. Thus, if a pre-filled form was not successfully delivered to its intended recipient, this would not excuse the individual from filing taxes (if he or she was legally obligated to do so).

43 Jaan Priisalu and Rain Ottis, “Personal Control of Privacy: Estonian Experience” (2017) 7 *Health and Technology* 441-51. Some data are not controlled by the citizen, particularly data created directly by the government. For example, criminal activity data cannot be altered or deleted by the citizen.

44 *Ibid.*

linked health-care system), and the exact amount of income (via the digitized linked banking system).<sup>45</sup> It is clear from current examples of pre-filled tax forms that eGovernment is an important tandem policy that would lead to more information being available for pre-populating tax forms.

Such a system of eGovernment in Canada would require a massive reform, and privacy concerns would have to be appropriately addressed. Canada's eGovernment is currently quite primitive: very few agencies share information, and those that do, share very limited information. In 2019, the Standing Committee on Access to Information, Privacy, and Ethics considered the Estonian model of eGovernment. In a report released in June 2019, the committee concluded that although Canada could learn from the Estonian model, before a similar system could be implemented here, it would be necessary to remedy the deficiency in Canada's privacy laws, increase public trust in government, change the culture of the public service, provide guaranteed access to the Internet (including in rural and remote areas), and improve consultations with indigenous persons (among other things).<sup>46</sup> These concerns are not trivial; however, with a precisely defined outcome and a well-laid out strategy to get there, movement can be made toward more effective eGovernment in time, and thus more effective CRA benefit administration.

## REAL-TIME REPORTING

The COVID-19 pandemic not only highlighted the lack of a super-database on Canadians, as discussed above, but also laid bare the lack of sophistication and marked incapability of the income benefit delivery system to respond adequately in a time of real crisis. Since reporting of income for individuals occurs only once a year,<sup>47</sup> Canada's system could not respond to the dramatic in-year income shocks that occurred following the onset of the pandemic, especially as the majority of first-wave shocks hit between March and June 2020.<sup>48</sup> As a result, Canada was forced to instead

45 Jürgen Klemm, "In Estonia, Tax Filing Is Done in One Minute," *KALW*, April 15, 2019 ([www.kalw.org/post/estonia-tax-filing-done-one-minute#stream/0](http://www.kalw.org/post/estonia-tax-filing-done-one-minute#stream/0)).

46 Canada, House of Commons, *Privacy and Digital Government Services: Report of the Standing Committee on Access to Information, Privacy, and Ethics*, chaired by Bob Zimmer, 42d Parl., 1st sess., June 2019.

47 Employers' periodic (monthly or quarterly) reporting of income and tax remittances throughout the year are only on an aggregate basis. Organizations must submit their income information on individuals (for example, T4 information from employers) by the last day of February (for January–December of the previous year). Generally, the filing period for individuals who have a personal tax liability runs from February 18 to April 30 (for the previous calendar year).

48 Additionally, because there is no existing system for third-party reporting of self-employment income, the government struggled to verify income lost by those with self-employment earnings, particularly those in precarious and gig work. Not only is expanded third-party reporting important for a complete system of pre-filled tax forms, but it is also important to be able to deliver real-time income benefits.

provide pandemic support through a less-than-ideal Canada emergency response benefit (CERB) system administered by Service Canada, which required recipients to self-identify. In essence, Canada's tax system proved too clunky and unresponsive to deliver emergency pandemic income support.

To increase benefit responsiveness and ensure timely delivery of benefits, real-time reporting should be adopted. Real-time reporting requires employers to submit employee payroll information to the tax authority on or shortly after the employee's pay date. A number of countries have adopted real-time reporting, including the United Kingdom in 2013<sup>49</sup> and Ireland in 2019.<sup>50</sup> In both the United Kingdom and Ireland, real-time reporting was integrated with existing payroll practices; that is, employers could continue to use their payroll software for payroll and, with one additional extra click, the payroll data would be uploaded to a data-gathering system used by the tax authority.<sup>51</sup> Because of this integration with current practices, it was projected that employers already using payroll software would experience no (or very little) additional administrative burden and, in Ireland, where year-end tax forms (similar to Canada's T4) were eliminated, those employers would see administrative cost savings. However, some additional costs were projected to arise for firms not using tax software or professional bookkeepers—namely, small businesses.

A real-time reporting system can aid in benefit administration by better ensuring that benefits are provided when they are needed and allowing for real-time monthly adjustments to benefit amounts. This capability would have greatly aided benefit delivery during the COVID-19 pandemic.

A real-time reporting system would also materially aid tax administration and sharply reduce the number of taxfilers with either tax due or tax refund claims at the time of filing. Canada's system of source withholding by employers assumes that each employee will be earning at the same rate as in the current pay period over the entire year. In effect, the tax rate brackets and tax-free amount are divided into the number of pay periods in the year, and income taxes are withheld on that basis in each pay period, irrespective of how much has been withheld from the employee in other pay periods. Given the progressivity of the rate schedule, this means that employees with variable earnings over the year, with only part-year work for their employer, or with jobs held simultaneously with multiple employers will tend to have their taxes incorrectly withheld.

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49 United Kingdom, HM Revenue & Customs, *Real Time Information Programme: Post Implementation Review Report* (London: HM Revenue & Customs, April 2017) ([https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/664971/Real\\_Time\\_Information\\_programme\\_-\\_post\\_implementation\\_review\\_report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/664971/Real_Time_Information_programme_-_post_implementation_review_report.pdf)).

50 "PAYE Modernisation: Are You Ready for Real-Time Reporting?" *PwC*, October 15, 2018 ([www.pwc.ie/services/human-resource-services/insights/2018-pay-modernisation-are-you-ready-for-real-time-reporting.html](http://www.pwc.ie/services/human-resource-services/insights/2018-pay-modernisation-are-you-ready-for-real-time-reporting.html)).

51 *PAYE Modernisation*, supra note 38.

In contrast to the “current” assessment method used in Canada, a “cumulative” assessment method could be used. An example is the PAYE used in the United Kingdom and elsewhere. Under this method, an employer bases tax withholding on the cumulative entitlement to the tax-free amount and the rate schedule, both of which are updated for each pay period.<sup>52</sup> The employee’s cumulative taxes withheld at that point are compared with what should be due on that basis, and the withheld amount can be increased or decreased accordingly. If the employee’s income falls sufficiently in that pay period, the employer can supplement rather than subtract from the paycheck. The employer can also be used as the agent for timely dispensation of social benefits by the addition of such benefits to paycheques. Real-time reporting is not essential for Canada to adopt a cumulative assessment method, but it would make the system more efficient for workers with multiple employers, since the CRA can coordinate withholding and benefit rates across firms (as HM Revenue & Customs does in the United Kingdom).

Ireland has shown that with a well thought out strategy, sufficient consultation with software providers and third-party information suppliers, and extensive testing of the user interface, a large-scale rollout of real-time reporting can be relatively seamless. In contrast, the United Kingdom’s problems in introducing a universal credit teaches us that rolling out non-transparent benefits too quickly is bad practice.<sup>53</sup> Ensuring that CRA-delivered benefits provided in real time are transparent—that is, the recipient can easily understand how eligible income was calculated and where the numbers come from—can ease the transition. Finally, it has been suggested that the United Kingdom’s one-month assessment time for benefits may actually be *too* responsive where there are lags in employer reporting or reporting errors, and does not line up with the payment of wages. Improving upon these implementation concerns as needed in the Canadian context is vital to well-functioning real-time benefits.

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52 For example, with monthly pay periods, in the second month of the year the employer compares each employee’s cumulative taxes withheld with the amount that should have been withheld based on 2.5 times the annual tax-free threshold and 2.5 times each tax rate bracket; excesses or deficiencies are addressed. This process is repeated for each successive pay period. Nicholas A. Barr, S.R. James, and Alan Richmond Prest, *Self-Assessment for Income Tax* (London, UK: Heinemann, 1977), at 22-32, describe the operation of PAYE in its early implementation in the United Kingdom prior to its use for delivering social benefits.

53 See “Universal Credit Rollout Delayed Again—to 2024,” BBC News, February 3, 2020 (<https://www.bbc.com/news/uk-51318730>), for the most recent issues with the implementation of the universal credit, including claims that otherwise eligible recipients are “scared” to enrol in the system; and Centre for Public Impact, *Universal Credit System in the UK from 2010 to 2014* ([www.centreforpublicimpact.org/case-study/universal-credit-system-uk](http://www.centreforpublicimpact.org/case-study/universal-credit-system-uk)), for earlier problems with implementation, including a lack of transparency, a lack of public confidence, and poor management.

## CONCLUSION

Re-envisioning the CRA as a benefit administrator delivering benefits to meet social objectives requires several types of reform. Current aspects of tax administration, such as self-assessment, the lack of a universal filing requirement, once-a-year third-party income reporting, and a limited eGovernment, hamper the CRA's effectiveness as a benefit administrator. Introducing reforms such as pre-filled tax forms, to ensure that tax-delivered benefits reach all who are entitled to them and not just those who file, and real-time reporting to improve the responsiveness of benefits could greatly improve the ability of the CRA to deliver benefits. Improved benefit delivery would improve the ability of the federal and provincial governments to meet their social policy objectives, including those set out in Canada's and the provinces' poverty reduction strategies. Incidental benefits would be more accurate tax withholding and less frequency of year-end tax refunds. While these administrative changes will encounter various implementation challenges, these can all be overcome with proper leadership, attention to policy objectives, and learning lessons from other jurisdictions.