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Chair

The Honourable Kevin Sorenson

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• (1530)

[English]

The Chair (Hon. Kevin Sorenson (Battle River—Crowfoot, CPC)): Good afternoon, colleagues.

This is meeting number 49 of the Standing Committee on Public Accounts, Monday, March 20, 2017. I would remind everyone today that our committee is televised.

Before we begin, I also want to welcome a representative of the public accounts committee of Kenya, who is in the audience today. We look forward as a committee to meeting with you after, but certainly we welcome you here today. You're accompanied by the first counsellor of the high commission, Mr. Afande. It's good to have you here with us.

Today we are studying Report 2—Income Tax Objections—Canada Revenue Agency, of the Fall 2016 Reports of the Auditor General of Canada.

Appearing as witnesses, we have today, from the Office of the Auditor General of Canada, Ms. Nancy Cheng, assistant auditor general; and Monsieur Jean Goulet, principal. Also, from Canada Revenue Agency, we have Mr. Bob Hamilton, commissioner of revenue and chief executive officer; and Mireille Laroche, assistant commissioner, appeals branch.

I understand that each of our witnesses today has an opening statement before we turn to questions from the members of Parliament on our committee. I would invite Ms. Cheng to proceed with an opening statement.

[Translation]

Ms. Nancy Cheng (Assistant Auditor General, Office of the Auditor General of Canada): Mr. Chair, thank you for this opportunity to present the results of our report on income tax objections. Joining me at the table is Jean Goulet, who is the principal responsible for the audit.

This audit focused on whether the Canada Revenue Agency efficiently managed personal and corporate income tax objections.

A taxpayer can file an objection if the taxpayer disagrees with the agency's assessment of an income tax return. The agency must provide an impartial and timely review of a taxpayer's objection. If not satisfied with the agency's decision on the objection, the taxpayer can appeal to the courts.

[English]

In the 2014 calendar year, the agency processed roughly 30 million income tax returns, worth about \$235 billion in income taxes. During that time, taxpayers filed almost 67,000 objections that put \$4.8 billion in income taxes into dispute. As of March 31, 2016, the agency had close to 172,000 objections outstanding, worth over \$18 billion in income taxes.

To assess the efficiency of the objection process, we looked at the time the agency took to provide taxpayers with decisions on their objections. We also examined the various stages in the process to identify where delays occurred.

Our audit found that the agency took too long to decide whether a taxpayer's objection was right.

We found that the agency took about five months to settle straightforward objections, which made up about 60% of files. For medium-complexity objections, the agency told taxpayers they could wait up to a year before hearing from an appeals officer. It took the agency five or more years to resolve 79,000 cases worth almost \$4 billion in income taxes.

During the five-year period covered by our audit, we found that 65% of the time, the agency ruled in whole or in part in favour of the taxpayer. When the taxpayer pays up front and the agency takes a long time to rule in favour of the taxpayer, costs are incurred not just for the taxpayer involved, but also for the economy as a whole.

• (1535)

[Translation]

We also examined the Canada Revenue Agency's performance targets for the objection process and found that the agency did not consider timeliness from the point of view of the taxpayer. For example, the agency did not count the days that it took to assign files to appeals officers. This means that the time to decide on objections reported by the agency was much shorter than the time taxpayers actually waited.

Without complete and accurate information on the time the agency takes to process an objection, taxpayers have no way of knowing how long they will have to wait for a decision. Furthermore, the agency has no way of knowing if it is getting better or worse at meeting its mandate for timely review of objections.

[English]

Assessment decisions that are overturned either by the agency's objection process or by the court's own appeal may signal issues with either the original assessment or the agency's subsequent reviews.

We found the agency did not adequately use the information coming out of its own decisions or of those of the Tax Court to learn and improve its processes and performance.

We made eight recommendations to the Canada Revenue Agency. The agency agreed with all of them and has committed to taking corrective action.

Mr. Chair, this concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

The Chair: Thank you very much for your presentation.

We now welcome Mr. Hamilton.

Commissioner, welcome to this committee.

[Translation]

Mr. Bob Hamilton (Commissioner of Revenue and Chief Executive Officer, Canada Revenue Agency): Thank you, Mr. Chair.

It is an honour to appear before the committee in my capacity as Commissioner of the Canada Revenue Agency. I am accompanied by Mireille Laroche, Assistant Commissioner, Appeals Branch. Ms. Laroche is responsible for the objections program.

[English]

In my first seven months in the job, I've had the opportunity to visit all of our regional operations, and I can attest to the pride, the professionalism, and the commitment of CRA's employees. Together we work to improve the service to Canadians, combat tax evasion and avoidance, and provide a fair and equitable administration of Canada's tax and benefits systems. These responsibilities are challenging, yet they are essential, and Canadians count on us to deliver our programs in a fair and trusted manner.

The objections program is an important part of ensuring fairness in the administration of Canada's tax laws. Through impartial reviews, it provides a resolution process when taxpayers disagree with a CRA decision.

Mr. Chair, as the Auditor General pointed out in his fall 2016 report, the CRA has been facing some challenges with respect to resolving objections in a timely manner. We have taken these findings seriously. We have accepted the eight recommendations, and we have been actively implementing solutions to them.

[Translation]

Before outlining our objections program strategy and early results, I will highlight the agency's overall performance in administering individual and corporate income tax laws.

Every year, the agency conducts roughly 66 million assessments and compliance activities, including 31 million personal and

corporation income tax returns. Only 0.1% of these—or about 66,000 files—are the subject of an objection. Of those objections, 8% involve an alleged misapplication of laws, facts, or policies by the CRA. The agency takes great pride in quality decisions and service to Canadians.

• (1540)

[English]

Of course, we know there's room for improvement, especially in the area of timeliness and reporting to Canadians, and that's our first priority.

Our strategy to address the Auditor General's recommendations and provide better service to Canadians revolves around four themes. The first is communication with taxpayers. The second is reducing the inventory of files. The third is service standards and reporting. The fourth is learning from objections and appeal decisions.

On our first theme, we recently developed a comprehensive strategy to ensure we communicate clearly with taxpayers about their tax obligations and objections process. This has been an area where we haven't performed as well as we would like.

In November 2016, the CRA website was updated to explain our categorization of low, medium, and high complex cases; how to resolve typical tax issues such as how to submit new or additional information and how to request an adjustment rather than file an objection; how to object and under what circumstances; the need to provide all supporting documentation with an objection to speed up resolution of the issue; and the date of files currently being assigned by complexity level.

Historically, the agency has not shared its timelines for resolving objections with taxpayers. However, as of April 1 of this year, very shortly, we will publish on our website a new service standard for low-complexity objections and the actual time it takes to resolve low-complexity objections. We will also amend our acknowledgement letters to provide taxpayers with a clear understanding of how long it might take for them to receive a decision.

The second area is reducing the inventory of files. We are looking to reduce our inventory of approximately 166,000 objections. This includes two types of objections. The first is regular files, which are composed of distinct objections from individuals or businesses. The second is group files, which are composed of objections sometimes involving thousands of taxpayers who participated in tax avoidance arrangements or are disputing a common issue.

This issue of the inventory is very important for us as we try to address how we can provide better service because, at the moment, each new one that comes in gets added onto the inventory. We have to find a way to not only serve people who are giving us new objections but to take the inventory down over time.

On the group objections, an example of this kind of tax avoidance is a gifting tax arrangement where taxpayers receive a donation receipt that is for a greater amount than the actual cash donation. Group files represent 55% of our inventory. Due to the potential number of related objections, these files can unexpectedly increase our workload.

Group files are also treated differently from regular files due to the involvement of the courts to process them efficiently and consistently. Lead cases are identified, and the related objections are put on hold until the court's final decision is rendered and applied to them. This process can take years. Once a decision is made, the CRA uses a streamlined process to resolve group objections, but we must divert some of our resources from the regular objections workload to do so. This has had an adverse effect on our overall performance.

The CRA is prioritizing the reduction of regular objections inventory, which is composed of varying complexities and issues. As we develop our action plans, we are consulting government departments and other tax administrations that have faced similar inventory challenges, and are trying to incorporate their best practices.

In line with the Auditor General's recommendation, we are also conducting a series of reviews to identify areas with potential to reduce delays. For example, on April 1 of this year we will introduce a new process for low-complexity objections, which represent about 60% of our annual intake. In the past, taxpayers were contacted only after an objection was assigned to an appeals officer. If information was missing, even more time was required to resolve the file.

With our new process, taxpayers or their representatives will be contacted within 30 days of filing an objection to solicit any missing information. This way, files are complete and ready to be worked on once assigned to an officer. This will result in a more timely resolution process.

Automation and specialization of work will create further efficiencies and maximize resources, which will help us provide more timely service to Canadians. It won't happen overnight, but we are already making some progress to reduce the inventory of files and improve timelines on new objections. Thanks to funding from budget 2016 and some internal processing improvements, we're on track to resolve more objections in 2016-17 than initially predicted. But there's much more to do.

Our third theme is service standards and reporting. As I mentioned, we are introducing a new service standard for low-complexity objections—that is, to resolve them within 180 days 80% of the time. This standard reflects the fact that we have an aging inventory. As progress is made to reduce that inventory, the standard will be resolved for more timely resolution.

● (1545)

[Translation]

Next fiscal year, the objections program will implement a new approach to measuring workable time that will include all the time the objection is within the Government of Canada's control. Members of the committee can be assured that our metrics will better reflect the actual time it takes to review taxpayers' objections.

Our fourth and final theme is learning from objections and appeal decisions. While the agency respects and upholds its duty to treat objections impartially, it is essential to apply lessons learned from resolved objections and appeals to other areas of the CRA that process tax returns, conduct reviews of credits, and complete audits.

[English]

We have enhanced our quarterly feedback loop reports to provide information on the outcome of objections, including why an objection was allowed in part or in full. For example, we had successful results from the feedback loop related to the disability tax credit that led to a significant decrease in objections in 2016-17 and an increase in the percentage of assessments confirmed. This issue of the feedback loop and learning lessons from what has happened is a key part of our plan going forward. We haven't in the past always done as good a job of making sure we are incorporating the lessons we learn in one part of the agency to another. We'll be focusing on this as we go forward.

In closing, Mr. Chair, the transformation of the objections program, coupled with other improvements resulting from budget 2016 investments, will enable us to respond to the issues identified by the Auditor General in his report. By doing so, we will provide Canadians with better and more timely service.

We have an action plan to address those concerns. We will be implementing it aggressively, and we'll also be learning lessons along the way, as we try to find even better ways to provide better service to Canadians and a fairer appeals process.

I am happy to take any questions.

The Chair: Thank you very much, Mr. Hamilton.

I want to thank you for coming and, to be quite honest, for appearing. We have, on a number of occasions, made requests of deputy ministers, or those who are responsible for the department, to appear. Many times, we have levels much lower than deputies appear. We do thank you for coming and for being in this role for such a short period, and yet appearing before this committee.

We'll now move to Mrs. Mendès, for seven minutes.

Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.): Thank you very much, Mr. Chair. I will be sharing my time with my colleague, Mr. Lefebvre.

Thank you all for being here, and I'll second our chair's comments on your presence. Madam Cheng, it's a pleasure to see you again.

I'm encouraged to hear you, Mr. Hamilton, say that many measures are being put in place in response to the report. I still have a few questions, and they go very much to the general message the Auditor General expressed in his fall report about the Government of Canada as a whole, the services offered by the Government of Canada as a whole, being very much focused on the how and not the what we are delivering to Canadians.

As a citizen who has to deal with Revenue Canada, like everybody else, and has to pay taxes, sometimes our dealings with Revenue Canada can be extremely hurtful, not just to say frustrating, but very hurtful. The feeling is that you are always in the wrong when you deal with Revenue Canada, and in my added case with Revenue Québec, which is another story. I've never had anything gone wrong. It is just the feeling you have when you actually have to deal with the agency.

How do you approach that in a much more general sense for the agency, how Canadians feel when they have to deal with the agency?

• (1550)

Mr. Bob Hamilton: The first thing I would say of a general nature is that the minister has received a pretty clear mandate from the Prime Minister to improve service at the agency, the service that we provide to Canadians.

While there have been occasions in the past where some people have felt the agency was not as sensitive or reasonable, as they could be, I think for the most part I'm very proud of the employees. There is a vast number of people, over 40,000 people who work in the agency, who are really trying to serve Canadians as best they can, but it is true there is room for improvement. That's the first thing that I would say overall. I will come back to the overall point.

As an example of how we're trying to change the focus of what we're doing, when we measured how long it took us to deal with an objection, we started the clock at one point and then we stopped it. Once it went outside the appeals branch, we stopped the clock, because the appeals branch wasn't in control of it at that point, so in some sense there was a logic.

We've turned it, and if you think of it from the taxpayer's perspective, the taxpayer doesn't really care if it's in the appeals branch or somewhere else in government. We'll be running the clock as long as government has control.

If we go back to the taxpayer and need additional information then that's fine. We can stop the clock for that purpose. We're trying, in our services here, to think more about what works for the taxpayer, not just what works for us. It has to be a blend of both.

Going back to your general point, we're trying to do that in all of the areas where we provide services. We've done some great things in terms of the electronic services that we provide. We've got new technologies to help serve Canadians, but there are some places where we just need to improve. We need to think more about how Canadians approach the tax system, and how we communicate with Canadians.

The tax system is a complicated beast, and sometimes we don't do everything we can to communicate effectively and explain it to people who may not understand it as well as we do. We're working on all of those avenues. We're working on improving our correspondence to make it a bit clearer in plain language. I can attest, as a taxpayer, to receiving my notice of assessment, and there have been some recent improvements. That's the kind of thing we're focusing on.

The effort to think about the service from the client's perspective is something that we're doing at the agency. At the end of the day, I should just add the caveat, we have to collect the money that's owed, and sometimes those can be difficult conversations. That doesn't mean we can't have them in a reasonable manner, and we will strive to do that.

Mrs. Alexandra Mendès: Thank you very much.

The Chair: Mr. Lefebvre, you have two minutes.

Mr. Paul Lefebvre (Sudbury, Lib.): Thank you for being here this afternoon.

I'm just looking at the Auditor General's report. It says that between 2005 to 2015, there was an increase in income tax objections of around 171%.

My first question is: why? This is very high. This is not just a blip over the years. There has to be an underlying reason. Before we can address how to resolve it, we have to ask why.

Then I looked at paragraph 232, "Management of growing inventory". It says:

The Appeals Branch of the Canada Revenue Agency had experienced steady growth in the number of taxpayer objections. Agency officials told us that the growth was a result of both the taxpayers' actions and the Agency's own efforts to identify and reassess taxpayers who were not paying their fair share of income tax.

All of a sudden, 10 years ago, taxpayers started to learn that they had these rights to object, and/or at the same time, in parallel, the CRA was doing a better job of identifying people's income tax. Is that the basis of the answer, or is there more to this?

Mr. Bob Hamilton: That covers part of it. I might express it slightly differently, but yes, there was a time when the agency started to focus more on auditing, certainly in the area of tax-gifting shelters that I had mentioned earlier, where people were engaged in avoidance activities.

• (1555)

Mr. Paul Lefebvre: There were avoidance activities way back in the late 1990s as well. There were the art flips and a lot of the tax shelters and tax avoidance stuff going on.

Mr. Bob Hamilton: Right. There would always be avoidance activity, but the agency put additional resources into auditing those activities and cracking down, if I could use that term.

What that leads to—and this is another one of the lessons we're learning—is that when you do that, either that activity increases or our auditing of that activity increases, you generate work for the appeals branch, because a high percentage of those cases typically would end up getting appealed.

Mr. Paul Lefebvre: Yes.

Mr. Bob Hamilton: That activity, uncovering those, led to more appeals, and that was a factor—not the only one, but it was a big factor in that growth in the inventory.

The Chair: Thank you, Mr. Lefebvre.

I will now move to Mr. Aboultaif. Welcome to the committee.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): Thanks, Mr. Commissioner, and thanks to the panellists today for attending before committee.

Mr. Commissioner, we hear a lot about the CRA and how it is treating taxpayers, or serving taxpayers, if you wish. Most of the letters we receive are negative.

I've just found about four letters that have come from taxpayers. I would like to read them, and I hope we can get some good comments from you on all of them.

One says:

My tax filings have been audited for two consecutive years, though there was and is nothing dishonest or sneaky in either filing. My claims have already been accepted for 2014, and I've been waiting for 22 weeks now for a resolve of the 2015 filing.

A second one says:

CRA agents with whom I've spoken are sometimes borderline rude, or stressed to the point of hysteria. One agent told me that responding to a submission or service complaint can take a year or more; though the "service standards" on the CRA website claim that the CRA will respond to a submission within 8 weeks, 100% of the time.

A third one says:

In early 2014, I started to receiving letters from the CRA stating that I owed them approximately \$230,000.00 in back taxes. This was an absurd amount of money. In 2015 the CRA forwarded me all my "T" slips for years 2008 thru 2014 and when I completed my returns my calculations showed that I owed the CRA approximately \$26,000.00. Even with interest and penalties the amount could be nowhere close to \$230,000.00. If the CRA had all my "T" slips how could there be a \$200,000.00 plus difference in their assessment? What the CRA did was either an act of malice or negligence, and was tantamount to harassment, bullying, and was a blatant use of intimidation tactics in order to carry out their mandate.

The last one says:

All a CRA representative had to do...was look at the return and the paperwork.... It should have been cased solved...but instead of someone at CRA simply looking at the paperwork, that threatening letter was sent to an 83 year old woman who knows nothing of CRA, their workings or the tax laws. It upset her. But in the end...five months later, it was solved. It all could have been avoided.

Mr. Commissioner, every member of Parliament, I believe, has received letters similar to these. What are we supposed to tell our constituents who feel they are being bullied and harassed by the CRA?

Thank you.

Mr. Bob Hamilton: I won't be able to respond to every individual case that you raised here, as you can imagine.

I get some letters myself from taxpayers giving us feedback. I have to be honest and say that more of them are negative than positive. I guess what I would say is that we are striving to provide better service. A couple of the things you referred to are things we are trying to do better, and that's without responding to those cases, because there could be facts that I'm not aware of.

We are trying to make sure that, where we have a piece of information from a taxpayer, we use it. There certainly have been examples in the past where in one part of the organization somebody had information, but somebody else was dealing with the taxpayer and didn't have access to that information. We're trying to fix that. We're trying to think of the agency more as an integrated whole and connecting the silos together. That's one example where we could try to do a better job to make sure that we have the right information.

The second thing is that when we correspond with the taxpayer, making sure that it's respectful correspondence and in some ways helping to educate why we're doing what we're doing. Hopefully, we won't make mistakes. However, if we do, they could be uncovered in a way that's constructive and productive. We are trying to look at our correspondence, look at how we train people.

I would say, on behalf of the 40,000 people who work in the agency, the vast majority of cases are where we can actually help taxpayers. I've sat in on calls with taxpayers where people on the other end are quite stressed because the tax situation is difficult. Our agents have been able to help them through that, to explain that if they're in financial hardship there can be ways to get around it, or here's the explanation for it.

We can do a better job, and that is part of the service mandate we are trying to push for our minister. We can try to minimize the number of mistakes that we make. In a big organization, with all of the returns that we process, there will probably always be some cases, unfortunately. But we are actively trying to improve the service we provide, using the best tools we can, intelligence and technology, and being sensitive in how we communicate.

• (1600)

Mr. Ziad Aboultaif: Thank you.

We know that your clients are the taxpayers, so eventually, in a business sense, if we build a good relationship with the clients, the operation will be more efficient and the investment will be less, rather than just changing course.

How happy are you, being on the job for a few months, with the culture of CRA? I heard the minister claim that it will be a client-friendly agency, but the letters keep coming our way, and we keep hearing the negatives. I hope that a change of culture will help the business to prosper and be less costly. The return on the investment will be much quicker, and people will be less hassled.

Can you comment on that?

Mr. Bob Hamilton: The comment I would make is that we are looking at the service culture in the agency and doing quite a bit of work to see how we can improve, and what we can learn from other jurisdictions and other operations. The one thing I've been focusing on is trying to make sure that this culture applies throughout the organization.

For example, one could think of an auditor who has the responsibility to get the taxes that are owed, but we've been communicating that those auditors have a role to play in providing service to Canadians as well. Yes, we want to get the taxes that are owed so that the taxes are distributed fairly across all Canadians. However, if we can have a respectful conversation with the taxpayer, and in some cases educate them as to why the tax system works this way and why we're doing this, then I think we'll probably not only improve that transaction, but down the road there should be fewer problems. I think that is the point you're making. If we can adopt that service culture, we may be helping ourselves in getting the taxes that are owed to us as well.

It's trying to make sure that this is throughout the organization, across all regions of the country. That's one of the things that in the few months I've been on the job I've been trying to emphasize for people, to communicate better internally and with taxpayers.

The Chair: Thank you very much, Mr. Hamilton and Mr. Aboultaif.

Mr. Christopherson, for seven minutes, please.

Mr. David Christopherson (Hamilton Centre, NDP): Thank you to our guests for appearing today.

Chair, with your indulgence, I would on behalf of all of us welcome you back. We did that at an earlier in camera business meeting, but I think the kind of co-operation and team spirit that we have here in this committee warrants a public welcome. You've been off sick with a fixable health issue—

The Chair: That's right.

Mr. David Christopherson: —that is now fixed, and it's good to see you back in the chair. We're pleased to have you here, and hopefully all your health issues are now behind you.

The Chair: Knee replacement: it could have been worse.

Thank you.

•(1605)

Mr. David Christopherson: At the outset, Mr. Hamilton, I have to say that I was a little disappointed. Also, you missed an opportunity for getting a brownie point by not making a reference to data in your opening comments. I will say to colleagues that I think that's as much an indication of our failure as a problem for the department. We have been trying for six or eight months now, and maybe the better part of a year, at the urging of the Auditor General, to make data information, accuracy, and completeness a priority.

I was disappointed because it was one of the major recommendations. It's an area that I'm going to focus on in my remarks, and I was a little disappointed that we haven't done a good enough job, such that your advisers didn't make sure that you dropped something in

there to make reference to our pet project of the year, if you will. We take it very seriously. Maybe that's a cautionary note to your colleagues, if they have others listening, to give that kind of advice to their presenters.

Having said that, turning to the actual audit on this matter, I'm looking at the area of paragraph 2.58. Here's the thing: it's sort of the “blatantness” of it, if that's a word. I'm going to quote the Auditor General, who said:

We found that the data contained errors, which hindered accurate performance measurement and reporting.

We found that the Agency's information system did not have sufficient controls in place to ensure data integrity. For example, it was possible to enter a date for completing an objection that preceded the date for receipt of the objection, and in such cases, the error was not flagged by the system.

To continue, to get it on the record:

For some objections, the date recorded for receipt of the notice of objection followed the date of assignment to an appeals officer. For example, we found that 20,825 objections had invalid dates (that is, errors in date sequence, such as the assignment date preceding the mailing date).

To set it up even sweeter, the next sentence at the beginning of paragraph 2.60 says:

We found that some data fields in the database were blank. For example....

Give me some assurance, please, that you have a major turnaround on the issue of data under way.

Mr. Bob Hamilton: Yes. I appreciate the question. Being an economist and having spent most of my career at the Department of Finance, there's nobody who loves data more than I do, so thank you for raising that.

Indeed, it was a major criticism in the Auditor General's report. It's something that we have a fairly aggressive action plan on to try to turn it around and to try to correct some of the more obvious things that you have raised.

I would describe the agency as having a wealth of data at its disposal. Sometimes we aren't able to share that data because it's taxpayers' confidential data, but in many ways we do a lot of great work with data.

This is a place where we need to improve our data. I can say that we have made some very significant improvements in a short time, with what I would consider to be relatively straightforward steps. You identified some of the problems.

On the one hand I'm encouraged by that, by that 41% increase in the data quality. On the other hand, I'm distressed by it, because it shows how far we had to come and, as you know, we still have more to go.

I think you can rest assured that with us—also, Mireille is doing a lot of work with her colleagues across the agency, because this is another part where we have to get everybody in the agency contributing to the data set effectively and efficiently—we will have better data, and we will better communicate that data, where we can, with Canadians. I think your point is valid, and it's something that we take great interest in.

Mr. David Christopherson: That's good to hear. Thank you.

Before I move on to how we're going to fix it, though, I do want to pursue this a little further. Clearly, what we need is a culture change across government, and here is a perfect example of a culture change that needs to happen.

When it's okay to leave blanks, there's a culture problem. Can you give me some idea of how we could be at that point for an agency that deals in numbers—that's your bread and butter—such that they would actually leave fields blank? Help me understand how we could be so far away from the proper kind of data collection and analysis that you and I both know needs to be done. I know that you've only been there a few months, but I can't leave this totally without pursuing it a little more. How did we get to the point where there's a culture that exists where it can go from all the people whose hands it is in and there are blank fields and that is deemed to be okay? Help me understand that, sir.

Mr. Bob Hamilton: I will probably ask my colleague Mireille Laroche to chip in on that, if she can, because frankly I don't have a great explanation for blank fields. In my seven months I haven't really uncovered that. The one thing I do know is that there were difficulties with the data entry in some cases. I think you mentioned things that happened before the file was received or after it was done, blanks were there. We do have a data integrity program that we put in place to try to catch those.

• (1610)

Mr. David Christopherson: How long has that been around, sir?

Mr. Bob Hamilton: I think it's been there for a while, but we've actually beefed it up to the point now where it's catching these things.

Mr. David Christopherson: You had one, but it didn't work very well.

Mr. Bob Hamilton: The other one didn't work very well. Why didn't it? I don't know for sure. I would ask Mireille if she could add to that, but I can give you the assurance that, with the new one we have, we will be paying attention to the data entries across the organization, verifying them, and improving the data.

Is there anything you want to add?

The Chair: Very quickly.

Ms. Mireille Laroche (Assistant Commissioner, Appeals Branch, Canada Revenue Agency): Some of the issues of why some fields would be blank would be when the system allows you to make certain fields not mandatory and you can still process them. I think if an appeals officer or any officer wants to expedite the process, they don't consider that as being mandatory; therefore, it's allowed. It's true that it impedes our ability to do some analysis and performance reporting in that regard.

We had some data reporting activities before. We had reports. I would say that they were not truly effective in how we dealt with them, so we revamped them in December. We are already seeing marked results because we're making our officers accountable for these mistakes, and they're changing them, as the Commissioner has said. From one month to the other, we saw a 41% decrease in our data integrity issues.

We're also working on the systems because one of the points that the OAG mentioned is that it's a system issue in terms of it allowing

the dates to be non-sequenced, not in order. We started to fix that in the fall, and we have another release coming up that will help mitigate and lower these incidents.

The Chair: Thank you very much.

We'll now move back to Mr. Lefebvre.

Mr. Paul Lefebvre: To continue on the line of questioning I was asking before, I asked why the increase, and your answer was taxpayers are more knowledgeable of their rights. You also said that basically CRA is doing a better job of identifying files they should be reassessing.

I will add one. Basically at the auditor level, as well, from my experience in dealing with the CRA representing taxpayers who had to deal with CRA on many occasions, a lot of times it was the approach from the auditor's position. They would not allow a deduction or would be very hard and say, "Well, take your chances at appeals."

I also know tax practitioners who say that they're dealing with an unreasonable auditor, and they can't deal with this person. They just let it slide and go to appeals because they may get a better discussion at that level, and they want to stop wasting their time. My comment on that is that I think there's an opportunity here. We've looked at resources, certainly. You have the appeals level, the appeals officers, and then you have the auditor level, which is your front line. They are doing the front line of that job of reviewing all the assessments, the reassessments, and determining how they are going to be approaching this. Some are very capable, and some are more difficult to deal with.

I'm happy to see these new processes that you're putting in place moving forward. However, regarding this 30 days in which the agency will contact the individual, my experience is that we waited months to get a response. Then they would give us 10 to 20 days to respond. Is that culture going to remain the same as well? What is that relationship with respect to this new process? Please explain to me a bit of that new process.

Mr. Bob Hamilton: Maybe I'll take the two of them quickly. The first thing you raise is that the audit activity is generating additional workload for appeals. I think one of the things that we are trying to do is to help put the things in appeals that should be there, and the things that shouldn't be in appeals not be there. For example, sometimes what comes into appeals is a case where new information is provided by the taxpayer. What we'd like to do is, if what you're doing is providing new information, that's not really an appeal, that's handled better in the audit assessment activity. We're trying to do some things so that things don't just automatically go into appeals, either by activities of CRA auditors or by the taxpayers, so let's get things separated on that front.

The one thing that I've learned in a few months at the agency is that something that happens here in audit affects appeals and the tax collection people. It's an integrated whole, so we need to think about that, and we need to give feedback from our appeals officers through to the auditors about some of the cases that are coming. I think that's one of the points that the Auditor General raised. Do we talk to each other enough to figure out how we can help the auditor? Again, going back to my earlier point, help with a respectful and productive conversation.

•(1615)

Mr. Paul Lefebvre: Thank you for going there, because if you look at the auditor's report, this is not the first time that the Auditor General has done a review of the dispute settlement mechanism with CRA. Back in 2004 there was a report as well. I'm reading from paragraph 2.83. The Auditor General says, "we indicated the importance of having auditors understand the changes made to their assessments", so basically how to be better and to share best practices within the department. This was discussed back in the 2004 report, and here we are in 2017 and it's back at the forefront. It says here, "While headquarters acted on some of the suggestions, most were not addressed, nor was there a targeted timeline for their completion." That's the gist of what was said there. How can we be sure that this time things will change?

Mr. Bob Hamilton: I think you can be assured because we have a system in CRA now—and I don't know what existed in 2004—where we track all of these recommendations that are given to us, and we hold assistant commissioners like Mireille and others accountable for how they're doing. If we agree to a recommendation, then we will implement it, and we will do our best job. Whether we'll do it perfectly or not remains to be seen, but we will do our best job.

But on your second question—

Mr. Paul Lefebvre: Sorry, yes, you had to go back.

Mr. Bob Hamilton: Yes. We're trying to get back to taxpayers quickly. We're focusing on the low-complexity ones first, because that should be the place where we can make the most progress. What happened in the past was that it would sit on a shelf until an appeals officer was ready for it. Time is not our friend in that case, because the longer it waits, sometimes the harder it is to resolve it quickly.

Our thought—and we're having some early success with this—is to get back to the taxpayer quickly and just have a conversation to make sure we have all the information and there isn't anything else. When the appeals officer picks it up, maybe we'll be able to even deal with it at that stage. Certainly, when the appeals officer picks it up, that whole process can go a lot faster.

Mr. Paul Lefebvre: I would agree that this will help.

Mr. Bob Hamilton: We will still ask the taxpayer to be efficient.

Mr. Paul Lefebvre: You talked about service standards. Now you want to resolve files within 180 days. I'm assuming those are the low-complexity files and not your group files, because group files take a very long time.

Mr. Bob Hamilton: Yes. Again, what we've had to do here to attack this problem is split it up into pieces: low complexity, medium-high complexity, and group. In the low-complexity category, we're making the case to fix them within 180 days.

Mr. Paul Lefebvre: Perfect. That's a very enviable target. Hopefully, you'll be able to inch towards that target.

I would like to go back to the auditors' best practices and improvement. Again I'll go back to my own experiences. Sometimes you'll have a completely different result between auditors on pretty much the same type of file. That's why sometimes we had to bring it up to appeals. I commend you to try to improve the service standards—not just at the appeals level but also at the audit level—and make sure that their training continues and that there is sharing of why

certain files were resolved in a certain way. That lack of communication has been very frustrating for taxpayers and tax practitioners in industry, because it is not consistent. If you can't advise clients and taxpayers on how certain files are approached, or say this is the result you may get, it's extremely frustrating for Canadian taxpayers.

The Chair: Thank you. I don't know if there was a question there. I think it was more—

Mr. Paul Lefebvre: That was a comment.

The Chair: Thank you.

We'll now go to Mr. Jeneroux, please, for five minutes.

Mr. Matt Jeneroux (Edmonton Riverbend, CPC): Thank you, Mr. Chair.

Welcome back, as well, on behalf of this side of the table.

Also, thank you to the commissioner. Again, you heard earlier that we have had some issues with the person in charge not showing up, and it's great to see you here. We had to send one meeting away, so I just wanted to get on the record that it's great to have him here.

I'd also like to add my name quickly to the welcome to the distinguished delegation from Kenya and thank them for joining us.

We have people in front of this committee all the time, as you can imagine. Ms. Cheng and her team go through the books and say, "They're not doing this right", then suddenly you have an action plan, and suddenly you have a path forward on how to get to that point. Where I'm going with that is, how familiar are you—and you've only been there seven months—and your staff with the Taxpayer Bill of Rights?

•(1620)

Mr. Bob Hamilton: We're very familiar with it, yes.

Mr. Matt Jeneroux: What percentage of the staff who are employed under you would be aware of the Taxpayer Bill of Rights?

Mr. Bob Hamilton: Off the top, I would have said all. Everybody I've come in contact with over this period understands that it is a part of our responsibilities, so I have no reason to think that people in the agency aren't aware of it.

Mr. Matt Jeneroux: I say that because item number 6 under the Taxpayer Bill of Rights says that "you have the right to complete, accurate, clear, and timely information". Obviously, what we're discussing today is that it's not timely information.

There was a motion put forward by one of my colleagues, which was a private member's motion establishing a duty of care for the Taxpayer Bill of Rights. It was subsequently voted down, but it highlighted one particular point that I'd like to read into the record.

A reference was made in the motion to item number 9 of the Taxpayer Bill of Rights where it says “add the requirement that complaints to CRA service must be addressed in a timely manner”. Again, this seems to be a theme that's been pushed on your department quite consistently, yet we're now in a position where we're supposed to trust that your new action plan is going to get us over that hurdle. We just heard a number of complaints from my colleague earlier that it's not there right now. Can you give us some faith that this is the time, now in 2017, when we're going to get there?

Mr. Bob Hamilton: I guess I can give you the assurance that I will be working as hard as I can with the agency to get there. We have a minister who has received a mandate from the Prime Minister to provide service to Canadians in a timely manner and improve the quality of the service.

Our mandate is to apply the tax system fairly, so to have things like the objections and the appeals function working well is a key part of our mandate. The only thing I would say is that sometimes these things take longer than we would like.

In the case of the appeals, we know that even having a 180-day service standard on low-complexity cases is not where we want to be, but we have to be practical and realize we have this big inventory right now that we have to grind down and that will take time.

I would also probably say that with 40,000 people administering the tax system on behalf of more than 30 million Canadians, we won't be perfect. However, I think you can rest assured that, within the agency, the pressure to improve service and to make sure that we're respecting the taxpayers' rights and giving the taxpayers the service they deserve is very important right now and we'll be doing everything we can.

The final point I would raise is that it's always resources. If we had unlimited resources, we could deal with everybody's return on the minute, but we always have to balance priorities—

Mr. Matt Jeneroux: On that point—if you don't mind, only because I have limited time here—you were provided with \$440 million in the last budget, which was to go towards overseas tax havens, if you will. Are you insinuating that, perhaps if that was better spent on some of this, you would be able to help out the... Instead of going after the little guy, you're going after these big corporations. How many people could that have hired to work on the telephones? How many people could that have helped to go through these appeal processes?

Mr. Bob Hamilton: The governments make decisions about where they provide money. These are all priorities. These are important activities that the agency uncovers. I think we're doing a great job with the money that we received on the offshore tax evasions. We did receive some money in the 2016 budget on the appeals function and we're trying to do the best we can with that.

Going forward, we're going to have to make sure that we are nimble within the agency to make sure that we're putting resources in the right places. That's all part of the puzzle.

The Chair: Thank you.

We'll now move to Mr. Arya, please, for five minutes.

Mr. Chandra Arya (Nepean, Lib.): Thank you, Mr. Chair.

Mr. Hamilton, you mentioned that in seven months you visited all regional operations and you attested to the pride, professionalism, and commitment of 40,000 employees. Did you find any shortcomings or flaws?

• (1625)

Mr. Bob Hamilton: Why would you want to focus on that?

First, even though I touched down in every province at least once, I didn't meet all 40,000. It's a very big place. At a people level, the people I did meet were uniformly proud of what they did. They were integrated in the community. They worked together as a team. They were trying to do the best thing they could for Canadian taxpayers and for the government overall. Uniformly, with the people I met, I didn't see any examples.

In the course of that seven months I've seen some areas where the agency should improve. Yes, I think we should improve in the way we communicate both with each other and with Canadians. I think there are opportunities for improvement, for us to become more innovative. The world is changing and Canadians expect us to provide them with services like they get from their bank, like they get from others. We need to make sure that we're innovative to find ways to do that.

I think those are some areas where I think we could improve. I mentioned, as we audit people, can we make sure that we're educating them along the way and making sure that all those conversations are respectful?

That's my seven-month report.

Mr. Chandra Arya: Thank you.

You mentioned that your agency takes great pride in quality decisions and service to Canadians, but the Auditor General's report says that 65% of the time, agency rulings in whole or in part are in favour of the taxpayers. Why is that?

Mr. Bob Hamilton: It's important to understand on that 65% number that a couple of things happen when a file moves from the assessment audit to appeals. In the cases where the appeal is ruled with the taxpayer, only a small percentage of those were because the auditor was seen to have misapplied the law. In a number of cases new information became available; either the taxpayer provided new information or information that was there wasn't realized.

In a lot of those cases new information caused the decision to change. That can happen. That's part of why what we're trying to do is to make sure we deal with cases at the appropriate place, in the assessment audit place, and that only at the appeals are we looking at, not new information coming, but revisiting the decision. That's part of the 65%.

Mr. Chandra Arya: You mentioned that you wish to resolve low-complexity objections in 180 days 80% of the time. It appears that currently this is being resolved in 143 days. Why are you increasing the amount of time?

Mr. Bob Hamilton: It's a question of how you measure it on average. Is it 143 days versus measuring we're going to get through 80% of them in 180 days? The factor that plays into both of those decisions and the reason we need a service standard of 180 days now is the backlog. If you took the backlog away, I think we'd be able to process these in fewer than 140 days, for sure.

Mr. Chandra Arya: Ms. Cheng, in your report, exhibit 2.3, you showed the average time to resolution of low-complexity objections is 143 days. That includes both the backlog and the current inventory?

Ms. Nancy Cheng: That would be because we were looking at five years of information, up to March 2016. At that point we do not distinguish backlog; all the objections are in play.

Mr. Chandra Arya: Do you think the current proposed time of 180 days is longer than what is being done now?

Ms. Nancy Cheng: What I'm hearing from the commissioner is that they'll start with that, but the intention is to work that number down. Certainly from our perspective, the expectation would be this number should be quite a bit lower than the 180. Especially when the commissioner is considering asking for information way earlier. That's going to shorten the timeline. I suspect they would be in a position—

Mr. Chandra Arya: Thank you.

I have a quick question for the commissioner.

The Chair: Very quick. You have four seconds.

Mr. Chandra Arya: You say that some of the group cases take years because of the process involved in the courts. Are you trying to do something else with the department to hasten the process?

• (1630)

Mr. Bob Hamilton: We feel we've already taken some actions to get that process to be as efficient as possible. There's a recognition that those are going to take a longer time. Bundling cases together and having a lead case that we go forward with that binds all the others is a good process; there are a lot of cases and it takes a long time. That's why we've tried to pull apart how we're going to attack the group cases versus the low-complexity cases. They're very different. For example, I wouldn't feel comfortable giving a service standard on a group case. I wouldn't even know what to say in that case.

The Chair: Thank you.

We'll now move back to Mr. Jeneroux.

Mr. Matt Jeneroux: Thank you, Mr. Chair.

I'd like us to go over some quick facts, if we can. Is it 180 days from the date received or from the date assigned to the appeals officer?

Mr. Bob Hamilton: It's from the date received, I believe.

Ms. Mireille Laroche: It's from the stamp date on the objection. It's not the date received. It's the date when it was put in the mail by Canada Post.

Mr. Matt Jeneroux: Okay, so if I submit an objection, it's 180 days from the date when I put it in the mailbox.

Mr. Bob Hamilton: The key thing is that it is not when it's assigned.

Mr. Matt Jeneroux: Right. That's what we were looking for.

On that theme, what percentage of objections are sent in by paper through Canada Post versus online?

Ms. Mireille Laroche: Thirty-five per cent are sent electronically, so the rest are either by fax or by mail.

Mr. Matt Jeneroux: Okay, so the 180 days start when I hit the submit button on my objection.

We rank quite low compared to other countries and their processes. I'm hoping you can comment on that. Again, I recognize that you have only been.... Your get-out-of-jail card today is that you have been on the job only seven months. Actually, I should use the jail reference, not as...anyway.

In terms of the processes in other countries, can you comment on why we rank so low and how you are striving to get us better?

Mr. Bob Hamilton: Just to be clear, my goal is not to use the get-out-of-jail card. I've been here for seven months, but I've spent a long career in the tax system, so while I may not know all of the intricacies of CRA, I feel that I can speak for the agency.

On the issue of what other jurisdictions are doing, such as the U.K. and the U.S., the U.K. is one that caught my eye. Their performance seems to be much better. I had the opportunity to meet my U.K. colleague last month, and we've started a process where we can go and learn from them. I don't know yet how much of it is that they are measuring different things, but certainly to the extent that they have some best practices that we can incorporate, or they have found a way to do things on a more timely basis, we are going to uncover those.

It's part of a broader effort to get best practices from places like Citizenship and Immigration, which had a big backlog. How did they do it? What did they do? Mireille has been talking to counterparts in other agencies and governments that have had backlogs about the best way to attack this. We will be uncovering some of those international best practices and incorporating them into our plan.

Mr. Matt Jeneroux: That's good to hear. Hopefully that falls along the theme of the customer service aspect, too, because it seems that a large part of this report is based on a lack of customer service from your agency. Again, we heard my colleague read some emails. These are probably pretty stressful situations for families, not only in his riding but across the country.

Does looking at the processes in other countries and agencies extend to ensuring that there is none of the malicious aggression from the phone agents that appears to be a bit of a theme, as we've been hearing?

Mr. Bob Hamilton: I would just caution that while there may be some examples where somebody does an inappropriate thing, I think the vast majority of what we do.... We are able to deal with a number of cases, 24 million calls a year, and a lot of good is going on there. But we are looking at other jurisdictions—

Mr. Matt Jeneroux: We recognize that probably we are not hearing about the good people, we are hearing from a lot of the people who are upset.

• (1635)

Mr. Bob Hamilton: As I said, I get reaction too, and the people who have a negative perception are more likely to let me know. There is a lot of good that's going on out there. I just feel that I need to say this. But we are looking at what other jurisdictions are doing.

One example that has come to my attention in the first few months is Sweden. They underwent an exercise and really transformed themselves from having a very negative perception by the population to having a positive one. I don't know everything there is to know about that, but that's an example where they did some things that worked positively for them, and there may be some things they tried that we can do and that would help us.

Again, we are definitely raising awareness of this issue within the agency right now, making sure that everybody approaches whatever issue they are working on for the agency with a service culture in mind.

Mr. Matt Jeneroux: Thank you.

The Chair: Thank you, Mr. Jeneroux.

On that, is there any system of grading? Do we have any kind of standard that says, you know what, in the G7 we're in the top three or the bottom two, or anything such as that?

Mr. Bob Hamilton: I can certainly go back to the agency and see if there's more, but one thing I am aware of is that periodically the OECD does a study on tax administration. I think it's every two years, and one is coming out. It looks at all the aspects of tax administration, such as how to collect your debts, the service, and it presents what countries are doing. It's one of the most comprehensive views that I know of that compares different jurisdictions. Going across a wide variety of countries there's a bit of difficulty in making direct comparisons, but it provides us an example of where we might be doing better.

We're actually using that and we will be using other pieces of information to try to ensure that we are a world-class tax and benefit administration. That has been one of the things I've been emphasizing for the agency since I came on board.

How do we ensure that we are that? One of the ways is to look around at countries through these kinds of studies to see who's doing what and how people are doing.

We had a sample of that in the appeals study, which saw that, in timeliness, we didn't fare very well. However, there are broader studies that look at other aspects of tax administration and we'll be paying attention to those too.

The Chair: Thank you.

We'll go to Mr. Chen, please.

Mr. Shaun Chen (Scarborough North, Lib.): Thank you very much.

Coming from an education background, I want to focus on the fourth theme that the commissioner brought up, which is learning from objections and appeal decisions.

Mr. Hamilton outlined the 166,000 outstanding objections, 55% of which are group files that concern such disputes as tax avoidance arrangements, such as gifting tax arrangements.

I came across an article from a CTV news report in 2014 that talks about the thousands of Canadians who have fallen victim to tax schemes run by promoters who encourage them to donate. Oftentimes these programs are sold in such a way that they lead Canadians to believe that they're doing something good, to help buy medicines, for example, for people in poor countries.

The article states, "It's all cloaked in philanthropy, but to date, nearly six billion dollars worth of these donations have been denied by Canada Revenue officials." It goes on to say that according to the CRA, "to date, not a single gifting tax shelter audited has been found to comply with the Income Tax Act."

While some of the donors might have taken a calculated risk in participating in those programs, it strikes me that a lot of Canadians are participating because they've been duped. They've been told that they're doing something good for those in need.

I recognize and respect the Auditor General's report in that it focuses on how to resolve objections in a timely manner, but I really want to make the connection here.

We're talking about learning from objections and appeal decisions. Is there room for improvement? Can we not do a better job at educating Canadians on schemes such as this that then result in objections and appeals? Rather than, as you said, oftentimes having lead cases go through the courts, which can take year after year after year, clogging up our processes and the resources that your department has, can we nip it in the bud? Can we not do a better job before all this happens, to educate Canadians so that they don't fall for schemes that ultimately we know, based on past experience, will not work?

• (1640)

Mr. Bob Hamilton: I definitely think there's room for improvement on that front. You're right in terms of the people who participate in these schemes, some knowingly, some perhaps not understanding exactly what is going on. What can we do to make sure that people are better educated about how the tax system works?

That's why I was talking earlier about having conversations with taxpayers, be it in an audit situation or just more generally in the information that we put out, and can we do a better job of communicating what's out there, how the tax system works, what people should be thinking of and aware of?

It's not that we have never done anything on this front, but I think it's an area where hopefully we can find ways to do better, because it is an unfortunate use of resources at some point when something such as this happens.

Mireille might help me on this one, but my memory suggests that the ombudsman did some work on this donor front, or am I wrong?

Ms. Mireille Laroche: I think you're right.

Mr. Bob Hamilton: It was a "donor beware" exercise that the taxpayers' ombudsman undertook.

I would offer that as an example of some things that can be done. I don't know if you have anything to add.

Mr. Shaun Chen: What has been done?

Ms. Mireille Laroche: The agency over the years has published and issued a number of communiqués to try to educate taxpayers. One of the things that the taxpayers' ombudsman did in 2014 was examine what we've done and provide some recommendations of how we can discourage promoters from using these arrangements, from selling them; but also from a taxpayer's perspective, how we can discourage them so they can actually recognize when it's too good to be true and not get involved.

Since then there have been efforts to try to improve this, but as the commissioner said, there's probably more that can be done. There have been legislative changes that have changed the incentives for promoters, whereby when you are involved in such a scheme, even when you are in the objection phase, you still have to pay 50% of what you owe. That was one thing that discouraged people from participating, so that helped from the other side of the equation in terms of how they are promoted and sold to Canadians. That's fairly recent.

The Chair: Thank you, Mr. Chen. We're over already.

We're back to Mr. Christopherson, please.

Mr. David Christopherson: I wanted to pick up on where my colleagues were on the 65%, but before I go there I do want to revisit the comparison information that we had. In our research background, it states, "In an international benchmarking study reported in 2011"—a bit old now, but it still shows the trend—"by the United Kingdom's tax authority (HM Revenue and Customs), data from 2009 showed that among seven countries studied" the average amount of time to resolve objections was 70 days; and in the case of Canada it was 276 days.

I know you answered a question regarding this once, but I wanted to push a little harder to get a little more detail or maybe an example. If it was 70 days and we were maybe at 100 or 85, somewhere in the ballpark, then obviously there would be some minor adjustments to be made that would get you closer to where the other countries are. But in this case it's so vast—70 days, 276 days. There must be one or two big pieces out of all the changes you're going to make that are going to tackle that. It just seems to me there has to be, given the distance between 70 days and 276 days. Can you give me a couple of examples of changes we're going to make that are going to change these eye-popping numbers?

• (1645)

Mr. Bob Hamilton: At the end of my answer you're still going to be a bit unsatisfied, so I'll commit to give you—

Mr. David Christopherson: Well, that's the status quo.

Mr. Bob Hamilton: —whatever I can down the road.

Mr. David Christopherson: If I'm never satisfied now, I'll just say we're done.

Mr. Bob Hamilton: It is something that we will get to the bottom of, so at some point I'd be happy to furnish the committee with whatever the results are.

Mr. David Christopherson: We may ask you to do that anyway.

Mr. Bob Hamilton: You're right, it's not 70 versus 75, it's a big gap. How could that be? I don't know the answers, but there are some things that it could be. They probably have a better process than we do. We need to fix our process, and we're taking some actions to have earlier interventions. We can get closer because of that. There is also the possibility that they were measuring something a bit differently in the U.K. case than what they're measuring here. This can happen. They could be focusing on something in particular. Or the U.K. tax system doesn't work the same way as ours does.

Mr. David Christopherson: To be fair, that was an aggregate of six countries that looked at it, not just the U.K. Anyway, sorry to interrupt.

Mr. Bob Hamilton: Well, I'm focusing on the U.K. because that was a good one.

Mr. David Christopherson: I know, and I want to make you focus on the rest.

Mr. Bob Hamilton: But it would apply to all the other countries as well. Their tax systems operate a little bit differently, so there might be some differences. But I'm certainly anxious to find out how all of that adds up to that difference, and we have some work, together with the U.K. and the U.S.—

Mr. David Christopherson: Do you have a deadline for yourself as to when you expect to be satisfied?

Mr. Bob Hamilton: I would certainly hope in the coming couple of months that we would be able to understand the calculations better, not to necessarily have fixed it, but at least to understand why we're different, and hopefully start to draw some lessons from that.

Mr. David Christopherson: Do I still have some time, Chair?

The Chair: No you don't, but you were so kind to me earlier, if it's a concluding comment—

Mr. David Christopherson: I'll remain faithful to my original approach and be honest with you, no, I would be changing subjects.

Thank you, Chair, I conclude.

The Chair: Mrs. Mendès.

Mrs. Alexandra Mendès: Thank you, Mr. Chair.

[Translation]

I will continue in French, to inject a bit of French into this meeting.

I want to begin by pointing out that less than 1% of all tax returns filed across Canada are subject to review or appeal. So this is not a major or a widespread problem. The fact remains that Canadians often remember the bitter relationship they may have with the Canada Revenue Agency, and that is what forges the reputation of Revenue Canada agents and of the agency itself among Canadians.

During the debates in the House over these past few weeks, we have repeatedly heard that Canadians felt that the agency is much more concerned about the small taxpayer than the tax evader—in other words, those who are doing everything to avoid their legal obligation to pay their fair share of taxes.

I know that the minister invests a great deal of energy into the fight against tax evasion. You have received funding specifically for combatting tax evasion. However, there is still a challenge in that fight. We realized that during our meeting with the British public accounts committee, last December. The members of that committee focused a lot on tax evasion, which is legal in Great Britain. In fact, it is not illegal. However, it is a major problem in the sense that Canadians feel that they are being targeted by Revenue Canada's hammer.

How can we counter the perception that it's always the small taxpayer, the Canadian who regularly pays his or her taxes, who gets scooped up, while so many other people manage to use tax evasion to avoid their tax obligations and not pay their fair share?

Mr. Bob Hamilton: When it comes to this, it is first important to have an idea of the number of files that are the subject of an objection. As you know, that figure is less than 1%. In the vast majority of cases, there is no objection. That is the most important thing. However, the files that are the subject of an objection are also important. It is important to have an effective process in place.

In addition, another interesting issue has to do with the fairness of the tax system for small and medium-sized businesses and for some individuals. I think it is very important in Canadian society to have a

[*English*]

self-assessment system.

[*Translation*]

It is important for Canadians to see that their tax system is fair. We collect taxes owing, whether the company is large or small. Occasionally, the processes established for a large company are very long and complex. However, it is important to have good tax collection systems.

• (1650)

That is why the funding set aside for this purpose in the previous budget, in 2016, was substantial. Now, we manage a lot of activities related to recovering taxes from foreign companies involved in fiscal evasion. We want to ensure that all Canadians have confidence in their tax system and its fairness. We will collect taxes owing.

[*English*]

Mrs. Alexandra Mendès: Mr. Hamilton, I'm just going back to the question of what we saw in Britain when we were there. They were also addressing the tax evasion issue with the big companies. The companies were using all sorts of very legal systems to evade, and they were linking it to tax transparency. The fact was that these companies were not declaring in Britain, for example, all the massive revenues they were making from around the world. They were talking about Google and Apple, and other big companies in the world, and how that was part of the huge and mass tax evasion system that allowed them to, bottom line, not pay much tax

anywhere, not pay any income tax anywhere, or business tax anywhere.

Is Revenue Canada also looking at that?

Mr. Bob Hamilton: It's a huge issue for us along with the Department of Finance. The Department of Finance sets the policies and we administer them, but we are a big part of that exercise globally.

When I was at the meeting in February, talking to my U.K. and U.S. colleagues, one of the big items on the agenda was how to ensure that proper taxes are collected in each jurisdiction. We all face the same issue. We have it in Canada. As I mentioned, we have a lot of activity in that domain, but it is something that we need to tackle globally.

We have a base erosion and profit shifting exercise taking place at the OECD and the forum on tax administration. Revenue Canada is a very significant participant. In fact, in my group, as the commissioner, I lead two activities. One is on large international businesses, and the second is on tax capacity in developing countries. We are playing a big role in trying to figure out how the global tax system can work better for us and for all countries.

Mrs. Alexandra Mendès: We'll try to bring the tax transparency conference here this year, absolutely.

The Chair: Thank you, Ms. Mendès.

We'll go back to Mr. Aboultaif.

Mr. Ziad Aboultaif: Thank you again. I have just a couple of small questions.

Based on the recommendation from the Auditor General that you heard today, it seems like you are up to a big job. That could mean restructuring the whole operation of the CRA, or at least looking into the overall way of doing business. How are you going to improve that without looking at the overall operation instead of looking at certain areas?

So far, we haven't seen that there is a secret recipe that you're going to come up with in order to be able to solve all these problems and move forward. When issues get compiled one after the other, it means you will never be able to catch up in a short time, or maybe even in the long term. There seems to be an immediate emergency call to put forward some kind of secret recipe or strategy to do so.

What's on your mind, since you're new to the job and you're up to the challenge?

Mr. Bob Hamilton: I'll talk about the appeals function first.

Obviously, the Auditor General came through and gave us a snapshot. We agreed with the recommendations that were made, so we have something to do.

I outlined the more agency-wide activities that we're going to be doing. We're going to be improving our processes. We're going to tackle the backlog. We're going to be learning from what we do.

The other thing I didn't really mention, which is important, is that Mireille has done some reorganization within her group to make sure that she and her team are well set up to deliver on this challenge. That's a part of it. Again, I have to say that when I met with the people in our appeals operations across the country, they were ready to do this. They want to be providing this good service to Canadians, so I hope we've given them the organizational structure to do so. We'll give them the tools to do it. We're going to get better data to be able to measure how we're doing. We're going to communicate with Canadians. People will be holding our feet to the fire.

I think we have the pieces in place to do that, but I agree with you. I have run enough organizations to know that this is a big job, and we'll have to stay at it.

We'll probably take a little bit longer than we would like to, but we're going to push it as aggressively as we can. We have a board of management at CRA as well that is pushing us in this domain, so I have more than enough people looking out for how well we're doing on this front.

I'm quite confident that we're going to see some improvements, and if people are realistic about how quickly we can actually do things, I think we'll be able to get ourselves back on track.

• (1655)

Mr. Ziad Aboultaif: Do you have any idea of the number in dollars for the unsettled cases that your agency is looking at, at the moment?

Mr. Bob Hamilton: I do have that number. The number for 2014-15 is \$18 billion.

Mr. Ziad Aboultaif: From old files, what is the total we have to deal with overall?

Mr. Bob Hamilton: That's it.

Mr. Ziad Aboultaif: Does the \$18 billion include international evasion?

Mr. Bob Hamilton: Yes.

Mr. Ziad Aboultaif: Thank you.

The Chair: You just have a little more time. I'll just grab a quick question here.

Ms. Cheng, you've heard very optimistic words from the CRA. They have all the pieces in place. They're looking to do this quickly. Are you satisfied with what you've heard today? Do you have any areas of concern, after listening today?

Ms. Nancy Cheng: I'm very encouraged with what the commissioner has provided in his opening statement. Those seem to be the areas that we are concerned with. The communication aspect is very important because a lot of taxpayers are waiting for answers. The uncertainty doesn't help with the dynamics or the trust factor. The element of managing the inventory is absolutely critical. We had a graph that shows the overall change in inventory, but we also split it out into the intake and the ability to resolve cases. Those lines were converging, which suggests that you might be looking at another spike. The fact that the commissioner and the agency are going to try to deal with that is important.

When we look at the different sides and where some of these pressure points are coming from, a lot of it has to do with the

information front. We have a pie chart in there that shows that, at the end of the day, a lot of times, we could have resolved these things earlier if CRA had had the information. What was the problem there? If we didn't ask for it, why did we wait before we asked? If we had the information and didn't look at it at the right time, then that suggests an awareness and training issue so that it can be looked at sooner. If we were looking for the information only when the appeal officer was looking at it, why didn't somebody ask for that kind of information earlier? There is a lot of data in there that the agency can take a look at and use to improve its services. Most of the key elements are there. We obviously haven't had time to look at each of the elements in detail, but, overall, we're quite encouraged with what we're hearing.

The Chair: Mr. Jeneroux.

Mr. Matt Jeneroux: I just have a quick question. It says in the past 10 fiscal years the number of objections have increased by 171%, yet staff has only increased by 14%. Have you requested, in this budget, a complement to bring you up to the amount that you think you need?

Mr. Bob Hamilton: Just in case you missed it, I would note that we did get money in the budget. That was fine. I would say that in the past probably not enough resources have been devoted to this activity. The numbers that you quoted are the ones that I look at. How big has the workload grown? How much of the extra resources...? It probably could have been a bit bigger. There's been some reallocation within the agency to try to put more money here. We did get money in the last budget. We'll see what the next budget holds. I won't comment on that at all. Whatever happens, we need to look at this at an agency level going down the road and think about how we're best allocating our resources. That's my job. Whether it's looking at tax evasion activity, fixing our phone system, or whether it's this. That will be a part of what we need to do, and I'll be looking at it with an eye to deliver on the action plan that we have and try to make sure that we're adequately resourced.

• (1700)

The Chair: Thank you.

Mr. Lefebvre.

[Translation]

Mr. Paul Lefebvre: Thank you.

Ms. Cheng, Mr. Goulet, I want to come back to my earlier comment. In 2004, Revenue Canada conducted an audit on notices of objection. We are now in 2017, and the 2016 report has been published.

How can we ensure that this will not happen again?

I know that Mr. Chair has already asked these kinds of questions, but I would like to know what your comments are.

Have you reviewed the 2004 report?

Your study covers 2011, 2012, 2013, 2014 and 2015.

What kind of assurance can we draw from the comments we have heard today?

Could you tell us how this approach compares to the last one?

[English]

Ms. Nancy Cheng: Since it was last looked at in 2004, rolling forward, are we seeing similar issues? The issues here have to do with the feedback loop that was being talked about, because sometimes you know we are getting the results of the actual objection process and those lessons learned weren't properly captured. We're seeing a lot of similar elements. I could ask Mr. Goulet to see if he's got additional things to say, but, by and large, it's important that the assessors and the auditors get to know why the decisions were overturned so that things don't happen the same way.

[Translation]

Mr. Paul Lefebvre: That said, we do not want this to happen again. That was the case in 2004 and it still is.

Will the measures implemented this time be the same as the ones in 2004?

Mr. Goulet, do you want to answer?

Mr. Jean Goulet (Principal, Office of the Auditor General of Canada): Thank you for the question.

In 2004, we made that observation. In 2012, the agency conducted an audit and came to the same conclusion. In 2015, when we went to the agency, it had begun to receive suggestions from its employees on how to resolve the issues.

Of course, I cannot at this point assure you that the agency will take action. However, like Ms. Cheng, I am very encouraged by all the steps that have been taken. In addition, at meetings with agency representatives, we heard very positive comments on this matter. Without being defensive, they acknowledged that something had to be done. The agency representatives made a commitment to take action.

Mr. Paul Lefebvre: Excellent. Thank you.

[English]

Ms. Nancy Cheng: I think the important point is to follow through now. We've heard the approach that's going to be taken. It seems to be on the right track. We're all encouraged by that. It would be necessary to make sure that those actions get carried through and that indeed the inventory goes down, the rates of overturned...are changing. That would be worth another look down the road.

The Chair: Mr. Christopherson.

Mr. David Christopherson: Very briefly again, Chair, I want to return to the issue that I had earmarked earlier, on the 65%.

You answered, Mr. Hamilton, that much of that is new information that comes in. We've heard Ms. Cheng speak to whether, if it's new information, that information could have been or should have been anticipated as being required. Obviously, you were suggesting the 65% may not be as big as it looks. How much of it do you think can be reasonably be answered away, because it's a big number?

• (1705)

Mr. Bob Hamilton: It's a big number, and part of what we're going to try to do is to have that information come earlier in the process. As I said, I think it could be a combination of two factors. The first is the taxpayer offering up the information at the right point in time rather than at the appeals. Second, it's us knowing that we

need that information and asking the question earlier, or realizing that the information exists somewhere. If you look at the numbers, 32% is new facts that were not previously requested or received. That's a big percentage. Then there's another percentage, almost 30%, that was not previously obvious. So what's that exactly? We're going to do some work on that. New facts previously requested but not received, that's about a quarter. That's a pretty big chunk. Then you get to about 8% where the appeals officer felt that the auditor had misapplied the law. That's 8%, it's still a positive number, but I think there's enough in the first three categories that we should be able to find a better way to get the right information at the right time. I'm quite hopeful on that.

Mr. David Christopherson: That's great, it makes sense. I realize that there are answers that are technical but it makes sense to identify information we can be asking people up front that you know you're going to ask them for anyway and to do it in a way that allows them to have the shortest amount of time.

Ms. Cheng, you mentioned something in your opening remarks, and I'm going to ask you just to expand on it. In paragraph 10 of your opening remarks you state that, "We also examined the Canada Revenue Agency's performance targets for the objection process and found that the Agency did not consider timeliness from the point of view of the taxpayer."

We know in previous occasions Mr. Ferguson made a big issue out of the fact that things get measured inside departments and they feel real good about themselves because that measurement looks good, but they're not taking into account what the common-sense question is, which is, how long did it take for the taxpayer? When we're measuring we need to be measuring more those things that affect the ability of government to provide services to Canadians and not just moving it from desk A to desk B. In your own words could you just touch on that, giving the importance the Auditor General is placing on this?

Ms. Nancy Cheng: As the member pointed out, this was a point that the Auditor General has made on a number of occasions. In this particular case, we were seeing that the clock starts ticking in terms of that performance measurement metric when the appeals officer starts working on it. Then we say earlier, when could we actually be looking at the overall account? It should be the time when that objection is launched. So that front end, until such time that the file is assigned, is not captured as part of the performance indicators up to that point, and it shouldn't be because then we're measuring an activity within the agency as opposed to stepping back as a taxpayer. I'm looking at it in terms of me interfacing with the agency and how long it took for my file to be completely resolved.

Mr. David Christopherson: Thank you so much.

The Chair: I don't think there are any other questions coming from any of the members.

Have you ever done an assessment as to how many of the objections you receive are from taxpayers who've filled out the forms themselves as compared with having an accountant go through them? That's not to put the blame on the individual taxpayer. Probably all of us get calls from constituents concerned about the difficulty of working their way through the tax form. "Can you make the tax form easier? Can it be simpler? Why do I need an accountant to do this?"

Have there been those kinds of internal studies done?

Ms. Mireille Laroche: We don't have exact numbers in terms of whether or not the objections have been filed by a representative versus a taxpayer, but we know that a significant portion are actually supported or sent to us via a representative.

The Chair: Okay.

Ms. Mireille Laroche: Naturally, it depends on the complexity. The higher it is, in the medium ones or large ones, that would be 100% with the representative. With respect to the ones that are low complexity, those are probably close to half and half, depending.

The Chair: On this tax form that will be coming up, how many will e-file? I know this isn't specific to the audit, but I'm just wondering how many file electronically.

•(1710)

Mr. Bob Hamilton: We expect to have over 85% of people file electronically this year. It's been increasing over time.

The Chair: All right. Good.

I think that pretty well concludes our meeting today.

I want to thank you for coming. It's always good to hear from you and to hear an optimistic message.

To our Auditor General's office, thank you for your good work, as always.

Just before we adjourn, I will invite the committee to make their way to 410, where we will have a chance to meet the Kenyan representation and their committee. As well, we want to get some kind of formal picture with them, so straighten out your ties. They look pretty sharp back there, and I want to make sure we look sharp as well.

Thank you for attending.

We are now adjourned.

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