

**GOVERNMENT RESPONSE TO THE SEVENTH REPORT OF THE HOUSE OF COMMONS STANDING
COMMITTEE ON PUBLIC ACCOUNTS ENTITLED: REPORT 7, CANADA EMERGENCY WAGE
SUBSIDY, OF THE 2021 REPORTS OF THE AUDITOR GENERAL OF CANADA**

INTRODUCTION

The Government of Canada (GC) is pleased to respond to the Seventh Report of the House of Commons Standing Committee on Public Accounts (the Committee) entitled: *Report 7, Canada Emergency Wage Subsidy, of the 2021 Reports of the Auditor General of Canada* (the Report), tabled in the House of Commons on February 8, 2022.

The Canada Emergency Wage Subsidy (CEWS) was created to help employers retain their employees during the pandemic and to ensure that workers are able to count on a source of income despite some sectors of the economy being shut down. The subsidy also encouraged employers to rehire workers who were laid off as a result of the pandemic and helped position employers to resume normal operations more easily when businesses can fully resume.

The CEWS program was initially designed to subsidize up to 75% of qualifying wages (up to \$847 per week and per employee) for all employers facing a minimum 15% decline in revenue in March, or a minimum 30% decline in April, May, or June 2020. On May 15, 2020, the government announced that the program would be extended for an additional 12 weeks (from June 7 to August 29, 2020) and that more types of employers could qualify. On July 17, 2020, following consultations with business and labour representatives and other stakeholders, the government announced further changes to the program, including another extension until December 19, 2020. A new rate structure was introduced, comprised of a base subsidy available to all eligible employers and an additional top-up subsidy of up to 25% for employers most adversely affected by the pandemic. The base subsidy was made available to all eligible employers, including those with a revenue decline of less than 30%, with the subsidy amount varying depending on the scale of revenue decline. Since then, additional extensions and changes have been announced to address the evolving health and economic situation. Budget 2021 extended the program until September 25, 2021, with gradually declining subsidy rates, beginning July 4, 2021, in order to ensure an orderly phase-out of the program as vaccinations progressed and the economy was reopening. On July 30, 2021, the program was further extended until October 23, 2021, and the maximum subsidy rate was increased for the period between August 29 and September 25, 2021, in recognition of the uneven recovery and need for continued support in the context of a fourth wave. The broad-based CEWS program ended on October 23, 2021, and was replaced with three new, targeted wage and rent subsidy programs: the Tourism and Hospitality Recovery Program, Hardest-Hit Business Recovery Program, and Local Lockdown Program.

On March 25, 2021, the Office of the Auditor General of Canada (OAG) tabled an audit report in the House of Commons entitled "*Report 7, Canada Emergency Wage Subsidy*" which was referred to the Committee for consideration. As part of its study of the OAG Report, the

Committee adopted a motion for the Department of Finance and the Canada Revenue Agency (CRA) to provide it with “*all studies, data and analysis used for the implementation of the Canada Emergency Wage Subsidy.*” Documents were shared with the Committee on May 27 and June 11, 2021, and used to inform its findings.

On June 23, 2021, the Committee tabled its 25th Report. The report contained five recommendations. The New Democratic Party also provided a supplementary recommendation that was not accepted by the Committee. While a Government Response was requested, this obligation ceased at the dissolution of Parliament in August 2021. Following the resumption of Parliamentary business in November 2021, the Committee was reconstituted. On February 8, 2022, the Committee re-tabled the Report as the Seventh Report of the House of Commons Standing Committee on Public Accounts entitled: *Report 7, Canada Emergency Wage Subsidy, of the 2021 Reports of the Auditor General of Canada* and requested a Government Response.

After carefully reviewing the Committee’s report, the Government has chosen to respond to each of the Committee’s recommendations individually. The GC appreciates the work of the Committee and welcomes its analysis, views and recommendations. The Government Response also acknowledges the Committee’s reporting schedule, and will provide all of the requested reports.

The following represents the Government Response.

RECOMMENDATIONS

Recommendation 1 – on the evaluation of wage subsidy programs

That, by 31 March 2022, the Department of Finance Canada provide the House of Commons Standing Committee on Public Accounts with an evaluation report on wage subsidy programs, including the Temporary Wage Subsidy and the Canada Emergency Wage Subsidy. The report must include an assessment of all the measurable economic impacts of these programs, including any unintended impacts, as well as the total amount of dividends payed out by companies that received the Canada Emergency Wage Subsidy.

The GC partly supports this recommendation. The information in the following paragraphs addresses the March 31, 2022 evaluation report requested by the Committee.

The Department of Finance completed and published an economic evaluation of the Temporary Wage Subsidy and CEWS in the *2022 Report on Federal Tax Expenditures*, released on March 2, 2022. This report was tabled in Parliament along with the Main Estimates. A copy was also shared with the Committee.

The evaluation used the most relevant and up to date economic statistics to assess the applicable and measurable economic impacts of the programs and whether they met their

stated objectives. Available data illustrates that the measures were used by a broad range of businesses across the country, that businesses claiming the CEWS were less likely on average to close than non-claimants, and that claimants in the most affected industries (such as accommodation and food services) were most likely to report rehiring workers. Moreover, the evaluation found that there may be substantial indirect benefits to the programs, such as helping to prevent a prolonged recession.

The issue of dividend payments and share repurchases was examined separately in a report the Minister of Finance tabled in Parliament on December 10, 2021, titled *The Canada Emergency Wage Subsidy: Dividend Payments and Share Repurchases by Public Companies*. This report notes that public corporations represent in total a small fraction of employers that have received the CEWS and a relatively small share of total payouts under the program. Data limitations prevent a complete analysis of the total amount of dividends paid out by companies that received the CEWS.

Recommendation 2 – on Goods and Services Tax/Harmonized Sales Tax (GST/HST) compliance

That, by 31 May 2022, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report outlining the results of its work regarding the following: (1) the review of workload selection and prioritization criteria within the GST/HST Delinquent Filer Program; (2) the review of the GST/HST Delinquent Filer Program resources; (3) the identification of legislative changes to support the realization of filing compliance; and (4) the identification of additional ways to educate businesses and raise awareness regarding GST/HST obligations. A final report should also be presented to the Committee by 31 May 2023.

The GC supports this recommendation. The information in the following paragraphs represents the May 31, 2022 report requested by the Committee.

In its report on the CEWS, the OAG recommended that the CRA strengthen its efforts toward tax compliance for GST/HST to ensure that it has the information needed to do validations for the programs that it is administering. The CRA agreed with the OAG's recommendation.

In light of the new COVID-19 benefit programs and the OAG's recommendations, the CRA has developed an action plan to strengthen its efforts to improve filing compliance on the part of GST/HST registrants. As part of its action plan, the CRA is undertaking a review of its workload selection and prioritization criteria, an examination of the level and allocation of program resources, the identification of potential legislative changes, and increasing outreach to improve GST/HST filing compliance. The CRA is anticipating the completion of its action plan by September 2023.

The CRA is pleased to share with the Committee its progress in implementing its action plan as of May 31, 2022. The CRA can report that it has met all of its key interim milestones in the action plan which were identified for completion by May 2022. Specifically, this included:

1. The completion of the review and analysis of the current GST/HST Delinquent Filer Program risk scores and automated strategies, including the selection and prioritization criteria.
2. The preparation of recommendations on enhancements to risk scoring and automated strategies, and the development of the related system requirements.
3. The completion of a review of current outreach plans and the identification of possible new outreach initiatives.
4. The development of a communication strategy and an action plan to enhance current initiatives and create new outreach opportunities.

As part of meeting commitment (1) *“the review of workload selection and prioritization criteria within the GST/HST Delinquent Filer Program”*, the CRA can confirm it has completed the review and analysis of the current GST/HST Delinquent Filer Program risk scores and automated strategies, including the selection and prioritization criteria. Through the completion of this key milestone, the CRA has identified gaps in the current program as well as changes that will be required to address them.

Furthermore, the CRA has prepared recommendations on enhancements to risk scoring and automated strategies, and has developed the related system requirements to begin putting some of these recommendations in effect to address some of the identified gaps. This will enable the CRA to begin implementing the changes to its systems needed to strengthen the CRA’s GST/HST filing and registration compliance activities.

The CRA has also made significant progress in meeting commitment (4) *“the identification of additional ways to educate businesses and raise awareness regarding GST/HST obligations.”* The CRA has conducted a review of current outreach plans, and has identified possible new outreach initiatives to educate businesses and raise awareness of GST/HST registration and filing obligations.

To support future outreach, the CRA has developed a communication strategy and an action plan to enhance current initiatives and outreach opportunities to support GST/HST compliance. With these two milestones met, the CRA has begun developing outreach and educational initiatives to improve taxpayer awareness and knowledge of GST/HST obligations.

The four key milestones listed above are critical prerequisites to implementing the remaining deliverables in the CRA’s action plan that will enable the Agency to meet its commitments to strengthen GST/HST registration and filing compliance. In addition to the completion of all four

of the milestones it had targeted to implement by May 2022, the CRA is currently working to complete the key milestones relating to commitment (2) *“the review of the GST/HST Delinquent Filer Program resources”*, and commitment (3) *“the identification of legislative changes to support the realization of filing compliance”*.

The CRA will continue to implement its action plan, and will submit a final report to the Committee by May 31, 2023. This final report will outline the milestones of the action plan that have been met by that date, as well as the progress that has been made on the remaining deliverables from the CRA’s action plan on GST/HST filing.

Recommendation 3 – on creating a unique identifier

That, by 31 May 2022, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report outlining the results of its multi-factor authentication service. A final report should also be presented to the Committee by 31 May 2023, including an update on the agency’s use of the Sign-In Canada platform, as well as how the agency could use Sign-In Canada’s unique identifier to help audit government programs.

The GC supports this recommendation. The information in the following paragraphs represents the May 31, 2022 report requested by the Committee.

The CRA is implementing a multi-factor authentication (MFA) service in order to enhance its existing authentication and credential management system. When enrolled in MFA, users are required to enter a one-time passcode in order to access CRA online services. By providing this one-time passcode, users provide additional evidence to prove their identity, thereby strengthening the overall security of the CRA online services.

On October 30, 2020, the CRA launched MFA using an approach of gradually adding users over time. This was done to minimize the risk during the implementation as well as to ease the operational impact, for example to ease the call volumes at the contact centres. For MFA, users need to enter a one-time passcode (OTP) that is sent by voice or text message to their cell or landline phone before gaining access to their account. Given that not everyone has access to a cell or landline phone, the CRA implemented an additional option for using MFA called a Passcode Grid (PCG). This alternative allows users to refer to a grid of letters to create the OTP instead of receiving it over the phone.

The gradual addition of users to MFA continued until October 2021, when all users were required to use MFA. When users sign in to their account, they are required to enroll with no option to opt-out. As of the end of February 2022, the CRA has had all 14.557M users added to MFA and thus far 11.037M, which represents 76%, are enrolled. This percentage of enrolled users will continue to increase as more and more users sign in to their accounts. The CRA has sent over 100M one-time passcodes.

The implementation of MFA has been a success at the CRA. The CRA was able to implement MFA in a progressive manner without having a negative impact on operations. By implementing the PCG, the CRA addressed the need of a subset of users with a viable alternative.

The CRA agrees to return to the Committee by May 31, 2023, with a final report that includes an update on the CRA's plans to use the Sign-In Canada platform, as well as an assessment of how this, combined with the use of unique identifiers, can be used to ensure the integrity of government programs.

Currently, the CRA is working in partnership with Treasury Board Secretariat (TBS) on its Sign-in Canada platform. Sign-in Canada will give Canadians a single entry point through which they can access secure government services. It will provide a digital identity ecosystem that can be leveraged by all federal government departments and agencies. By consolidating credential providers on the Sign-in Canada platform, it will make it easier for the GC to deploy security and privacy features. The Sign-in Canada platform will significantly reduce duplication of efforts, modernize external credential management systems, and will be standards-based and capable of evolving and scaling to the needs of the GC. Sign-in Canada, while contingent upon many factors, is expected to become available in the next 24 to 36 months. The CRA will begin to onboard once the performance of the platform is proven in production with smaller departments.

Recommendation 4 – on Canada Emergency Wage Subsidy payment audits

That, by 31 January 2022, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report outlining the preliminary results of its post-payment audits for the Canada Emergency Wage Subsidy, including the amounts recovered. A final report should also be presented to the Committee by 31 January 2023.

The GC supports this recommendation. The information in the following paragraphs represents the January 31, 2022, report requested by the Committee.

When the Canada Emergency Wage Subsidy (CEWS) was introduced, the shared priority of the Government and the CRA was to assist businesses in maintaining their workforce, alleviating pressures on businesses that were impacted by COVID-19 and supporting Canadian employees. The CRA implemented the program based on timelines that were established by Parliament in order to meet urgent financial and economic needs.

Generally, for a traditional refundable tax credit program for business, verification and compliance work begins only after the end of the taxation year and the filing of tax returns. However, for CEWS, given the size of the program, the CRA began compliance interventions, including audits, much earlier than it has done traditionally. Starting CEWS audits before the end of the taxation year is an innovative approach that provides taxpayers with earlier certainty of eligibility and allows for better stewardship.

The CRA developed a comprehensive compliance program for the CEWS which has largely found that the majority of businesses and employers are applying the CEWS rules correctly and making every effort to comply. There is also a small minority of claimants who did not understand all of the rules and made honest mistakes when filing their CEWS applications. However, the CRA has also found that there have been instances where CEWS claimants have attempted/committed fraud and/or aggressive non-compliance and may be subject to significant penalties and/or possible criminal prosecution.

The CEWS comprehensive compliance program consists of many activities, including automatic and manual pre-payment verification, post payment audits, a public facing CEWS registry and repayment opportunities. As of February 18, 2022, these activities have resulted in over \$1.4B of CEWS benefits being denied or reversed, subject to further recourse by the employer (taxpayer). The following is more detailed information on some of these compliance activities.

Pre-payment verification: When the CRA processes CEWS applications, it uses a combination of automated validation and manual verification to ensure that the subsidy is provided to eligible applicants and that certain elements of their claim are correct. Automated validation is applied to all CEWS applications and approximately 894,000 have been subject to manual verification, which is 17.8% by dollar value, or \$34.5B of the CEWS program. As of February 18, 2022, approximately \$100B has been paid out to eligible employers in support of their employees.

Post-payment audit program: After payment of the CEWS benefit, more comprehensive audits are being conducted to further examine the level of compliance. The vast majority of these audits are selected using a risk-based approach based on the findings at the pre-payment stage and the use of sophisticated business intelligence tools. In most cases, the CRA proactively conducts these comprehensive CEWS audits before an income tax return is filed to ensure compliance and to protect the integrity of the tax system. The preliminary post payment audit program (Phase 1) began in August 2020. Approximately 700 CEWS claims, representing \$1.5B in CEWS, were selected for audit, including claims prepared by third party promoters. It is currently too early to report on results from Phase 2, given its launch was in fall 2021. The results of Phase 1 and 2 will determine the scope of future phases and/or the possibility of merging this workload into CRA's existing audit programs to further enhance compliance and fairness.

Voluntary repayment: Since the inception of the CEWS program, some amounts have been voluntarily repaid through client-initiated action by taxpayers that were either selected for audit and/or included on the public facing CEWS registry.

The CRA is closely monitoring its audit efforts and expects to meet its reporting commitments to the OAG, the Committee and to Parliament.

Recommendation 5 – on the use of sub-annual data

That, by 30 June 2022, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report outlining its plans to use more real-time sub-annual data, including the result of any consultations held on this topic.

The GC supports this recommendation.

The CRA will provide a report by June 30, 2022, outlining its plans to use more real-time sub-annual data. Currently, the CRA is still in the early planning phases for initiatives that will benefit most from, and be impacted by the use of real-time/sub-annual data. For those initiatives that may not be fully conceived by the requested reporting date of June 30, 2022, the report will outline progress to-date, and the potential organizational benefits that could be derived from the inclusion of real-time sub-annual data in its planned business processes.