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Measuring and Fighting Tax Evasion: Reporting on the Tax Gap

One thing Canadians like even less than paying income taxes is a tax cheater. Tax evasion is not fair to everyone else who follows the rules. Cheaters force law-abiding Canadians to pay more. Whether by hiding money overseas, under-reporting income, or taking cash payments to dodge the GST, tax evasion is believed to cost Federal and Provincial governments billions of dollars a year. I say “believed to cost” because nobody actually knows how much tax revenue is lost through cheating. There is no reasonable estimate of how much tax revenue Canada loses through the underground economy and offshore evasion.

I recently sponsored Bill S-243 in the House of Commons to require the Canada Revenue Agency to measure and report on the income tax gap to provide such an estimate.

The “tax gap” refers to the difference between how much revenue the Canada Revenue Agency actually collects in a year and how much it estimates that Canadians owe under the Income Tax Act.

If adopted, Bill S-243 will require the CRA to estimate and report on the tax gap and provide the Parliamentary Budget Officer with the information needed to do so. This

will allow Canadians to judge whether attempts to crack down on tax evasion are successful.

Because the government does not estimate the amount of tax evaded, there is no way to judge whether or not progress is being made by efforts to combat tax evasion, nor is there any tangible way to determine whether the problem of tax evasion is getting better or worse.

High profile data leaks like the so-called Panama and Paradise Papers shocked Canadians, but what has been less publicized is how seldom offshore tax evaders are convicted. Canada takes far longer than our OECD peers to assemble overseas tax evasion cases. The Auditor General reported that taxpayers with offshore transactions are often given additional months or years in which to respond to CRA, and that the average processing time for audits of offshore transactions is more than a year and a half.

Domestic tax filers must comply with CRA requests for information within 90 days or face automatic reassessment and penalties. In contrast, tax filers with offshore transactions are given months or sometimes years to reply, or reviews of their filings are dropped entirely.

Canadians deserve to know whether tax law is being enforced fairly and fully. Bill S-243 requires the CRA to report on convictions of both overseas and domestic tax evasions, thus allowing taxpayers to track the success of law enforcement measures. Canadians might be surprised to know that there are typically only a handful of successful prosecutions for tax evasion each year, and even then, most of the convictions are domestic - not foreign. For example, not a single charge from the Panama and Paradise Papers revelations has been laid and not a single conviction for tax evasion has been secured, and of the eight convictions or sentences for tax evasion in 2018 and 2019, none were for offshore evasion.

The Auditor General also reports that “Canada Revenue Agency did not consistently apply tax rules when it audited or reviewed taxpayers’ files, even though the Taxpayer Bill of Rights includes the right to have the law applied consistently.” Bill S-243 seeks to start addressing that problem by legislating greater transparency from the CRA.

Reporting on tax compliance and giving Canadians the tools needed to hold governments accountable for crackdown efforts is non-partisan. I hope all parties will join me in supporting and quickly passing Bill S-243 in the House of Commons.

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