

Canada Revenue Agency Report Card

A Small Business Audit of the CRA

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This report provides a comprehensive review of the Canada Revenue Agency's (CRA) dealings with small-and medium-sized enterprises (SMEs). CRA continues to provide mediocre overall service as the majority of SMEs and tax practitioners rated CRA's overall service a "C" or lower. To help identify key areas for improvement at CRA, a wide variety of service-related and fairness measures are rated by SME owners and tax practitioners. Making the tax system easier to understand, keeping SMEs better informed, and building a culture of providing excellent customer service, are only a few pillars on which CRA must improve.

Introduction

Small- and medium-sized enterprises (SMEs) face many challenges such as high taxes, shortage of skilled labour, loads of paper work and regulations, limited human and financial capital, long hours of work and stiff competition to only name a few. As if this challenging business environment was not enough, complying with CRA tax obligations is a small business owner's biggest regulatory headache. Canadian businesses spend \$12.6 billion a year¹ on tax compliance. While some of these costs are necessary, too often SMEs have difficulty getting in touch with CRA, are afraid, frustrated and distressed when trying to understand CRA's information and when trying to comply. Bookkeeping and dealing

with taxation matters is not only laborious for SME's but is also time-consuming - to the point of hindering their productivity.

"I think small business are the heart and lungs of any economy and CRA needs to start treating us with more fairness, more respect and in a less intimidating way. We are considered guilty before any of the information has been processed."

CFIB Member, British Columbia

CRA exists to administer the tax system and ensure compliance. Its staff, advice and service should be professional, independent and fair. To assess how well CRA is doing, the Canadian Federation of Independent Businesses (CFIB)

¹ CFIB, *The Hidden Tax Burden: A business perspective on the cost of complying with taxes*, 2008

publishes a CRA report card every three years. This survey is the fourth in a series of studies that CFIB has conducted on CRA's overall service since 2001.

As in the previous studies done on CRA, two separate surveys on CRA's activities were conducted from December 2010 to January 2011. The first was more general and directed at the SME owner. It resulted in 10,096 responses from SME owners. The second survey targeted tax practitioners (eg. accountants, tax lawyers, etc.), and asked more detailed questions about CRA programs and services with which they might be more familiar. This survey resulted in 465 responses from tax practitioners.

Using the results from these two surveys, this report will focus on:

- CRA's current service performance overall, as well as on measures related to staff, inquiries and information, to gauge how well CRA is servicing small business taxpayers and their representatives.
- CRA's electronic services as these are a growing part of CRA's service delivery model.
- SME experiences with CRA's auditors.
- How well SME owners and their representatives know about the many taxpayer fairness provisions that currently exist to keep CRA accountable, and how these might be improved.
- How tax compliance costs have changed in the past three years.

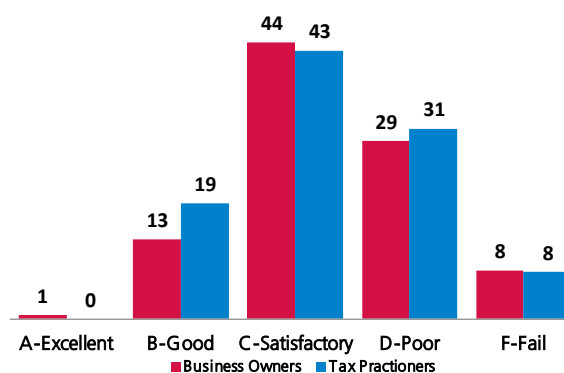
CRA's Overall Grade: C-

SME owners and tax practitioners gave CRA a low overall grade with the majority rating CRA a "C" or lower and around 40 per cent giving the Agency a "D" or "F" on its 2011 report card (see Figure 1). Forty-four per cent of SMEs graded CRA's overall service a C (satisfactory), 29 per cent gave CRA a grade of D (poor) and 8 per cent gave CRA an F (fail). On the tax practitioners' side results were very similar as 43 per cent of tax practitioners gave CRA a C (satisfactory), 31 per cent gave CRA a D (poor)

and 8 per cent gave CRA's service to small businesses an F. Overall, SMEs and tax practitioners gave CRA a C-, a grade that leaves much room for improvement.

Figure 1

How would you grade CRA's overall service to small business?



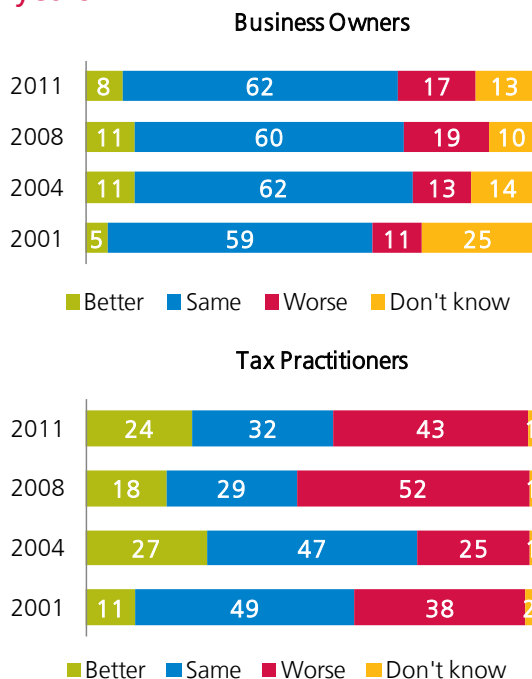
Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

Data analysis by province showed that the highest level of satisfaction was in Quebec where CRA's overall service was graded B (good) by 22 per cent of business owners which was 9 per cent higher than the national average. Quebec also had the lowest level of dissatisfaction as *only* 19 per cent of business owners gave CRA a D (poor). That was 10 per cent below the national average. These more favourable results in Quebec are likely due to the fact that some federal taxes are administered by Revenue Québec therefore respondents may not interact with CRA as frequently as their counterparts in other provinces.

When asked about CRA's overall service performance over the past 3 years compared to previous years, little improvement was noted among SME owners. However, there was some improvement among tax practitioners as 9 per cent more said they received better or same service over the past three years than they did in the previous survey (see Figure 2). However, there is still much room for improvement as 17 per cent of small business owners and 43 per cent of tax practitioners felt that CRA's service in the past 3 years had changed for the worse.

Figure 2

How has the service you received from the Canada Revenue Agency (CRA) changed during the past 3 years?



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

SME Perceptions of CRA

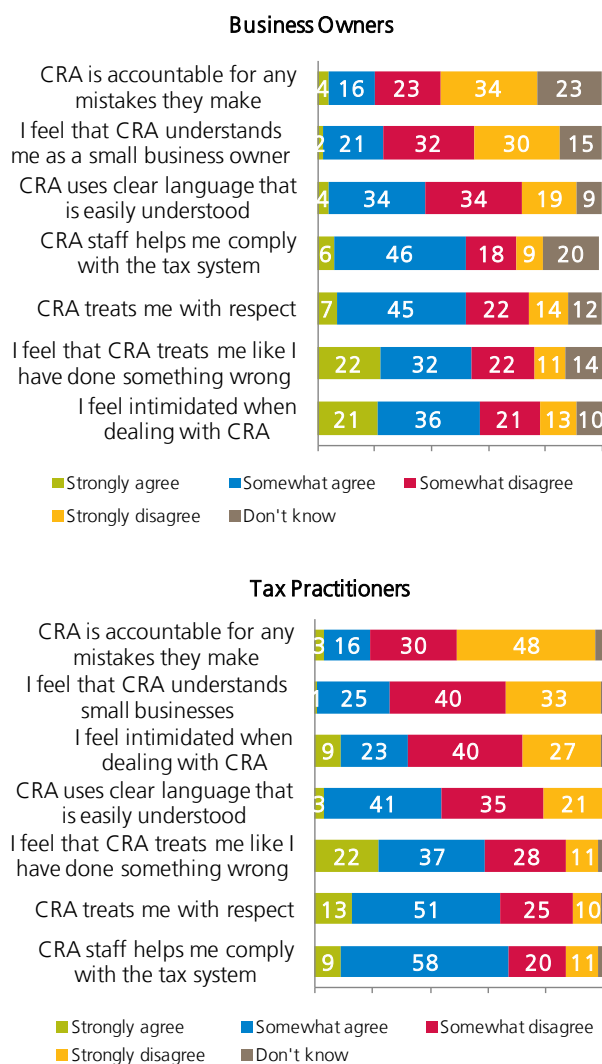
So what are some of the reasons behind the mediocre score on overall service at CRA? When asked about their level of agreement to a series of statements about CRA, the survey found that 36 per cent of small business owners strongly or somewhat felt that CRA does not treat them with respect. Moreover, 54 per cent somewhat or strongly felt that CRA treats them as if they had done something wrong, and 57 per cent of small business owners somewhat or strongly felt intimidated when dealing with CRA (see Figure 3). Even more telling is that 62 per cent strongly or somewhat disagree that CRA understands them as a small business owner and 56 per cent strongly or somewhat disagree that CRA is accountable for their mistakes.

It should be noted that results on the tax practitioners' side are slightly different as fewer tax practitioners felt intimidated by CRA (32 per cent of tax practitioners vs. 57 per cent

of SME owners) and 60 per cent felt that CRA treats them as if they have done something wrong (see Figure 3). As with SME owners, the vast majority of tax practitioners did not feel that CRA understands small business (73 per cent strongly or somewhat disagree) or that CRA is accountable for their mistakes (78 per cent strongly or somewhat disagree). These results speak strongly to the need for a culture change within the Agency.

Figure 3

To what extent do you agree or disagree with the following statements?



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

It is extremely important for CRA to take these results seriously and find ways to start addressing these very real concerns. In fact,

these results closely reflect the calls CFIB fields on a daily basis from small business owners who are fearful of dealing with CRA. This is not the type of reputation a national tax administration should have and much greater efforts must be made to overcome these views. These results now provide a benchmark to which we can measure progress in future surveys and thereby determine how effective CRA is in changing these perspectives among these two key groups.

Current Performance

CRA Service Quality Measures

In order to better understand how CRA can improve its overall service and start changing some of the views described in the previous section, we need to look at what elements of service are important to SME owners and tax practitioners that need improvement. Our research asked SMEs and tax practitioners how they rate specific service measures categorized into three major areas: staff, inquiries, and information (see Table 1).

According to CRA, service standards are the level of performance tax payers can reasonably expect from CRA and support CRA's commitment to transparency and accountability. What is astonishing is that even for service standards that are currently in place, many of the targets (percentage of which a standard will be considered to have been met) for business services are set at just 80 per cent. In other words, if one in five business owners receive less than the standard required, CRA is still seen as providing quality customer service. This is simply not acceptable as the consequences for those 20 per cent of SME taxpayers who receive incomplete or incorrect information, or who have problems getting a response from CRA for example, can be dire, as they remain liable for any delays or mistakes despite their best efforts to comply.

It is our understanding that CRA is looking at opportunities to improve service standards and/or introduce new ones. This next section should provide some ideas on areas CRA needs to focus on if they are serious about improving their service to SMEs.

Table 1

CRA Service Quality Measures

Staff

Accessibility of staff
Knowledge of staff
Treatment by staff

Inquiries

Promptness of written response
Clarity of written response
Promptness of telephone response
Clarity of telephone response
Willingness to answer inquiries over the telephone
Consistency of telephone inquiries
Speed of refunds

Information

Availability of information
Readability, simplicity of information
User friendliness of CRA web site

Staff

CRA has a Taxpayer Bill of Rights that states they will provide fair tax administration in a respectful manner, and that taxpayers should expect to have consistent and timely information from knowledgeable and understanding staff. However, as outlined in the previous section, the majority of SME owners feel intimidated when dealing with CRA, most tax practitioners feel that CRA treats them like they have done something wrong, and more than one-third of SME owners and tax practitioners do not feel that CRA treats them with respect. To further evaluate whether CRA's staff is delivering on these commitments, CFIB asked SME owners and tax practitioners about three specific qualities expected from CRA staff: accessibility, knowledge and treatment.

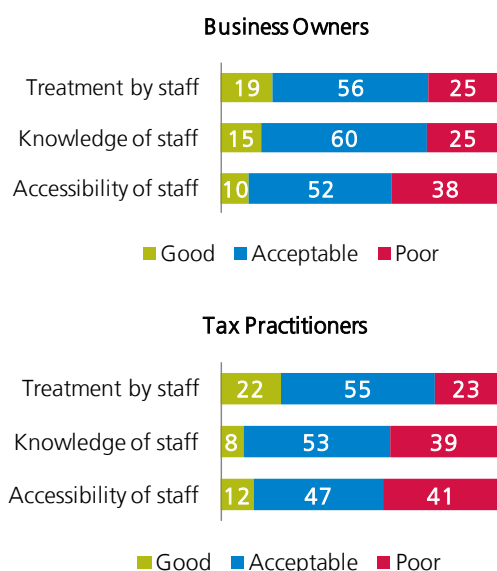
"I feel like I am guilty of something dealing with them, and not just in areas that apply to CRA. I feel like a lesser person, someone trying to take advantage of the system. Most small businesses are successful because of their work ethic, integrity and commitment to their community, business and customers."

CFIB Member, British Columbia

In terms of **Treatment by staff**, 19 per cent of business owners said it was good, 56 per cent said it was acceptable and 25 per cent said it was poor (see Figure 4). Tax practitioners gave quite similar grades as 22 per cent said treatment by staff was good, 55 per cent said it was acceptable and 23 per cent said it was poor (see Figure 4).

Figure 4

How do you rate the current service of the CRA on each of the following customer service measures? (Staff)



Source: CFIB, *Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011*

When it comes to **Knowledge of staff**, tax practitioners were a lot more critical as 39 per cent said it was poor while 25 per cent of small business owners said it was poor. Such a difference between small business owners and tax practitioners is not surprising and is likely due to the fact that tax practitioners make more frequent inquiries, as well as inquiries of a more complex nature, consequently demanding more technical experience from CRA's agents. They also have a greater knowledge and therefore they are more likely to recognize when information being provided by CRA is incorrect or incomplete.

Knowledge of staff is a fundamental component of service quality and demands that agents be able to properly identify issues and provide precise interpretation of rules,

regulations and other information. For CRA to meet such a requirement, it needs to implement higher customer service standards and make sure that CRA agents are able to communicate accurate and comprehensive information in plain and simple language.

Accessibility of staff received the worst of all rating with 38 per cent of small business owners saying it was poor. Once again, tax practitioners were even more critical than business owners with 41 per cent saying it was poor.

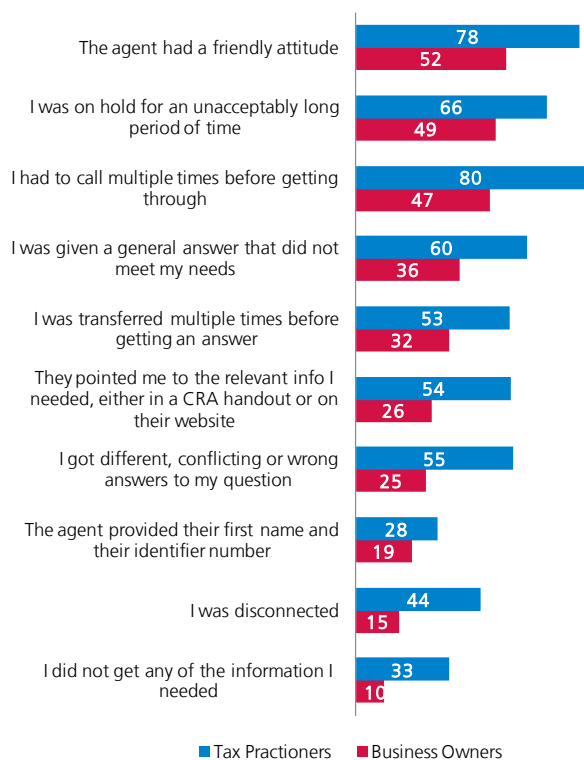
These results are understandable when you look at other findings from the survey that found small business owners frustrated at having to call multiple times to get through to a CRA agent. In fact, almost half of SME owners and nearly three-quarters of tax practitioners said that during the last three years, they have had to call multiple times before getting through to CRA (see Figure 5). Once on the line, the waiting time was often unacceptable as almost half of SME owners and two-thirds of tax practitioners said that during the last three years, they had experienced being on hold for an unacceptably long period of time (see Figure 5).

Many business owners also expressed frustration with the quality of the service and having to deal with more than one person to resolve a problem on their file. In fact, by not having a person designated to their file, business owners had to explain their case over and over again to CRA representatives. This is very frustrating as it takes a lot of their time and resources away from operating their business.

Still other findings from our survey show the need for improvement in basic customer service at CRA. Only 52 per cent of SME owners found, when interacting with a CRA agent in the past three years, that they had a friendly attitude (see Figure 5), though this increased to 78 per cent of tax practitioners who are much more likely to interact with a CRA agent and therefore much more likely to have experienced an agent with a friendly attitude.

Figure 5

Have any of the following situations happened to you, when you contacted CRA by phone during the past three years?



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

It is normal for SMEs to assume that staff will be polite and sympathetic to customers' needs. Consequently, it is *not* normal for business owners to feel intimidated or distrusted since the vast majority of business owners want to comply and are trying to communicate with CRA in order to get the information and tools to do so. Taxpayers need to be treated respectfully and their concerns should always be addressed with courtesy. Not only should CRA staff be caring but also, by their knowledge and courtesy, inspire trust and confidence.

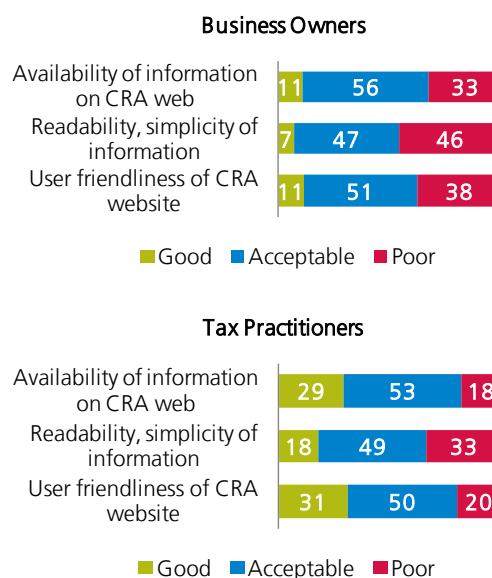
Information

Access to understandable information is a fundamental element of easing compliance for small business. The website needs to be user friendly and finding information has to be intuitive otherwise small business owners waste a lot of time and resources trying to find

the information they need to comply. Since 54 per cent of tax practitioners and 26 per cent of business owners are directed to a handout or the website for the information they need when they contact the agency by phone (see Figure 5), the information has to be clear, understandable and in a plain and simple language. To measure how well CRA is doing this, SME owners and tax practitioners were asked about three aspects of information: availability, readability/simplicity, and user-friendliness of website.

Figure 6

How do you rate the current service of the CRA on each of the following customer service measures? (Information)



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

As in previous surveys, **readability and simplicity of information** from CRA fared the poorest with 46 per cent of SME owners grading it as poor. As well, 33 per cent of tax practitioners found the readability and simplicity of information was poor.

Availability of information on CRA web site scored low as well since only 11 per cent said it was good, 56 per cent said it was acceptable and 33 per cent of small business owners said it was poor. **User friendliness of CRA website** is also in need of improvement as 38 per cent of small business owners found it to be poor

and 20 per cent of tax practitioners had the same conclusion.

Given these findings, it is no surprise that a majority of SME owners (53 per cent) and tax practitioners (56 per cent) somewhat or strongly disagreed with the statement that CRA uses clear language that is easily understood (see Figure 3). Business owners and tax practitioners rely on the information provided by the Agency to comply with its rules. The lack of clear, easy to find, accurate and timely information impedes the ability of small business to grow and compete.

Inquiries

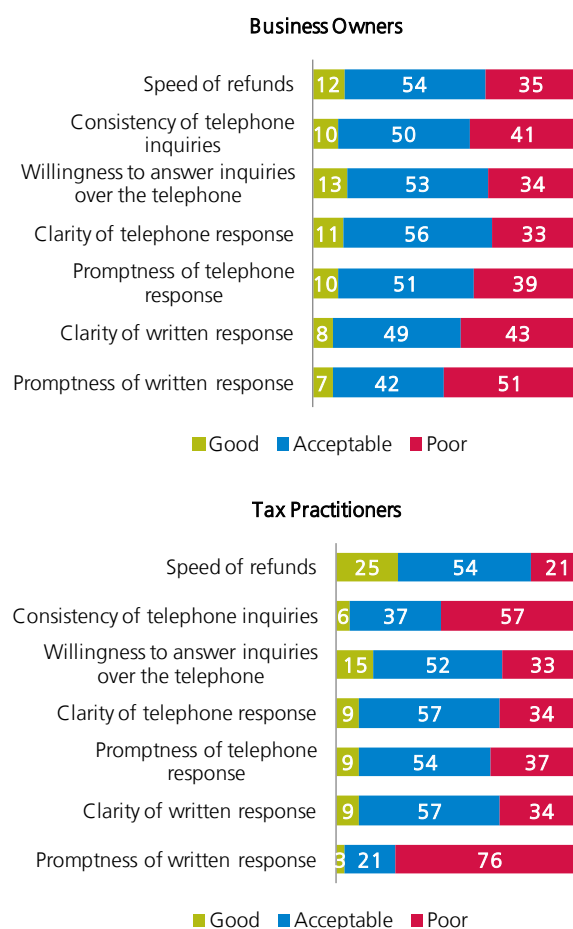
Business owners and tax practitioners are customers of CRA. So when dealing with the Agency, not only should they expect that staff have the knowledge to answer their questions but also that they be consistent, clear and willing to answer questions from taxpayers.

The service quality measures around inquiries were based on the following elements: promptness of written response, clarity of written response, promptness of telephone response, willingness to answer inquiries, clarity of telephone response, and consistency of answers to telephone inquiries (see Figure 7). Every one of these measures is of crucial importance because answering small business' questions in a clear, timely and accurate fashion is a fundamental element of service delivery and in ensuring compliance of SMEs.

When contacting CRA it should be an opportunity for the small business to learn. There should be a tangible benefit after speaking with a CRA representative that does not result in frustration and even more confusion. In the words of the SME owners themselves, CRA agents are "not supportive", "not reliable", "not responsive", "not knowledgeable" and "not empathetic" to their needs. Most worrisome of all is that CRA does not inspire trust and confidence because, too often, its decisions and rulings appear to be arbitrary.

Figure 7

How do you rate the current service of the CRA on each of the following customer service measures? (Inquiries)



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

Promptness of written response had the lowest ratings of all inquiry service measures for small business owners as well as tax practitioners. In fact, 39 per cent of business owners evaluated promptness of written response as poor. On the tax practitioners' side, 76 per cent thought that promptness of the written response was poor. The second poorest rated measure was the **consistency of phone inquiries** as 41 per cent of business owners and 57 per cent of tax practitioners thought it was poor. The third lowest-rated measure was the **promptness of telephone response**. One-third of small business owners and 37 per cent of tax practitioners said it was poor. All service quality measures for inquiries

were in need of improvement as at least one in four gave poor ratings on all these measures.

"Biggest problem is having to call three times to get two answers that match"

CFIB Member, Manitoba

As previously noted, SMEs and tax practitioners have faced challenges when trying to contact CRA by phone (see Figure 5). These challenges include being disconnected when calling CRA, having to call multiple times before getting through, being put on hold for an unacceptable amount of time and getting different, conflicting or wrong answers to their questions. In fact, 36 per cent of small business owners and 60 per cent of tax practitioners were given general answers that did not meet their needs, and 25 per cent of SME owners and 55 per cent of tax practitioners got different, conflicting or wrong answers to their questions.

These findings on CRA's service to SMEs are consistent with our findings from the *CRA Call Centre Report Card*. In November 2010, CFIB made 85 calls to CRA's Business Helpline to gauge the level of service and test the accuracy of responses provided to four standardized business-related questions (see appendix 1). The results validate the findings of this survey, as:

- ▶ 14 per cent of calls took more than one attempt because of busy signals and 5 calls (out of 85) were disconnected;
- ▶ 21 per cent of inquiries resulted in the agent not being able to provide the answer or the agent providing incorrect or incomplete information;
- ▶ Only 50 per cent of agents provided their ID numbers after being asked.

When a small business or their representative telephones or writes to CRA, CRA should respond to the query in a timely manner that goes beyond a reference to a section of a

website, a section of the legislation or a table in a pamphlet or document. In fact, when a small business communicates with CRA, the Agency should see it as an opportunity to help small business understand and meet their obligations. Small business owners need to feel that the information they are given is reliable and they should be able to hold CRA accountable for the information they provide.

Current Performance

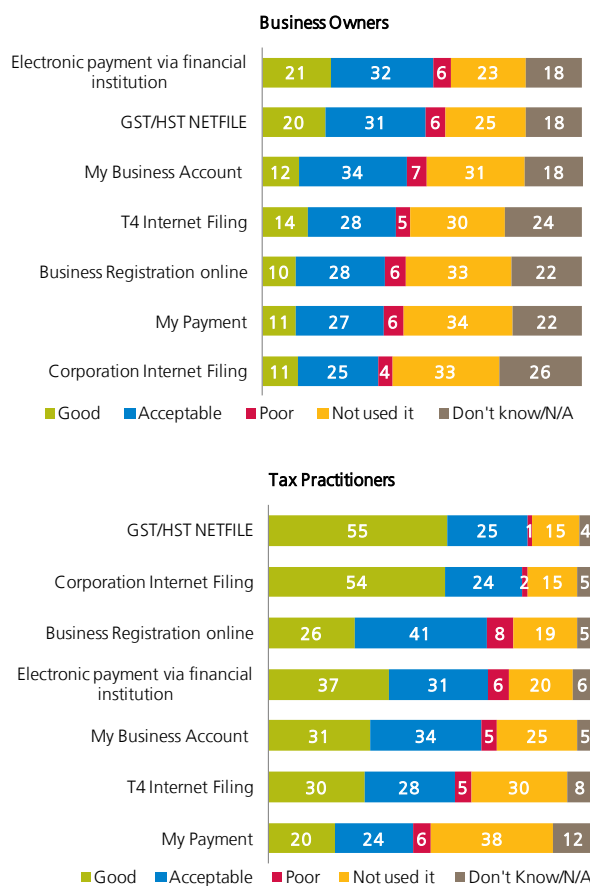
Electronic Services

E-services are quickly becoming a primary mode of government service delivery. For reasons of efficiency but also cost, organizations are moving more and more to a click-call-visit (Internet first, telephone and visit as a last resource) mode of service delivery. For electronic services to be useful for small businesses they need to be accessible, intuitive, reliable, affordable and interactive.

The usage of electronic services is relatively low as 23 to 34 per cent of small business respondents indicated that they had never used any of CRA's electronic services, and another 18 to 24 per cent said that they didn't know or did not think that electronic services applied to their business (see Figure 8). The most used services by SME owners are Electronic payment via financial institution (59 per cent), GST/HST NETFILE (57 per cent), and My Business Account (53 per cent).

Nevertheless, respondents that used CRA's electronic services gave them mostly acceptable to good grades. The most well-liked electronic services among those that used them were **electronic payment via financial institution, GST/HST NETFILE, Corporation Internet Filing** and **T4 Internet Filing** - all of which had 89 to 90 per cent who found these services acceptable or good. This was followed closely by those who used **My Business Account**, as 87 per cent of them found this service to be good or acceptable.

Figure 8
How would you rate the following CRA electronic services?



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

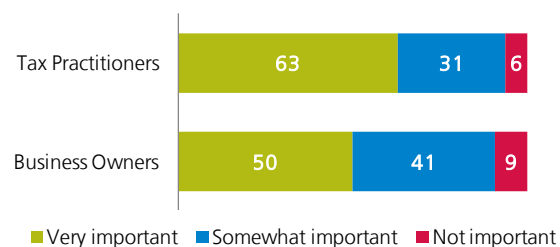
Tax practitioners were much more likely to use CRA’s electronic services and these services were generally well rated by them. The most well used electronic services by tax practitioners were **GST/HST NETFILE** (81 per cent), **Corporation Internet Filing** (80 per cent) and **Business Registration Online** (75 per cent). The most well-liked electronic services among tax practitioners were **GST/HST NETFILE** (rated acceptable or good by 99 per cent of tax practitioners that used it), **Corporation Internet Filing** (rated acceptable or good by 98 per cent of tax practitioners that used it), and **My Business Account** (rated acceptable or good by 93 per cent of tax practitioners that used it).

The survey found that the larger the business, the more it likely uses CRA’s electronic services. This is not surprising as CFIB estimates that approximately 10 to 20 per cent

of small business owners do not have access to the Internet or simply have no desire to conduct transactions online. As a result, CRA should continue to ensure that small business owners have the ability to file their taxes in whatever format they desire.

Despite the fact that some small business owners are not able or willing to conduct business online, the vast majority are using email as a primary means of communication. When asked how important it would be to get information from CRA by email to answer specific inquiries, including as a follow-up to a phone conversation, 84 per cent of business owners and 91 per cent of tax practitioners felt it was somewhat or very important (see figure 9).

Figure 9
How important would it be to get information from CRA by email to answer your specific inquiries, including as follow-up to a phone conversation?



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

Receiving answers to questions by email would be an important step towards improving accountability at CRA as small business owners would then have some written proof of the question that was posed, and the answer that was received, from CRA. This is important because 25 per cent of SME owners and 55 per cent of tax practitioners reported that they got different, conflicting or wrong answers to their questions when contacting CRA by phone (see Figure 5). Similar results were found in another CFIB report - *CRA Call Centre Report Card*, where one in five calls made to CRA resulted in incomplete or wrong answers.

In such a context, written information as a follow-up to inquiries is crucial for SMEs

should they run into audits or complications. Written confirmation of answers would give small business owners the opportunity to comply and would allow CRA to set higher service standards and ensure proper training of staff. This training would help CRA agents understand not only tax legislation but that wrong answers can have a tremendous impact on SMEs. Not only would written confirmation to answers bring greater accountability and effectiveness to the system, it would simultaneously set in motion a "service culture" at CRA.

Current Performance

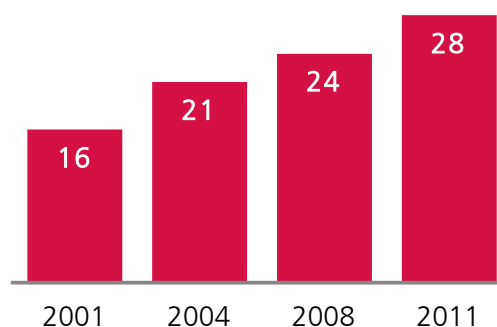
Auditing the Auditor

CRA's audits are mainly conducted to ensure compliance. For business owners, an audit means time and resources taken away from the business to comply with the audit, and possibly higher taxes and penalties. According to CRA, audits also help maintain public confidence in the fairness and integrity of the tax system. Although CFIB agrees with the spirit of such a statement, our members' comments from the survey seem to indicate that trust in the Canadian tax administration is often lost during the process of an audit. For instance, many small business owners described the audit as a "witch hunt", or that they had to deal with an "untrained auditor", that the rulings seem to be "arbitrary" and/or that interpretations seem to "always benefit the CRA". Many Canadian entrepreneurs believe that CRA targets small businesses knowing that they don't have the time, human and financial resources, or the knowledge, to contest CRA's decisions. While these views may simply be perceptions and not reality, they need to be addressed if CRA wants to improve its service to small business.

Twenty-eight per cent of business owners have been audited by the CRA in the last three years (see Figure 10). This is a 4 percentage point increase in the number of SME audited since 2008 and a 12 percentage point increase since 2001. The 2001 and 2004 questions focused on audits in the past two years while the 2008 and 2011 surveys looked at the number of audits in the past three years.

Figure 10

Share of SMEs audited by the CRA



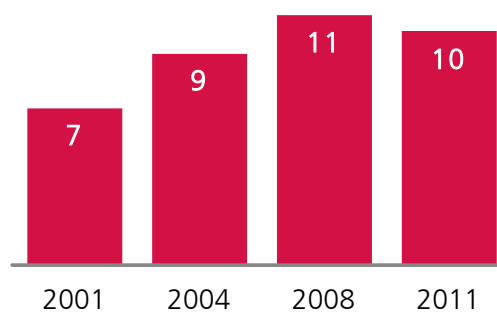
Source: CFIB, Point of view: Canada Revenue Agency, January 2011

On average, 28 per cent of SMEs had been audited in the past three years, however, the likelihood of being audited increased with the size of the business. While 20 per cent firms with 0-4 employees were audited in the past 3 years, 42 per cent of firms with 20-49 employees, 48 per cent of firms with 50-99 employees and 56 per cent of firms with 100-499 employees were audited.

There was also some variation by sector. For example, firms in the social services sector were less likely to experience audits (19 per cent) while firms in manufacturing (34 per cent), transportation (33 per cent), construction (33 per cent) and wholesale (33 per cent) were much more likely to be audited.

Figure 11

Number of days spent by SMEs complying with a CRA audit



Source: CFIB, Point of view: Canada Revenue Agency, January 2011

When compared to 2008, the time spent by SMEs to comply with CRA has gone down slightly by one day. In 2001, small businesses

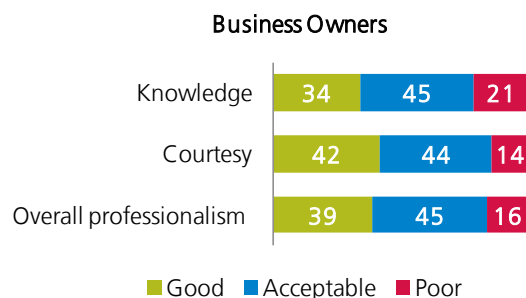
spent on average 7 days complying with CRA audits. This number rose to 11 days in 2008 and is now 10 days (see Figure 11). Although, this can be seen as a slight improvement to the 2008 level, it is still 3 days more than in 2001.

Firms in some sectors spend more time complying with CRA. For example, those in personal services spend, on average, 14 days in audit while those in hospitality, natural resources and enterprise & administration management each spend an average of 13 days complying with a CRA audit. On the opposite end are those in the agricultural sector which spend, on average about 5 days complying with an audit.

Small business owners and tax practitioners were also asked to rate their satisfaction with the knowledge, courtesy and overall professionalism of the auditor (see Figure 12 and Figure 13). Once again, tax practitioners were a lot more critical than business owners. CRA auditors received fairly good ratings for courtesy and overall professionalism by both business owners and tax practitioners relative to the general CRA staff.

Figure 12

How would you rate your level of satisfaction with the CRA auditor on each of the following?



Source: CFIB, Point of view: Canada Revenue Agency, January 2011

However, it must be noted that there was still a significant percentage of poor ratings. For instance, **courtesy** of auditors was rated poor by 14 per cent of small business owners and tax practitioners. **Overall professionalism** of the auditor was rated poor by 16 per cent of small business owners and 20 per cent of tax practitioners. Finally, **knowledge** of the auditor, arguably the most important attribute

for an auditor, received the worst ratings as it was rated poor by 21 per cent of small business owners and 31 per cent of tax practitioners.

Figure 13

Overall, how do you rate your level of satisfaction with CRA auditors in dealing with your small business clients on each of the following?



Source: CFIB, Point of view: Tax Administration Survey, January 2011

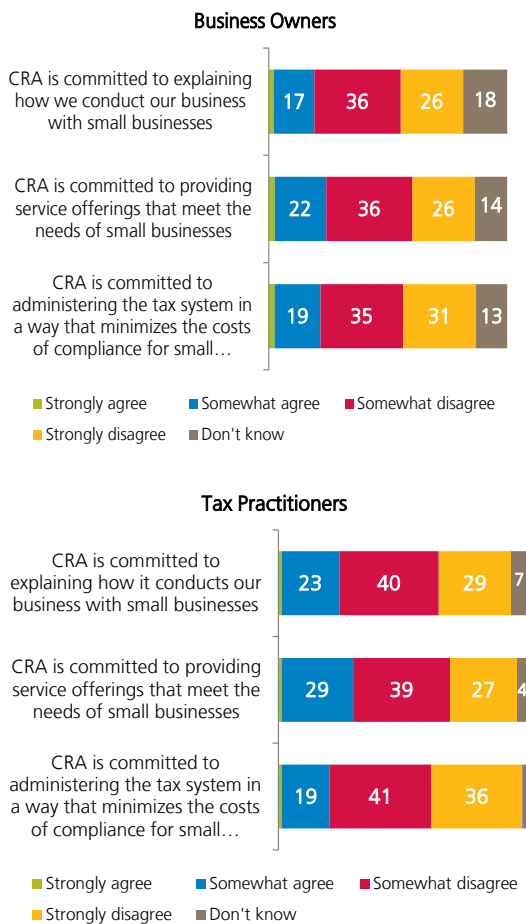
Taxpayer Fairness

One key way to improve CRA's service in the minds of SME owners and tax practitioners is for CRA to be seen as open, fair and accountable in their dealings with taxpayers. We recognize that CRA has been trying to address some of these issues by implementing policies and approaches aimed to make CRA more accountable. Initiatives like the Taxpayer Bill of Rights, Taxpayer Ombudsman and ID numbers for CRA call-centre personnel were welcomed by CFIB as concrete steps in improving service and accountability at CRA. However, such measures are only useful if people are aware of them and they are effective in bringing change to how CRA interacts with taxpayers.

One of the most important measures that CRA introduced in 2007 was the Taxpayer Bill of Rights. It not only included 15 "rights" of the taxpayer, but also five service commitments to small business. When asked about whether CRA has lived up to some of these commitments, both small business owners and tax practitioners indicate that CRA is failing to meet its commitments to small business (see Figure 14).

Figure 14

To what extent do you agree or disagree with the following statements?



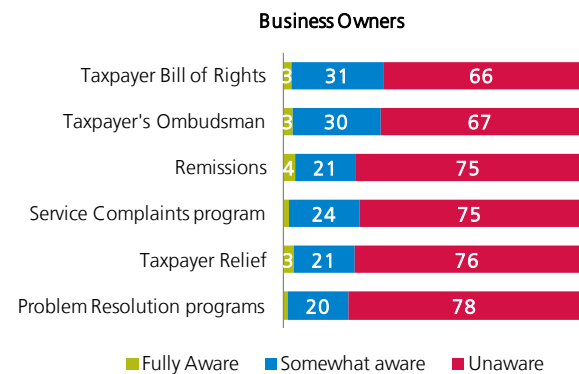
Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

Around two-thirds of small business owners and tax practitioners strongly or somewhat disagree that CRA is committed to explaining how it conducts its business with small business, and that it is committed to providing service offerings that meet the needs of small business (see Figure 14). There is even greater disagreement, especially among tax practitioners (77 per cent strongly or somewhat disagree), that CRA is committed to administering the tax system in a way that minimizes the costs of compliance for small businesses (see Figure 14). Clearly, there remains much work to be done for CRA to live up to these commitments from the perspective of small business owners and their representatives.

One way to do that is to continue to build concrete policies that promote and enhance taxpayer fairness. We believe that taxpayer fairness enshrines many elements that together help to ensure a credible tax administration agency that is engaged with the taxpayer and works with them to enhance compliance. But what does that really mean? Among many other things, it means that every small business has the right to be treated according to a just and impartial process. It means that every small business has the right to be heard. It means that every small business has the right to expect that a CRA decision is supported by a well articulated and understandable rationale that eradicates the risks of arbitrary decisions. It means that CRA will take responsibility for their mistakes and will stand behind what they say, even if it is incorrect.

Figure 15

CRA has a variety of tools designed to address taxpayer fairness. How aware are you of each of the following?



Source: CFIB, Point of view: Canada Revenue Agency, January 2011

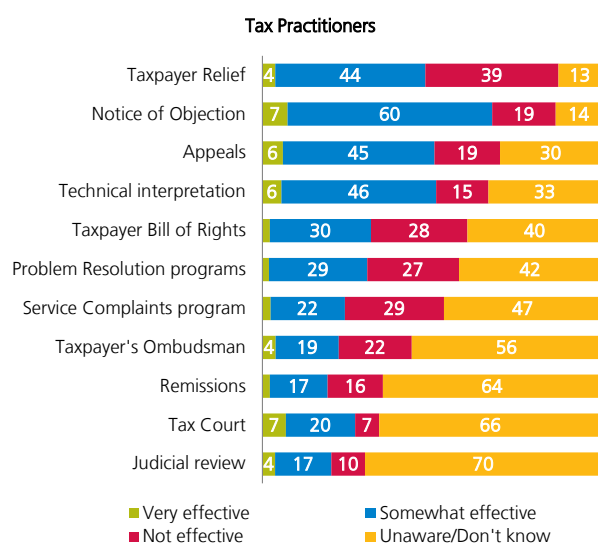
While there are already a variety of tools designed by CRA to promote taxpayer fairness, it is alarming to see that the vast majority of small business owners are unaware of the ones designed to address the most common taxpayer issues (see Figure 15). For instance, 78 per cent of business owners are unaware of the **Problem Resolutions Program**, 76 per cent are unaware of **Taxpayer Relief** and 75 per cent are unaware of the **Service Complaints Program** and of **Remissions**. Small business owners are more likely to know about the **Taxpayer Bill of Rights** and the **Taxpayer's**

Ombudsman but even these mechanisms are not known by about two-thirds of SME owners.

Although tax practitioners are more aware of these tools, overall awareness remains low. In fact, 64 per cent of tax practitioners are unaware of **Remissions**, 56 per cent are unaware of the **Taxpayer's Ombudsman** and 47 per cent are unaware of the **Service Complaints Program** (see Figure 16).

Figure 16

CRA has a variety of tools designed to address taxpayer fairness. How do you rate the effectiveness of each of the following programs?



Source: CFIB, *Point of view: Tax Administration Survey, January 2011*

The most effective tools for tax practitioners are **Tax Court**, **Notices of Objection** and **Technical Interpretation** as about 78 per cent of tax practitioners that knew of them, found them to be somewhat or very effective. This was followed by **Appeals** in which 73 per cent of tax practitioners that knew of it, found it to be very or somewhat effective. The least effective taxpayer fairness tools according to tax practitioners are (see Figure 16):

- ▶ Service Complaints (55 per cent of those that are aware of it found it not effective);
- ▶ Taxpayer's Ombudsman (49 per cent of those that are aware of it found it not effective);

- ▶ Taxpayer's Bill Of Rights (47 per cent of those that are aware of it found it not effective);
- ▶ Problem Resolution Program (47 per cent of those that are aware of it found it not effective);
- ▶ Taxpayer Relief (45 per cent of those that are aware of it found it not effective).

Some of these measures are still relatively new, and therefore less likely to be used, while others may not go far enough in assisting taxpayers as originally intended. CFIB remains open to exploring how these measures may be improved so that SME owners and their representatives become more aware of them and see them as effective.

"We need help from CRA to comply, we don't need CRA to become the enemy as it appears to be becoming in the last few years"

CFIB Member, Ontario

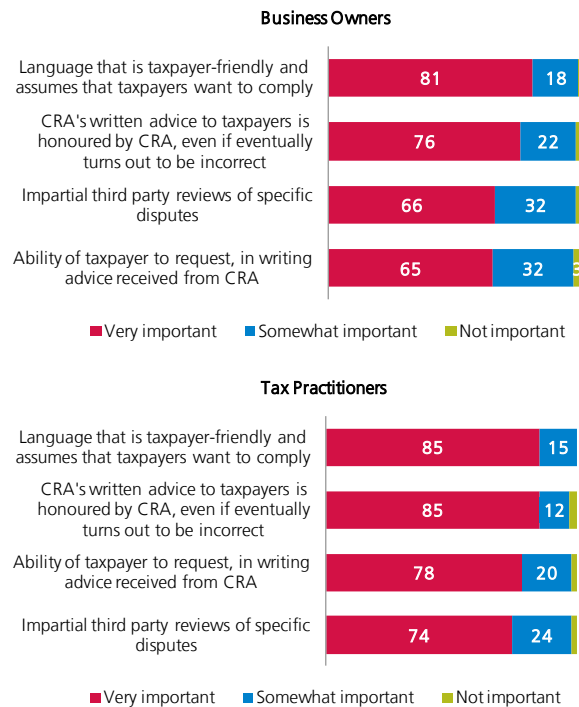
However, there remain gaps that current taxpayer fairness measures do not address that CRA should consider implementing in the future. These are measures that have proven to be effective in other tax jurisdictions, such as BC and Saskatchewan. When asking small business owners and tax practitioners about the importance of some of the measures used in these other jurisdictions, virtually all felt that these measures were somewhat or very important for CRA to adopt as well (see Figure 17).

Specifically, 85 per cent of tax practitioners and 81 per cent of small business owners believe it is very important that CRA use **language that is taxpayer-friendly and assumes that taxpayers want to comply**. Also very important to 85 per cent of tax practitioners and 76 per cent of small business owners is that **CRA's written advice to taxpayers is honoured by CRA, even if it eventually turns out to be incorrect**. The **ability of taxpayer to request, in writing, advice received from CRA** is very important

to 78 per cent of tax practitioners and 65 per cent of small business owners. Finally, **impartial third party reviews of specific disputes** was also well supported, as 74 per cent of tax practitioners and 66 per cent of business owners found it to be very important in strengthening fairness for tax payers.

Figure 17

CFIB is advocating for a stronger fairness code at CRA to improve service to taxpayers. How important are each of the following?



Source: CFIB, Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011

It was clearly expressed through thousands of comments we received through the surveys, that small business owners and their representatives feel like they are treated unfairly. Many felt that rulings often seemed arbitrary and that interpretations always seemed to benefit the CRA. As a result, clearly explaining assessments, rulings or decisions would help build trust with small business owners.

Another big issue for many small business owners and tax practitioners is that CRA's errors don't seem to be acknowledged or corrected. When CRA is at fault, they should

admit their culpability and rectify the situation immediately. Transparency and customer service oriented towards educating small businesses would go a long way in strengthening taxpayer fairness.

While CRA has made some progress in the last few years in trying to enhance taxpayer fairness, clearly a lot more can be done. The recommendations at the end of the report will list just a few measures we see as important to build on previous efforts. CFIB remains ready and willing to work with CRA in creating new approaches to strengthening taxpayer fairness and raising awareness among Canada's SMEs.

Tax Compliance Costs

Canada's tax system is extremely complex. A great many survey comments emphasized the importance of making the tax system easier by, for example, eliminating any grey zones that leaves legislation open to interpretation. For many, grey zones only benefit big businesses that have the financial resources to challenge the CRA.

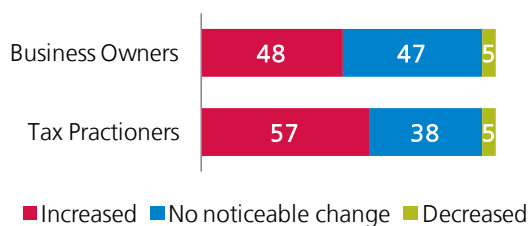
"Efforts taken by small business to comply with requirements are non-productive activities to their business that offer no value to the bottom line. The red tape ... downloaded on small business needs to be reduced and simplified so it allows them more opportunity to focus on their service, not compliance."

CFIB Member, New Brunswick

However, this is just the tip of the iceberg when it comes to the huge amount of red tape that small business and their representatives have to deal with on an annual basis. Red tape is regulations, procedures and paperwork administered by businesses or individuals that are costly, time-consuming, and often unnecessary. Each year, Canadian businesses spend \$30.5 billion to comply with obligations from all levels of government. In fact, the cost of red tape is highest on the smallest firms. CRA's processes and regulations are a major part of that burden and CFIB's survey data seems to indicate that it is only getting worse.

Figure 18

How has the overall administrative burden of tax obligations changed during the past 3 years?



Source: CFIB, *Point of view: Canada Revenue Agency and Point of view: Tax Administration Survey, January 2011*

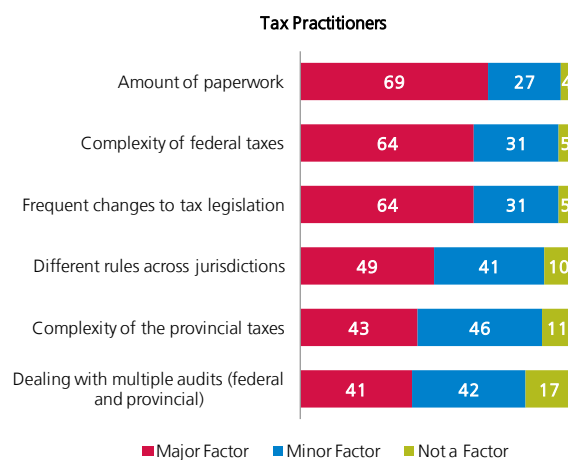
CFIB's survey revealed that 48 per cent of business owners and 57 per cent of tax practitioners noticed an increase in the overall administrative burden of tax regulations over the past three years (see figure 18). Comparing these numbers to our 2008 survey revealed that there were now fewer tax practitioners noticing an increase in the overall administrative burden (65 per cent in 2008 versus 57 per cent in 2011), which might mean there was some improvement, however the opposite was true for small business owners as far more noted an increase in their overall administrative burden in 2011 (48 per cent) than in 2008 (39 per cent).

The **amount of paperwork** was the most significant factor contributing to the cost of tax compliance as 69 per cent of tax practitioners said it was a major factor. Unfortunately, when comparing numbers from this survey to our previous surveys, there is absolutely no improvement in the factors contributing to the tax compliance costs.

The **complexity of the federal tax system** and **frequent changes to legislation** closely followed the amount of paperwork as major factors contributing to the cost of complying with the tax system with 64 per cent of tax practitioners saying that they were both problems. These factors were followed by: **different rules across jurisdictions** (49 per cent) and the **complexity of provincial taxes** (43 per cent) (see figure 19).

Figure 19

To what extent are each of the following a contributing factor to the cost of complying with the tax system?



Source: CFIB, *Point of view: Tax Administration Survey, January 2011*

While some of these factors, such as frequent changes to legislation, are outside of CRA's control, the top issue contributing to the cost of complying – amount of paperwork – is very much in CRA's control. Efforts to automate forms and use new technologies to ease paper burden are certainly welcome, but greater efforts must be made to understand the impacts of new processes or paperwork on Canada's small firms BEFORE they are introduced. Focusing on required outcomes not required procedures, allowing some flexibility, and recognizing the higher cost red tape has on small firms will go some way in starting to alleviate some of this burden.

Recommendations

CFIB has been working closely with CRA in recent years to find ways to improve CRA's overall service to small business. There has been progress, such as the implementation of the Taxpayer Bill of Rights and the creation of the Taxpayer Ombudsman. We have also noted a greater willingness on the part of CRA to listen to the issues facing small business and recognize that they are making efforts to address some of the problems raised by our members and through these types of reports.

For example, CRA implemented a policy requiring CRA Call Centre agents to provide their ID number when asked. CFIB's *CRA Call Center Report Card* revealed that about half of the agents refused to provide this ID number or claimed not to have one. CRA officials took note of these findings and are working on ways to improve the application of this policy within the Agency. Also, CRA will soon be introducing a service that will allow the Agency to provide small business owners with written advice to their questions through *My Business Account*. We see this project as critical to enhancing accountability at CRA as it allows business owners to have some sort of written proof of the question they posed and the answer they received from CRA which may prove useful should that advice later turn out to be incomplete or incorrect.

"CRA has an important role to play in the tax system. We get it. What CRA does not get - is that we run a business not the tax system, our primary reason of existence is not to administer taxes."

CFIB Member, Ontario

These are important first steps. However, CRA still has much room for improvement and we make the following recommendations:

Create an organizational culture of service excellence

When dealing with CRA, the majority of business owners feel they are suspected of being guilty, and that they are perceived by CRA as cheaters or tax evaders. We agree that strong action and penalties needs to be taken against fraud, however, we also believe that the vast majority of taxpayers are trying their best to be compliant. Therefore, CRA should strive to build a service culture focused on service excellence. By introducing service standards that are regularly monitored and updated, by making sure that fairness for taxpayers is respected, and having well-trained agents that understand and respect small business, CRA would create a more small-business friendly culture that would save SMEs time and confusion and result in increased

compliance. We suggest the following to do this effectively.

Improve customer service

Good customer service is critical to the survival of small business. Focus has to be put on understanding SME's needs and developing tools and methods that help SMEs meet their obligations. To do this:

Improve the training of front-line staff handling SME issues. Front line staff needs to be accessible, polite, professional and knowledgeable. Questions need to be answered in a clear way that is more than a reference to a piece of legislation, a web page or a table in a brochure.

Provide basic examples and guidelines for what constitutes compliance and non-compliance. This would help clarify some of the grey areas in legislation and be very helpful for small firms struggling to understand their obligations.

Implement stronger service standards. Any activity whereby the taxpayer or their representative is interacting with CRA should have a corresponding service standard that is measured and reported on annually. In addition, CRA should consider creating service standards around the quality/completeness of the answers provided to taxpayers or other measures that go beyond simply measuring the time spent by an agent to answer a question.

We recommend that service standards be developed with input from the private sector and taxpayers to ensure they are meaningful and effective. Once fully established, service standards should be reviewed regularly and, where appropriate, redefined and updated with the assistance of the private sector and taxpayers.

Conduct plain language reviews of key information and communication pieces. The great majority of SME owners want to meet their obligations but unclear and bureaucratic language leads to confusion and frustration and hinders compliance. Information needs to be easily understandable and applicable to small business. General information, whether it comes from legislation, or is contained in bulletins, notices or web pages, needs to be

written in plain and simple language. As CRA employees are not usually in the best position to determine what plain language is, we recommend that CRA undertake plain language audits with the private sector and taxpayers on a regular basis to determine how well their communications are understood by Canadians. The overall goal of this endeavour is to make sure Canadian taxpayers are able to understand and comply with regulations.

"Have regular visits from their office to small business between the owner and a CRA representative so that discussions can occur in person about issues or inquiries. This would build up relationship between CRA and business owners where trust and growth could occur as opposed to distrust and conflict."

CFIB Member, Alberta

Monitor and publicly report on the customer service performance of CRA agents

To ensure neutrality, measuring the performance of CRA agents should be done by independent entities on a regular basis. This would enable CRA to hear the views of taxpayers from multiple sources, as well as ensure that deliverables and standards are being met from a client perspective. The independent bodies should include external stakeholders, such as CFIB.

Improve Taxpayer Fairness

Increase accountability of front-line call centre agents

CRA call centre agents should volunteer their ID numbers to each and every caller. This is a simple measure that will help ensure that all CRA employees are held accountable on their knowledge and their customer service when providing information and advice to small business owners.

Provide a mechanism for small business to get written electronic advice from CRA.

Agents should have the ability to follow-up with small business taxpayers by email in order to improve accountability and create a "paper-trail" of the information provided. The proposal to develop a mechanism for small

business owners and their representatives to communicate with CRA electronically within *My Business Account* is promising.

CRA's written advice to small businesses should be honoured even if this advice is later found to be incorrect.

This is an essential factor in creating accountability at CRA and has worked very effectively in British Columbia for a number of years. Small business owners and tax practitioners contact CRA to ensure that they are properly complying with their obligations. When advice provided by CRA that is then followed by the taxpayer, turns out to be incorrect - CRA should honour its advice, admit its mistake, and refrain from penalizing the taxpayer.

Implement impartial third-party reviews of specific disputes.

Tax court can be extremely expensive for smaller businesses who often just end up giving in to CRA, even if they know they are probably right, simply to avoid the high cost of facing the Agency in Tax Court. Instead, CRA should look at British Columbia's model of third-party reviews for specific disputes which provides smaller businesses with an alternative method for settling a dispute with CRA. This process would be particularly helpful when interpreting grey areas in the legislation.

Improve the Voluntary Disclosure Program

CRA has a Voluntary Disclosure Program (VDP) that allows taxpayers to make voluntary disclosure of information that involves the application or potential application of a penalty. The scope of the VDP should be broadened to encourage taxpayers who want to learn or correct their mistakes. Many of our members said that they would benefit from having CRA agents visit their business as it would help CRA understand their unique reality. In addition, such an initiative would allow SMEs to ask questions and learn how their business can be compliant. Such an initiative would also help build trust towards CRA. Improving and expanding the scope of the VDP would be in line with CRA's commitment to conduct outreach activities to help small business comply with the

legislation. Such a program should allow for a promise of zero penalties and fair treatment.

Reduce the compliance burden on SMEs

Measure and publicly report on an ongoing basis the regulatory burden imposed on small business

In 2006, the CRA's Action Task Force on Small Business Issues was created in order to reduce the compliance burden on SMEs. CRA focused on three areas: the overall simplification and reduction of the interaction between CRA and small business, the improvement of CRA's communication with small business and systemic reduction of red tape. According to the last update of the Final Report on Action Items, 61 out of 65 action initiatives were completed. However, there is room for improvement. In particular, the reduction of paper burden needs to be renewed and it must start with establishing a permanent, ongoing measurement. Policies such as fixing a date for the implementation of new regulation for business, constraining regulators by imposing a reduction of a regulatory requirement for every new one introduced or scrutinizing every existing regulation to get rid of the obsolete ones or simplify others, are only some of the strong measures that CRA could undertake.

Minimize the time spent by SMEs to comply with audits.

CRA should minimize any disruptions to the business environment and be sensitive to the fact that the business owners have to run their business in addition to being compliant. In addition, CRA should inform a small business of what they should expect when being audited, their rights as well as the contact information of the supervisor of the auditor should they face problems during the auditing process. British Columbia's auditing process has been innovative in communicating with business owners. In addition to providing a typical audit flowchart, each auditor provides the small business being audited a video which explains what is an audit, what to expect during and after an audit, as well as the rights and obligations of the business owners. CRA should consider something similar.

Review and cut the fees charged for CRA's electronic service transactions by financial institutions

Members have commented that electronic service transactions are expensive and a deterrent for using electronic service payments. CRA, as one of the biggest payment recipients, should start working with banks to ensure that banking costs for payments to CRA are competitive and not hindering the use of electronic payments.

Do not force taxpayers to file electronically

There remains a significant segment of SMEs – approximately 10 to 15 per cent – that has no access to the internet and/or has little interest in doing business with government electronically. That is why we are concerned with CRA's growing emphasis on requiring the use of on-line filing, payment and tools. While we support the continued adoption and evolution of technological advances in how CRA interacts with taxpayers, they should also not forget that many small business owners are not able or willing to provide payment and/or financial information via the web. All tools necessary for a business to collect and remit taxes on behalf of the government should be made available to them in the format they desire, even if that requires CRA to mail it to them.