

Question Number (on the TEI submission)	A. Introduction, Question 1
Question Title	Vision for the CRA's International and Large Business Directorate
Question - Text	We invite the Director General of the CRA's International and Large Business Directorate to provide an update regarding her thoughts on the vision for the Directorate's future and how TEI might help realize that vision.
CRA Answer	<p>The International and Large Business Directorate (ILBD) is committed to developing our people, delivering innovative programs, improving service, certainty and fairness, collaborating with domestic and international partners and enhancing our focus on enforcing the consequences of non-compliance.</p> <p>We continue to strengthen and refine our risk assessment process, leverage resources and technical capacity, influence compliance behaviour and address the highest risk cases nationally, while working to improve audit quality, integrity and control.</p> <p>Our top priorities for the medium term years are to:</p> <ol style="list-style-type: none"> 1. Build and maintain technical capacity and implement effective succession planning strategies within the program both in HQ and in the regions, through a comprehensive training and learning strategy, effective employee development programs and targeted staffing; 2. Enhance our risk assessment capabilities using automated systems, leverage business intelligence including all available data sources, and improve the integrity of our data. 3. Ensure that our cases meet the required standards for audit quality throughout the compliance process from risk assessment and validation to audit finalization which includes engagement of subject matter experts and if needed counsel at audit stage, thereby ensuring the sustainability of our compliance results. <p>We will continue to work closely with our stakeholders, including TEI to implement our vision and key priorities over the coming years to improve the compliance program, provide service whenever possible, and to ensure tax fairness within the large business population segment.</p> <p>In 2020, the CRA would like to meet with TEI and CPA to discuss corporate tax compliance redesign, more specifically, minimizing complexity and burden for tax filers. We invite TEI comments on this topic.</p>

Question Number (on the TEI submission)	A. Introduction, Question 2 (a)
Question Title	Public Consultations
Question - Text	<p>TEI applauds the CRA for engaging in a number of public consultations on various topics in recent years.</p> <p>a) We would appreciate an update from the CRA regarding its public consultations, including:</p> <p>(1) the outcomes of recently completed consultations; (2) the status of any ongoing consultations; and (3) topics that might be addressed in future consultations.</p>
CRA Answer	<p>Context: CRAs approach to consultation and engagement</p> <ul style="list-style-type: none"> • From syndicated research purchased by the Privy Council Office, it is clear that Canadians want to be engaged in government decisions, to feel listened to by government and to see their input turned into action. (Source: A Study on Citizen Engagement.) • The Government of Canada as a whole is putting a strong emphasis on increasing engagement and transparency as part of an open government approach. (Source: Open Government.) • The CRA is taking this seriously and believes that consultation and engagement plays an important role in building public trust in the CRA. In the last year, the CRA has been increasing its capacity for stakeholder and public engagement. The CRA now has a Consultation and Stakeholder Engagement Centre of Expertise, which I’m leading, and which will support the CRA to produce actionable insight based on a better understanding of the public and stakeholder’s needs. <p>Response to 2.a(1) – Outcomes of recently completed consultations</p> <ul style="list-style-type: none"> • One of the challenges the CRA faces as a large organization is that there is no one central spot from which consultations are planned and implemented. The CRA’s programs and branches design consultations based on the decisions they need to make. • Typically, program experts will speak about the outcomes of their consultations. Some of these highlighted consultations are summarized below. • The Consultations and Stakeholder Engagement Centre of Expertise has a role in gathering and tracking consultation and engagement activities in a centralized way to ensure internally that the CRA is as coordinated and synchronized as possible. This will have a positive impact on the CRA’s ability to be more strategic and responsive to the stakeholders and publics that it consults.

- The CRA is making an effort to publish as many reports as possible on the Government of Canada's Consulting with Canadians website:
<https://www.canada.ca/en/government/system/consultations/consultingcanadians.html>
- For this segment, five Agency consultations are highlighted below.
 - ***Serving You Better (SYB) consultations***
In recent years, the CRA consulted with small and medium businesses to help make Agency programs and services more streamlined and client-focused. More information on these consultations, including reports and progress tracker, can be found on the following Canada.ca website:
<https://www.canada.ca/en/revenue-agency/corporate/about-canada-revenue-agency-cra/small-medium-businesses-canada-revenue-agency-committed-serving-you-better.html>
 - ***Serving Canadians Better (SCB) consultations***
From April 23 to June 18, 2019, the CRA held a series of in-person and online consultations with individuals and advocates of vulnerable populations to proactively listen and learn from Canadians about their service experience with the CRA and expectations for the future. In December 2019, the CRA released a summary as well as the full report of what it heard from Canadians during these consultations, the first of its kind. The feedback received during these consultations is in line with what the CRA hears through existing feedback channels. Canadians want services that are personal and tailored to their individual needs, easy to understand, consistent, and modern. As a result and starting this upcoming tax season, the CRA will announce new initiatives that put people at the centre of service delivery. More information on these consultations can be found on the following Canada.ca website:
<https://www.cra-engage-arc.ca/en/collections/serving-canadians-better>
 - ***Design jams and External Advisory Panel on Service***
In October 2018, the Minister of National Revenue publically highlighted the appointment of the CRA's first Chief Service Officer (CSO). The CSO is responsible for leading the Agency's service transformation agenda with an integrated, client-focused approach. Building on the success of SYB consultations (mentioned previously), this includes conducting a series of consultations with Canadians. In addition to the SCB consultations (mentioned previously), the CSO is also conducting design jam sessions with key internal and external stakeholders and users to promote co-creation of service improvements that respond directly to client needs, as well as seeking insight and expert advice from public, private and non-for-profit sector leaders on emerging trends and practices in service design and delivery.
 - ***APA Consultations***
In June/July 2019, the CRA conducted informal consultations with selected external tax professionals on opportunities for improvements to the Advanced

Pricing Arrangement (APA) Program. The CRA then conducted joint consultations with Internal Revenue Service (IRS) officials regarding potential improvements to the two countries' APA programs in August/September 2019. The CRA is always interested in receiving feedback and input from stakeholders on its programs and processes, including the APA program. The CRA is currently taking the feedback into consideration and is looking to refine its APA program to make it more timely and responsive to taxpayer needs. In addition, the CRA and IRS will look to harmonize steps within their APA processes where possible.

○ **T1134 Consultations**

The CRA is in the process of updating the T1134 Information Relating To Controlled and Non-Controlled Foreign Affiliates, to reflect legislative amendments and improve service to taxpayers. The CRA has revised the T1134 form and has shared it with TEI and CPA Canada for final consideration. Responses have been received and are being considered by our subject matter experts. The CRA is meeting with TEI in January to discuss all suggestions and concerns. The form is on track for being available for use in January 2021, and is applicable for taxation year-ends starting 2021 and later.

Response to 2.a(2) Status of ongoing consultations

- The Consulting with Canadians website is the best place to find out about ongoing and upcoming consultations.
<https://www.canada.ca/en/government/system/consultations/consultingcanadians.html>
- The government wide reporting process is relatively new, and has been under development as recently as April 2019. The goal is to make sure that consultations are reported publically.

Response to 2.a(3) Topics that might be addressed in future consultations

- With regards to topics to be addressed in the future, the Agency will soon undergo the planning process for the 2020-2021 year with respect to consultations and engagement.
- While it is too early to speculate on specific consultations, we know that the Agency will continue to be focused on service delivery, operational agility, profit-shifting and offshore and aggressive tax planning, data management, security and privacy, and emerging technologies (from the summary of the Summary of the Corporate Business Plan 2019-20 with Perspectives to 2021-22).

Question Number (on the TEI submission)	A. Introduction, Question 2 (b)
Question Title	Public Consultations
Question - Text	<p>TEI applauds the CRA for engaging in a number of public consultations on various topics in recent years.</p> <p>b) TEI's IRS Administrative Affairs Committee formed a working group in 2015 to evaluate audit experiences and best practices in examinations of transfer pricing issues, with the goal of sharing our findings with the U.S. Internal Revenue Service ("IRS") and collaborating with the government to improve the transfer pricing examination process.</p> <p>Would the CRA be amenable to engaging with members of TEI's Canadian Income Tax Committee in a similar collaborative effort to improve the transfer pricing examinations process in Canada?</p>
CRA Answer	The CRA would be happy to meet with TEI's Canadian Income Tax Committee to hear about the working group's findings.

Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 1, Part A
Question Title	Technology at the CRA
Question - Text	<p>Last year, TEI asked the following of the CRA:</p> <p>Technology is front and centre in the current environment. TEI is interested to understand how the CRA is currently using technology to improve its processes, and how the CRA envisions technology impacting income tax audits over the next three to five years. We would also appreciate the CRA's thoughts regarding the involvement of large business taxpayers in its technological development, and the role that TEI can play in helping the CRA achieve its technology development goals. We would appreciate an update regarding the CRA's use of technology, including discussion of the following:</p> <p><u>Part A</u></p>

	<p>Multinational corporations increasingly encounter different approaches to the application of technology by tax authorities around the world in how they access and analyze taxpayer data for audit purposes. Given the shared desires of government and taxpayers to bring audits current and see them conducted more efficiently, can the CRA comment on whether it plans to change how it accesses taxpayers' electronic data and, if so, how such data would be accessed, used, maintained (i.e., protected against unauthorized access), and shared (e.g., within the CRA, with other tax authorities)?</p>
CRA Answer	<p>CRA is always looking for new and more efficient methods to obtain taxpayer data and to automate some aspects of our compliance activities that will reduce the burden on taxpayers.</p> <p>CRA has been working over the last number of years to create practical and secure tools for taxpayers to provide their accounting data to CRA for compliance purposes. These tools include:</p> <ul style="list-style-type: none"> • My Business Account portal; • Audit enquiries (2 way transfer); • Represent a client (transfer via an authorized representative); and • File Transfer Protocol Secure (secure transfer using taxpayer's secure File Transfer Protocol site). <p>The Large Business Audit program continues to reinforce that the CRA portals are the preferred method of communication during an audit between the Integrated Large Business Audit Teams and the large business taxpayer. Based on the feedback received to-date, the CRA's Represent a Client portal is preferred to communicate electronically with the large business taxpayer and should be used whenever possible to streamline the audit process, reduce compliance burden, and maintain a secure method of communication with the taxpayer.</p> <p>In terms of data processing for audit purposes, CRA has automated the processing/conversion of taxpayers data backups for a number of popular accounting software that account for more than 50% of SME audits involving electronic data processing. Additional software are currently being considered for automation.</p> <p>Protection of taxpayer information is one of CRA's priorities. Taxpayer data obtained for compliance purposes, is stored in our secure systems and accessed by authorized users only (i.e. Auditors, Computer Audit Specialists, supervisors).</p>

Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 1, Part B, (a)
Question Title	Technology at the CRA
Question - Text	<p><u>Part B</u></p> <p>In December 2017, the CRA provided a comprehensive response to TEI's question regarding completed and planned enhancements to the CRA's online "My Business Account" system. TEI invites the CRA to provide an overall update regarding its efforts to improve the online experience for corporate taxpayers. We further invite the CRA to provide specific updates with respect to each of the following:</p> <p style="padding-left: 40px;">a) Implementation of access to the non-resident account information by taxpayers through My Business Account</p>
CRA Answer	<p>The CRA requires prescribed identification information on file in order to authenticate a person for the secure portals such as the social insurance number (SIN), individual tax number (ITN), temporary tax number (TTN) or non-resident representative number (NRRN). As such, non-residents who are living outside of Canada and the US can access My Business Account as long as they have previously filed a T1 tax return (Non-resident, S. 216 election, S. 217 election). Due to security requirements for authentication, we are unable to modify this at this time but are in the process of analyzing this situation.</p> <p>For non-residents, who can be authenticated and access My Business Account or Represent a Client, the CRA is looking into developing online services for non-resident accounts.</p>

Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 1, Part B, (b)
Question Title	Technology at the CRA

<p>Question - Text</p>	<p><u>Part B</u></p> <p>In December 2017, the CRA provided a comprehensive response to TEI’s question regarding completed and planned enhancements to the CRA’s online “My Business Account” system. TEI invites the CRA to provide an overall update regarding its efforts to improve the online experience for corporate taxpayers. We further invite the CRA to provide specific updates with respect to each of the following:</p> <p>b) Improved tracing ability for transfers of money between accounts – Payment transfers between taxation years, and sometimes between program accounts, are not currently displayed in My Business Account. For example, if a taxpayer were to transfer a 2018 installment payment to the 2019 installment account, My Business Account would not show a transfer. Instead, it would report a payment only to the 2019 taxation year without any indication that the payment was originally credited to the 2018 year. The absence of a “paper trail” causes problems for taxpayers both in tracking payments and satisfying internal corporate governance controls, especially for large corporate groups with multiple payment transfers between various accounts. Could the CRA add functionality in My Business Account to display payment transfers between taxation years and between accounts or extensions?</p>
<p>CRA Answer</p>	<p>We are looking at displaying more details in My Business Account relating to transfers between taxation years, between program accounts and between extensions of the same Business Number where possible in the future.</p>

<p>Question Number (on the TEI submission)</p>	<p>B. Follow-up Questions and Carryover Items from Prior Years, Question 1, Part B, (c)</p>
<p>Question Title</p>	<p>Technology at the CRA</p>

Question - Text	<p><u>Part B</u></p> <p>In December 2017, the CRA provided a comprehensive response to TEI’s question regarding completed and planned enhancements to the CRA’s online “My Business Account” system. TEI invites the CRA to provide an overall update regarding its efforts to improve the online experience for corporate taxpayers. We further invite the CRA to provide specific updates with respect to each of the following:</p> <p>c) Automatic availability of statements of interest for each Notice of (Re)assessment – At present, statements of interest are not typically issued with a Notice of (Re)Assessment, requiring taxpayers to separately request such statements and wait for their requests to be fulfilled. Would the CRA consider automatically issuing a statement of interest with each Notice of (Re)assessment?</p>
CRA Answer	<p>An automated solution beyond what already exists is not being considered at this time.</p> <p>A Statement of Interest is issued with a Reassessment provided the revised and adjusted amount of instalment or arrears interest is equal to or greater than the set threshold. For RC accounts , the threshold is \$500 and for OL, CT and GST accounts the threshold is \$5,000.00.</p> <p>You can request an interest review or statement of interest or both through My Business Account by selecting the “Enquiries service” and then selecting the “Request interest or statement of interest” form.</p>

Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 1, Part B, (d)
Question Title	Technology at the CRA
Question - Text	<p><u>Part B</u></p> <p>In December 2017, the CRA provided a comprehensive response to TEI’s question regarding completed and planned enhancements to the CRA’s online “My Business Account” system. TEI invites the CRA to provide an overall update regarding its efforts to improve the online experience for</p>

	<p>corporate taxpayers. We further invite the CRA to provide specific updates with respect to each of the following:</p> <p>d) Availability of online services for mutual fund trusts – In November 2016, TEI requested an update on the availability of online services to mutual fund trusts. The CRA responded that trusts, including mutual fund trusts, with no taxable income, tax payable, or refundable credits would be able to electronically file Form T3RET, <i>T3 Trust Income Tax and Information Return</i>, beginning in January 2018. One year later, in response to TEI’s follow-up question on this matter, the CRA indicated that it was no longer able to commit to a timeline for the expansion of electronic services due to the government’s shift in focus toward improving the collection of beneficial ownership information. Given the passage of time since our initial inquiry, TEI respectfully renews its request for a status update regarding the availability of online services to mutual fund trusts. We would also appreciate an update from the CRA concerning the prospective introduction of T3 self-service portal options.</p>
CRA Answer	<p>The CRA is planning to modernize the systems and processes used to assess T3 returns in conjunction with the proposed new beneficial ownership information reporting requirements for trusts announced in Budget 2018. Enhanced functionality will allow electronic filing beginning in February 2022 for the 2021 tax year related to the majority of T3 returns, including mutual fund trusts. As part of the modernization of the T3 systems, the CRA is also evaluating potential self-service options.</p>

Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 1, Part B, (e)
Question Title	Technology at the CRA
Question - Text	<p><u>Part B</u></p> <p>In December 2017, the CRA provided a comprehensive response to TEI’s question regarding completed and planned enhancements to the CRA’s online “My Business Account” system. TEI invites the CRA to provide an overall update regarding its efforts to improve the online experience for</p>

	<p>corporate taxpayers. We further invite the CRA to provide specific updates with respect to each of the following:</p> <p>e) Online service availability for RZ accounts – It can be difficult for taxpayers to track multiple (re)assessments generated in a taxation year with respect to their information returns program (RZ) account for filings such as Forms T5008 and T5. TEI believes that the tracking of these (re)assessments and related payments would be vastly improved if the CRA were to include a statement of account in My Business Account similar to what is available for RC, RP, & RT accounts. Would the CRA consider implementing such an enhancement?</p>
CRA Answer	<p>The CRA continues to expand its digital service offerings to provide Canadians with the tools and assistance needed to help meet their tax obligations. In the context of these efforts, the CRA will examine the suggested digital service enhancement.</p>

Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 1, Part B, (f)
Question Title	Technology at the CRA
Question - Text	<p><u>Part B</u></p> <p>In December 2017, the CRA provided a comprehensive response to TEI’s question regarding completed and planned enhancements to the CRA’s online “My Business Account” system. TEI invites the CRA to provide an overall update regarding its efforts to improve the online experience for corporate taxpayers. We further invite the CRA to provide specific updates with respect to each of the following:</p> <p>f) Managing owner information in My Business Account – The Business Profile section of My Business Account now includes the names and telephone numbers of owners under “Manage owner(s) phone number(s).” Some TEI members have noted that the names of the owners are not current and can be more than one year out of date. Not having</p>

	<p>the most current information can lead to confidential CRA correspondence going to individuals who are no longer associated with the taxpayer. In addition, obtaining Level 3 or offline authorization for individuals can be delayed when CRA is checking authorizations against an out-of-date list. In some instances, taxpayers will provide signed Certificates of Incumbency along with an authorization request to provide the most current list and expedite the process, but CRA still checks them against its potentially out-of-date list. TEI invites the CRA to (i) outline its current procedures to obtain director and officer information, and (ii) discuss what improvements it could implement to become more current and address these concerns.</p>
CRA Answer	<p>(i):</p> <ol style="list-style-type: none"> 1. When an owner update is requested for a corporation, CRA validates the information on the corporate registry site or proper documentation is required (ex: copy of the meeting minutes, certificate of amendment, Resolution of Board of Directors, etc.). If the client submits documentation that is more recent than the latest registry update, CRA updates the owner information, but reminds the client they must update their information with the corporate registry in the province or territory. Otherwise, they may need to provide ownership documentation again in the future. 2. Revenue Quebec updates owner information on BNs for which they administer the GST/HST accounts. 3. Duplicate owners must not be deleted unless it was confirmed with the owner. Ensure to keep the owner with the SIN on file (if the SIN belongs to the remaining owner on file). Also update the phone number and title accordingly. 4. When updating owners for Charities accounts: 5. If the charity is a corporation, update directors/officers by validating the information from the same sources listed in item 1 above. 6. If the charity is a Trust or 'Other', CRA uses the List of charities and other qualified donees website to search for the charity and view the 'Directors and trustees worksheet' to update the current directors. <p>(ii):</p> <p>CRA provides the list of owners in our online services so that account owners and their representatives can verify the accuracy of the information, and make corrections if necessary. However, the onus is on the account owner(s) to maintain accurate account information with the CRA, including owner names and proper addresses.</p> <p>For businesses that are not corporations, owners must provide documentation supporting any changes to the list of owners. For corporations, the incorporating authority associated to that business</p>

	<p>must be updated before CRA can make any updates to the owners. In this case, the owners must update the registry.</p> <p>However, simply updating the registry is not enough. Some incorporating authorities will pass the information on to the CRA, but in many cases the owners must make CRA aware of the change before CRA performs any updates. This means that the list of owners for any given corporation may not be up to date because no one has informed CRA that an update has occurred. The owner must inform the incorporating authority and then inform CRA after the incorporating authority has made the update.</p> <p>CRA is implementing a new initiative in May 2020 to make submitting owner updates via our online service “Represent a Client” (RaC) easier and more obvious to representatives. CRA is also continuing to discuss with other internal areas such as Charities and T3 about how to get updates for those types of businesses in a more timely fashion.</p>
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Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 2
Question Title	Benefits and Allowances Received from Employment
Question - Text	<p>Since October 2017, Income Tax Folio S2-F3-C2, <i>Benefits and Allowances Received from Employment</i>, has been “under review” and the CRA has directed employers to follow current practices consistent with the information available in Guide T4130, <i>Employers’ Guide - Taxable Benefits and Allowances</i>. In response to TEI’s December 2018 question on this subject, the CRA indicated that it had reviewed and revised the folio’s wording with respect to employee discounts on merchandise, but that the revised folio continued to undergo additional review pursuant to internal CRA procedures. TEI invites the CRA to provide an update regarding the status of this additional review and the projected release date of the revised folio.</p>

CRA Answer	<p>The folio is currently in the process of review and approval in accordance with CRA internal procedures. A projected release date for the updated folio cannot be provided at this time.</p> <p>During the approval period, the CRA continues to administer employee discounts on merchandise in accordance with the administrative policy outlined in Guide T4130, <i>Employers Guide – Taxable Benefits and Allowances</i>, which is currently available on the tax pages of the Canada.ca website.</p>
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Question Number (on the TEI submission)	B. Follow-up Questions and Carryover Items from Prior Years, Question 3
Question Title	QNRE Certifications and Program Progress
Question - Text	<p>The CRA released Form RC473, <i>Application for Non-Resident Employer Certification</i>, in early 2016 and thereafter began to accept applications and provide certifications of “qualifying non-resident employers” pursuant to subsection 153(7) of the Income Tax Act (collectively, the “R102 Program”).¹ TEI invites the CRA to provide an update on the R102 Program generally, as well as the number of Form RC473 applications that it has received each year since 2016. Please also provide details concerning the number of those applications that were rejected each year and the reasons for their rejection.</p>
CRA Answer	<p>Non-resident employees providing employment services in Canada are subject to the same withholding, remitting, and reporting obligations as Canadian resident employees. Therefore, any employer, including a non-resident employer, is required to withhold amounts on account of the income tax liability of an employee in Canada even if the employee is likely to be exempt from tax in Canada because of a tax treaty. For the employer to be relieved of their obligation to withhold, the employee would have to apply for and get an income tax waiver from the Canada Revenue Agency (CRA).</p> <p>However, the Non-Resident Employer Certification program provides an exception to the employer's withholding obligation. This exception is available for certain non-resident employers paying employment income</p>

	<p>to non-resident employees who perform duties in the capacity of an officer or employee in Canada after 2015.</p> <p>These non-resident employers, who apply for certification, will not have to withhold and remit tax on the payments they make to non-resident employees who are working in Canada for a limited time and who are exempt from tax in Canada under a tax treaty.</p> <p>The Non-Resident Employer Certification program began January 1, 2016, and the initial wave of RC473 applications were received in early 2016 and covered the two-year period from January 1, 2016 – December 31, 2017.</p> <p>There was an expectation that we would see a subsequent reduction in the numbers of form R102-R Regulation 102 Waiver Application (R102-R applications) and to some extent a correlating decrease in the number of T4 slips as qualifying non-resident employees who earn under \$10,000 would not require a T4 slip.</p> <p>As expected, there was a significant drop in R102-R applications in the first year of the program.</p> <p>There were very few RC473 applications rejected. However, the reasons for rejection include:</p> <ul style="list-style-type: none">• The information provided by the applicant (e.g. the Business Number; updated signing officer's information, etc.) was incomplete or incorrect, and attempts by the CRA to obtain or update the information were unsuccessful.• The applicants request to obtain a Business Number was unsuccessful, without a valid BN the RC473 is rejected.• The RC473 application was received late and the approval period only covered a portion of the taxation year.• The applicant failed to follow ongoing certification requirements (e.g.: no T4 slips filed for employees earning over \$10,000; T2 not filed; missing schedules, etc.). <p>Effective January 1, 2017, the program discontinued Form <i>R102-J Regulation 102 Treaty Based Waiver Application - Joint Employer / Employee</i>, as it addressed the same type of situations as the RC473 application.</p>
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Question Number (on the TEI submission)	C. Administrative Matters, Question 1 (a), (b) and (c)
Question Title	SR&ED Program Update
Question - Text	<p>TEI invites the CRA to provide an update regarding recent and planned changes to the scientific research and experimental development (“SR&ED”) program, including in respect of the following:</p> <ul style="list-style-type: none"> a) We understand that the CRA’s SR&ED Directorate is holding stakeholder meetings to modernize and improve the efficiency and effectiveness of the SR&ED program. Does the CRA have any insights to share from these stakeholder meetings at this stage? b) We would appreciate an update regarding any changes to the CRA’s approach to large file SR&ED audits in recent years. c) We would also appreciate an update regarding any recent progress or future plans made in respect of the following challenges with the existing SR&ED program: <ul style="list-style-type: none"> i. <i>Eligibility guidance</i> – Enhancements or clarifications to the CRA’s guidance on meeting the SR&ED eligibility requirements ii. <i>SR&ED claims review process</i> – Improvements to reduce the administrative burden on taxpayers iii. <i>Dispute resolution</i> – In disputes concerning the eligibility of highly technical work, taxpayers have no effective recourse other than to petition the Tax Court of Canada, but that court is not always the best equipped to deal with such highly technical matters and the financial threshold is frequently too low to justify the high cost of litigation, which can lead to questionable positions on audit.

CRA Answer	<p>Part (a)</p> <p>Regularly engaging with stakeholders is fundamental to being able to deliver a program that meets the needs and expectations of Canadians. Over the last year, a number of stakeholder meetings occurred with industry leaders, tax preparers and sector-specific communities which have led to insights which are reflected in the draft SR&ED program strategy. Due to the rapidly changing R&D and business environment, there is a need to review how the SR&ED program is administered so that it can continue to incentivise businesses to conduct quality R&D in Canada. The strategy focuses on three priorities which address barriers, pain points, and needs identified by the program's key audience groups through engagement and communications. These three priorities are: clear eligibility, efficient operations, and service by design.</p> <p>These priorities address some of the specific insights the program has heard from stakeholders. For example:</p> <ul style="list-style-type: none"> • Want to see an enhanced SR&ED program: Claimants said that they rely on SR&ED and many attribute their business growth to the tax support the CRA provides them with. They are very keen on seeing improvements to the SR&ED program and willing to collaborate and participate with the CRA in this endeavour. They want to see the program and its legislative requirements modernized to reflect today's business practices and evolving technologies. • Claiming process is onerous: Claimants feels like the SR&ED program is overly complex and that the CRA is asking for too much information during the application and review processes. They feel that SR&ED reviewers are working with a compliance-first mindset and that the spirit of the incentive mandate is being lost. They want to see the program simplified, want tailored service, and timely communications with the CRA. • Reviews are lengthy: Claimants feel that it takes far too much time to complete a review of a claim and that the CRA makes an unreasonable amount of information requests for evidence and substantiation. They are calling on the CRA to consider the claimant history and multi-year nature of a project in the review approach. They would like the CRA to provide more up-front information so that claimants know what to expect during a review. They expect more open and transparent communications as early as possible and would like decisions to be clearly explained. • Technical eligibility decisions are inconsistent: Claimants feel that their SR&ED experience varies depending on the reviewer
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	<p>assigned to their file or the region/office in which the claim was submitted. This is partly due to eligibility criteria and terminology that may be too open to interpretation and which leaves too many grey areas open for misinterpretation. Claimants are calling for clearer and simpler eligibility requirements with relevant explanatory information that is tailored to their business size and sector. They suggest better training and industry experience for reviewers so they can more easily recognize eligibility in all industry sectors.</p> <ul style="list-style-type: none">• In shifting its focus to designing service interactions based on claimant needs, the SR&ED program is also undertaking a design jam exercise as part of the CRA's overall commitment to improving service by putting people first. The design jam will explore how we might clarify and simplify the SR&ED claim review process in order to strengthen the relationship between claimants and the CRA. The program's aim with this exercise is to become more service oriented by exploring how we might reduce the pressure that claimants experience while ensuring that they feel supported by the CRA throughout the SR&ED claim review process, as well as to bridge the gaps by exploring how we might leverage industry norms and terminology to make SR&ED's requirements more applicable to claimants' operational contexts. The SR&ED program hopes to build on this exercise to continue to work together with claimants to further improve the program. <p>Part (b)</p> <p>The SR&ED program has implemented a large claim approach in order to streamline and facilitate effective and efficient reviews of large SR&ED claims. In early 2019, training on the approach was delivered to reviewers on concepts and techniques to help them better support the self-assessment efforts of large claimants.</p> <p>The large claim approach is intended to be a more fair and balanced approach for the claimant with a focus on:</p> <ul style="list-style-type: none">• enhancing the relationship with large claimants by working with them to better understand their business context, and• processing claims more efficiently with more transparency and less burden on the claimant, by considering the claimant's governance structure and how they identify, track, and document their scientific research and experimental development, along with more effectively using the available information.
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	<p>Part (c)(i)</p> <p>The program is currently working on updating its guidance on eligibility of work to simplify and clarify the requirements. The program has received feedback from various stakeholders including SR&ED staff, industrial associations, claimants, and other government departments. This feedback will inform changes to definitions of key terms and simplification of the overall eligibility requirements that will reduce the complexity of the program and ensure we provide taxpayers with the information they need to self-assess. The program is also providing training to all SR&ED staff to ensure consistency in the application of the eligibility requirements.</p> <p>Part (c)(ii)</p> <p>The SR&ED program is actively working towards increasing its efficiency and effectiveness of its claim review process so that claimants receive their tax credits quickly and with less burden. LEANing exercises are currently underway in which the program is exploring ideas to reduce inefficiencies, enhance consistency, and improve timeliness. The program is also actively working at expanding its use of information, tools and analysis for continued monitoring and improvement.</p> <p>Part (c)(iii)</p> <p>The CRA is committed to providing fair treatment to all SR&ED claimants in accordance with the <u>Taxpayer Bill of Rights</u>. In keeping with this commitment, the SR&ED program developed guidelines to ensure that SR&ED claimants' concerns are addressed in a fair and timely manner as early as possible throughout the claim process. We recognize that it is in everyone's interest to resolve concerns at the program level and at the earliest possible opportunity and not have issues escalate to formal objections, appeals, and tax court. These <u>guidelines</u> are currently available online and outline the steps that claimants can take to resolve their concerns, beginning with informal discussions between the claimant and the SR&ED reviewer and manager, to requesting an Administrative Review which is a process where claimants can request that their file be reviewed for due process before escalating to appeals and tax court.</p> <p>The intent of an Administrative Review is not to review technical eligibility determinations. However, the reality is that submissions for Administrative Review application are often about technical eligibility. As such, the program is reviewing its informal dispute resolution processes to ensure that issues are resolved more effectively, and informally, before formal processes are used. These changes will compliment the work that the program is undertaking in order to make its eligibility policies clearer and simpler to understand as well as more predictable for claimants.</p>
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Question Number (on the TEI submission)	C. Administrative Matters, Question 2
Question Title	Emerging Service Trends and Practices
Question - Text	<p>In October 2018, the Minister of National Revenue announced the appointment of Mireille Laroche as the CRA’s first Chief Services Officer. Shortly thereafter, in December 2018, the CRA announced the composition of an external advisory panel on service to provide the CRA with advice on emerging trends and practices in service design and delivery, as well as on client expectations related to services.</p> <ul style="list-style-type: none"> a) TEI seeks to better understand the roles and responsibilities of the Chief Services Officer and the external advisory panel on service, and the details of any initiatives that either is undertaking. b) TEI members have reported experiencing significant delays in resolving audit issues involving referrals to CRA headquarters on technical issues, SR&ED reviews, transfer pricing issues, and the like. TEI acknowledges that the complexity of certain issues may require careful analysis by the CRA. At the same time, however, a taxpayer should not have to wait for several years to pass before receiving any kind of feedback from the CRA after responding to a request for information. Would addressing such delays fall within the scope of the Chief Services Officer’s mandate?

CRA Answer	<p>Part A</p> <p><u>(1) Chief Service Officer (CSO)</u></p> <p>Over the years, the CRA has made significant advancements to improve its programs and services. Although we continue to introduce new services to make it easier for Canadians to file their taxes and have access to the credits and benefits they are entitled to, we know that we are not fully meeting their needs. Overall, Canadians want services that are personal and tailored to their individual needs, easy to understand, consistent, and modern. The CRA's goal is to create a positive client experience by making it easy for Canadians to do business with us.</p> <p>To achieve this, the CRA has embarked on a transformation journey to strengthen its service offerings and meet client needs and expectations by putting people at the centre of service delivery. The CRA's first Chief Service Officer (CSO), publically announced in October 2018, is responsible for leading the Agency's transformation agenda with an integrated, client-focused approach. This is done by consulting with Canadians and developing frameworks, approaches, methodologies and/or tools to guide and help the CRA transform how it serves them.</p> <p>To improve the service experience of Canadians both from a functional and emotional perspective, CRA programs and services will be designed with the client at the centre, considering their entire journey with the CRA across all channels and interactions. The CRA will engage with its clients, leverage their feedback, and use their insights to design and deliver programs and services that meet their needs and expectations, with a view to building trust. The CRA will also oversee a cultural shift to promote greater horizontality and integration of our work and policies, and establish a new service-oriented identity.</p> <p>The CRA is also adopting a client experience approach to create a better service experience for Canadians when they interact with the CRA. This includes conducting design jams with key internal and external stakeholders and users to promote the co-creation of service improvements and generate solutions to address pain points; and developing standardized client experience tools, methodologies, and research methods (for example, personas and journey maps) to better understand client and interactions across all channels.</p> <p><u>(2) External Advisory Panel on Service</u></p> <p>The <i>External Advisory Panel on Service</i> (the Panel) also falls under the CSO's role to consult externally – alongside public consultations and design jams with stakeholders and users – to listen to Canadians and learn how to improve. The panel is comprised of senior leaders with academic, public, private and/or not-for-profit backgrounds and</p>
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	<p>expertise. Members were selected based on their knowledge and experiences in domains related to service design and delivery – including client-centric services, digital services and innovation. Members engage in discussions with the CRA to share lessons-learned, experiences and expertise, and offer insights and feedback to support the advancement of the Agency transformation. There are no specific initiatives being undertaken by the Panel as it is not a decision-making but rather an advisory group. More information on the Panel can be found on the following website:</p> <p style="text-align: center;">https://www.canada.ca/en/revenue-agency/news/2018/12/canada-revenue-agency-announces-the-creation-of-an-external-advisory-panel-on-service.html</p> <p>Part B</p> <p>Addressing such delays would fall within the scope of the CSO mandate, to a certain extent. While the CSO is not responsible for implementing program changes, the work of the CSO helps define the overall transformation direction that the Agency is taking, including designing and delivering programs and services that better meet clients needs and expectations. The CRA will succeed in creating the best possible experience for Canadians by adopting a client experience approach and looking at all interactions Canadians have with the CRA across the entire client journey – such as these – in order to find solutions to address pain points and identify improvement opportunities. Pain points are analyzed through client experience methods such as design jams and journey mapping.</p> <p>On another note, the faster information is made available to the CRA, the sooner the audit can be completed. Further, the CRA is currently looking into establishing guidelines for national field audit timeframes and headquarter technical referral responses based on complexity to ensure timeliness and consistency.</p>
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Question Number (on the TEI submission)	C. Administrative Matters, Question 3
Question Title	Regulation 105 Withholding

Question - Text	<p>Regulation 105 generally requires that every person paying to a non-resident person a fee, commission, or other amount in respect of services rendered in Canada, of any nature whatsoever, must deduct or withhold 15 percent of such payment. Regulation 105 withholding is unduly burdensome for companies to administer and can impose substantial compliance costs on Canadian companies with foreign vendors/suppliers. Would the CRA be open to (re)engaging in consultations with TEI and other stakeholder organizations to consider proposals for simplifying the Regulation 105 compliance process? TEI strongly believes that the introduction of a certification-based waiver process similar to the Form W-8BEN-based process in the United States would significantly improve the current Regulation 105 withholding regime—to the mutual benefit of taxpayers and the CRA.</p>
CRA Answer	<p>Yes, the CRA would be willing to engage in consultations with TEI and continue its ongoing consultations with other stakeholders to further simplify the Regulation 105 (Reg. 105) waiver process within the current legislative framework. In June of 2018, the CRA introduced a new simplified Reg. 105 waiver process for self-employed non-resident artists and athletes to reduce or eliminate the tax withheld on earnings for performances in Canada, and earning no more than \$15,000 Canadian during the calendar year. The CRA is currently working to further expand the simplified process. We are collecting and analyzing internal and external feedback to assess the impact of the initial changes, and determine the next steps for expansion of the simplified waiver process. Future initiatives will include consultation with external stakeholders and the CRA welcome all suggestions.</p> <p>As we understand the W-8BEN process, once the U.S. payer receives Form W-8BEN from the recipient, and withholds in accordance with the information provided therein, the payer is absolved from any additional liability for any deficiency of withholding tax. Under Canadian legislation, the payer is liable for any required withholding taking into account any waiver reduction. Removing this liability is a policy issue that should be addressed to the Department of Finance.</p>

Question Number (on the TEI submission)	D. Audit/Appeal Matters, Question 1
Question Title	Audit Query Response Period

Question - Text	<p>Corporate taxpayers are commonly requested to respond to audit queries within 30 days. The reasonableness of a 30-day (or any other) response period can depend on several criteria, including: whether the query letter includes a small or large number of individual queries; the nature of the queries (e.g., whether they require a short response, a document, or a large volume of data); the taxpayer resources dedicated or available to respond to the queries; the time of year at which the query is made (e.g., proximity to major holiday seasons or other filing deadlines); practical difficulties in collecting the requested data due to location or age of the data, systems, et cetera; and the importance of the response to the continued and timely progress of the audit.</p> <p>TEI invites the CRA to share its views regarding the appropriateness of a minimum 30-day response period as a matter of general administrative policy for large corporations, and whether the CRA has any official view on the criteria to be considered in shortening or lengthening this period?</p>
CRA Answer	<p>All taxpayers should be given a reasonable time to provide requested information to the CRA. If the taxpayer is concerned about the timeframe they should discuss this matter with their International and Large Business Case Manager right away.</p>

Question Number (on the TEI submission)	D. Audit/Appeal Matters, Question 2
Question Title	Audit Approach
Question - Text	<p>For large corporations under full-time audit by the CRA, the CRA's audit approach can be extremely burdensome. TEI understands that the CRA is contemplating potential changes to its audit approach and we invite the CRA to comment on those changes. In particular, TEI would appreciate the CRA's perspective in respect of the following:</p> <p>a) What is the background of the CRA's current risk-assessment model, and what are the main factors that contribute to a large corporation being ranked high-risk?</p>

	<p>b) What actions could a large corporation take to potentially reduce its risk assessment to “medium” and thereby reduce its audit burden?</p> <p>c) It is our understanding that corporations with a significant amount of cross-border activity are typically assessed as “high risk.” In such cases, is there any action that the corporation could take to potentially reduce its risk assessment for domestic audit purposes, allowing the CRA to focus its audit on international issues and thereby reduce the corporation’s domestic audit burden?</p>
CRA Answer	<p>The CRA uses an integrated risk-based approach to large business compliance to identify and address the highest risk cases nationally. On an annual basis the large business population is subject to a comprehensive integrated risk assessment process using CRA’s Integrated Risk Assessment System (IRAS). This automated system applies risk algorithms that run on the CRA’s databases to identify risk issues and generate a risk ranking of the large business population. This is known as Tier I risk assessment. The Tier I risk issues are then pre-populated in a screening case within the CRA’s audit case management system (Integras) for those taxpayers that are considered to be high risk. These screening cases identified by IRAS are selected for regional and national calibration exercises and then included on the workplan. These calibration exercises are referred to as the Tier II stage.</p> <p>Those taxpayers that are considered high risk per the work plan will be selected for a full compliance audit starting at the Tier III – Risk Assessment and Validation stage. The Integrated Team will contact the taxpayer, request access to the electronic records through the Computer Audit Specialist program, and conduct the audit planning and governance document review process. The Integrated Team will take into consideration whether the taxpayer has an effective Tax Control Framework in place. Taxpayers that are open and transparent about their tax risks/uncertain tax positions will enable the Integrated Team to more quickly determine whether the taxpayer remains high risk or is in fact low risk.</p> <p>To the extent the taxpayer is low risk, the Tier III case will be closed on a more timely basis thereby providing the taxpayer with earlier tax certainty, and the CRA with a level of assurance that the taxpayer is compliant and has reported and paid correct amount of tax, the results of which will be included in ILBD’s Validated Risk performance measure (similar to “Tax Assured” or “Justified Trust” by other tax administrations). Validated Risk allows the audit function to take recognition for a quality risk validation even if it may result in a no change case from a Tax Earned by Audit (TEBA) or Fiscal Impact perspective. This contributes to more timely case closure, earlier tax certainty, and lower compliance burden for low-risk cooperative taxpayers.</p>

	<p>For those taxpayers that remain high risk and that may be less than transparent about their tax risks/uncertain tax positions, the CRA will proceed with the full compliance audit. In some cases, depending on the number of high-risk legal entities within the economic group, and/or lack of cooperation by the taxpayer, a second Integrated Team may be assigned to examine the other high risk legal entities within the group to ensure compliance. This may increase the level of compliance burden and tax uncertainty for the taxpayer. The CRA will communicate to the taxpayer the significant tax audit issues in the case and the reasons for assigning more resources if applicable. This may take place during an Approach to Large Business Compliance (ALBC) face-to-face meeting.</p> <p>Large business taxpayers are inherently more complex and have more material tax obligations and as a result inherently higher risk. However, those taxpayers that are open and transparent with the CRA about their uncertain tax positions, and maintain an effective Tax Control Framework demonstrate lower behavioural risk, and thus allow the CRA to validate the taxpayer's level of compliance. Large business taxpayers are seeking earlier tax certainty with respect to their tax filing positions. At the same time, through its compliance activities, the CRA examines and validates the level of compliance in order to obtain a certain level of assurance based on sufficient appropriate audit evidence that the taxpayer has in fact reported and paid the correct amount of tax.</p> <p>Large corporations with a significant amount of cross-border activity seeking certainty and reduced audit/compliance burden may wish to consider Canada's Advance Pricing Arrangement (APA) program. The APA program is a proactive service that allows the taxpayer and the tax authority to avoid future transfer pricing disputes by entering into a prospective agreement, generally covering at least five tax years, regarding the taxpayer's transfer prices.</p> <p>Another option is the Organization for Economic Co-operation and Development's (OECDs) International Compliance Assurance Programme (ICAP). ICAP is a voluntary program with a focus on transfer pricing, permanent establishments and other material international tax issues. ICAP uses Country-by-Country reports and other information to facilitate open and co-operative multilateral engagements between MNE groups and tax administrations, providing groups are willing to engage actively and in a fully transparent manner with increased tax certainty. ICAP anticipates the issuance of outcome letters in less than one year and is a great medium to achieve early tax comfort on a multijurisdictional basis for the covered period and a potential roll forward period of two years.</p>
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Question Number (on the TEI submission)	D. Audit/Appeal Matters, Question 3
Question Title	Headquarters Quality Control Reviews
Question - Text	<p>Several TEI members were recently advised that before a matter under audit could be closed, it would require a headquarters quality control review. Notably, in none of these cases was the tax services office (“TSO”) proposing a reassessment. Could the CRA provide some background on this review process and the circumstances in which it may be required before an audit matter can be closed—including in cases where the TSO has signed off that the audit of the matter is otherwise complete?</p>
CRA Answer	<p>The Large Business Audit –Income Tax (LBA) program has begun conducting Tier III – Risk Assessment and Validation (RAV) quality reviews based on review standards. The Tier III – RAV is the start of the audit process. The Tier III - RAV affords the Integrated Large Business Audit Teams an opportunity to further validate the level of risk and to add audit issues as required based on the additional taxpayer information obtained. Depending on the outcome of this analysis, the Team may choose to conclude the audit at the Tier III – RAV stage if they can satisfy themselves based on sufficient appropriate audit evidence that all risk has been validated and the risk of non-compliance is low. The Team may also conclude that the taxpayer remains high risk and the Tier III – RAV case should be promoted to a full compliance audit. A Tier III quality review will be conducted for audit cases that do not proceed beyond this stage which should encompass most no change cases. To the extent the quality review standards are met, the amount of income tax reported and paid by the taxpayer will qualify for CRA’s Validated Risk performance measure similar to the Tax Assured measure that is used by other tax administrations.</p> <p>In addition to the Tier III quality review process, ILBD’s Continuous Program Integrity Review (CPIR) continues to assess and promote the consistent application of standards of quality in the LBA program. CPIR conducts reviews of closed audit cases beyond the Tier III stage based on various quality review standards that are an extension of the Tier III standards. In a limited number of cases going forward, CPIR will conduct a review at the proposal letter stage to examine the level of audit quality. Finally, there are a number of referral processes in place, prior to reassessment, to ensure supportable technical positions. These include the technical support provided by Regional & National Technical Advisors and Industry Specialists, the mandatory referral process to HQ on the</p>

	<p>application of the General Anti-Avoidance Rule and Transfer Pricing Penalties, the National Early Warning System (NEWS) to notify HQ of significant audit issues, and the oversight provided by the Audit File Resolution Committee in regard to significant formal offers of settlement at the audit stage. All of these mechanisms are designed to promote audit quality and sustainability of reassessments with respect to the LBA program.</p>
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Question Number (on the TEI submission)	D. Audit/Appeal Matters, Question 4
Question Title	CRA Large File Case Program
Question - Text	<p>In November 2015, the CRA updated TEI regarding the Large File Case Program, including implementation of Integrated Large Business Audit Teams. In particular, the CRA explained:</p> <p>New for the next fiscal year, the CRA is moving forward with the implementation of Integrated Large Business Audit Teams. In fact many offices already have the integrated teams in place. These teams will be led by an International Large Business Case Manager and will include domestic auditors along with specialty auditors who have knowledge of aggressive tax planning and international tax. Team size and structure will depend on the risk associated with the file/audit to be conducted. The benefits of the integrated audit teams include less compliance burden to the taxpayer and better service under the concept of “One Team, One Voice, One Audit.” There will be:</p> <ul style="list-style-type: none"> ☑ more informed and streamlined risk assessment, ☑ more comprehensive audit planning, and ☑ enhanced audit quality due to the consolidation of technical expertise within the team. <p>TEI strongly supports a “1 Team, 1 Voice, 1 Audit” approach and would appreciate an update regarding the CRA’s implementation of this approach. What is the status of the Integrated Large Business Audit Teams? What expectations should we, as large business taxpayers, have? Might we expect a single audit plan covering all CRA compliance areas for each grouping of taxation years under audit? Should we expect the coordinated planning, completion, and closure of audits covering all functional areas, including SR&ED, GST, as well as income tax?</p>

CRA Answer	<p>The Integrated Large Business Audit Teams, led by the International and Large Business Case Manager, continue to reinforce the CRA's team approach to compliance. The Domestic, International, and Tax Avoidance auditors within the teams all contribute to the risk assessment and audit process based upon their respective subject matter expertise. The Case Manager is responsible for the overall audit case and acts as a single point of contact between the CRA and the taxpayer thus supporting the concept of "One Team – One Voice – One Audit".</p> <p>The allocation of ILB auditor resources is divided between domestic, international and tax avoidance programs. The regions have the operational flexibility to staff according to the risk and complexity of the assigned workload. The assignment of workload and the composition of the Teams will continue to be based on risk, complexity, and capacity. The Case Manager remains the single point of contact throughout the audit process including the early stages of risk validation and audit planning. ILBD is moving forward with a two year workplan and audit cycle such that in general two years of tax return filings will be audited at the same to streamline the audit process.</p> <p>ILBD continues to reinforce auditor development and succession planning within the Teams, and works closely with the regions to build and maintain technical capacity. A limited number of AU development positions will be re-introduced into the Teams and the CRA will recruit internally and externally, in some cases recent graduates of post-secondary education programs, to fill these positions. These employees will follow a pre-determined learning path with a focus on job-shadowing and on-the-job training. This initiative is in support of ILBD's priority to promote technical capacity and succession planning within the Large Business Audit program.</p> <p>ILBD continues to work closely with the other programs that undertake compliance activities in regard to the large business population such as GST/HST – Large Business, Scientific Research & Experimental Development, and Employer Compliance, to better risk assess the population, manage workload, and coordinate audit activities. Over the coming year, consideration will be given to taking a more integrated and coordinated approach with respect to CRA's compliance activities for the large business population where the audit periods are similar. It is recognized that a more coordinated approach can improve service, provide earlier tax certainty and reduce compliance burden in certain situations.</p>

	<p>In the coming year, ILBD will be examining the possibility of re-introducing a real-time audit concept as part of ALBC. A real-time audit occurs when CRA conducts an audit of specific issues before the taxpayer files the corporate tax return but after the specific transactions are undertaken. This is generally done at the request of the taxpayer. A real-time audit would require full disclosure of all transactions and related information on the part of the taxpayer, including disclosure of uncertain tax positions (UTPs) contained in the taxpayer's tax accrual working papers (TAWP).</p> <p>The unique nature of this type of audit would be beneficial only in certain situations where a taxpayer wants earlier tax certainty and it is fully transparent about its UTPs. ILBD will consider re-introducing real-time audit as part its ALBC but only in a very limited number of situations, taking into consideration the challenges that may occur with respect to timelines, capacity and measuring results.</p>
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Question Number (on the TEI submission)	D. Audit/Appeal Matters, Question 5
Question Title	2016 Auditor General's Report: Report 2, Income Tax Objections
Question - Text	<p>In November 2016, the Office of the Auditor General of Canada released its report on the CRA's management of income tax objections. The report set out a number of recommendations focused on improving the time the CRA takes to provide taxpayers with decisions on their objections and the sharing of those decisions within the CRA. In response to the report, the Minister of National Revenue stated that an action plan was underway to reduce processing times and the plan would be ready at the beginning of 2017.</p> <p>At TEI's request, the CRA has shared details and updates about the action plan over the last two years. TEI invites the CRA to continue in this tradition by answering our follow-up questions below:</p> <p>a) We would appreciate an update regarding the CRA's progress in reducing processing times for high-complexity audit files, as well as any additional steps that the CRA has taken in furtherance of this goal. What statistics can the CRA provide to demonstrate its progress made to date?</p>

	<p>b) Large corporations are often subject to several adjustments and consequential changes to a year under objection, which can result in additional reassessments and require the taxpayer to re-object multiple times to an outstanding issue for that year. This type of re-objection does not involve a substantive movement on the issue under objection. As the CRA responds to provide greater accuracy on the time it takes to process and resolve tax appeals, does it count these timelines from the initial objection, or does it effectively “restart the clock” whenever one of these additional reassessments and re-objections occurs?</p> <p>c) Is the CRA taking any actions at the audit level to resolve more disputes at that level?</p>
CRA Answer	<p>(a) The CRA website contains the current processing time for low-, medium-, and high-complexity objections; for income tax objections it states that it may take over 690 days to resolve high-complexity income tax objections. The Appeals Branch is looking to optimize timeliness results, recognizing that these objections are growing in their complexity.</p> <p>We have taken a number of measures to address this priority, which together will contribute to the furtherance of this goal. Following a LEAN process review in 2018, some procedural improvements were quickly implemented. A directive regarding enhanced communications with large business taxpayers was issued in early 2019.</p> <p>In 2018, the CRA added resources to address the workload of high-complexity objections and added further resources in 2019. The Appeals Branch will be looking to re-profile its investments, with a view to further increasing resources for this workload.</p> <p>We are in the process of establishing a pilot project to centralize the intake and screening of a specific workloads with a view towards improving the time it takes to identify and refer issues that need to be reviewed by specialised teams.</p> <p>(b) The CRA uses various data capture systems to manage its workloads. The Appeals Branch’s data capture system is designed to track objections (cases) from receipt, through review, and when a decision is rendered; these are the dates used to calculate timeliness. Where a reassessment has occurred, the previous objection is no longer valid and a new objection would need to be filed. Our service standard would apply separately to the new objection and would not include the time spent on the previous objection.</p> <p>(c) The Office of the Auditor General (OAG) published a report on its audit of the Agency’s Objections Program in November 2016. One recommendation made by the OAG was for the CRA to “ensure that</p>

	<p>decisions on objections and appeals are shared within the Agency in such a way that those performing assessments can use that information to improve future assessments”. Consequently, the Appeals Branch began distributing objections data, followed by litigation data, through the Feedback Loop initiative.</p> <p>The first feedback loop reports were released in 2016 and since then have evolved to provide more detailed feedback. In 2018, a team of regional representatives was formed to develop a framework for consistently sharing feedback information with regional audiences for research and analysis purposes. A framework was also established to optimize research and analysis at the program level, to ensure coordinated collaboration on improvements.</p> <p>The CRA also established the Audit File Resolution Committee to formalize oversight and due diligence over audit agreements; to support the reasonable application of the tax laws in order to ensure protection of the tax base; to provide consistency, predictability, fairness; and when possible, to identify options that promote timely and efficient file resolution at the audit stage. The Committee is made up of senior representatives from the Compliance Programs Branch, the Legislative Policy and Regulatory Affairs Branch, the Department of Justice, as well as representatives from various tax services offices. Representatives of the Department of Finance are invited on an ad hoc basis.</p> <p>Finally, as mentioned earlier, the CRA is working to refine its APA program to make it more timely and responsive to taxpayer needs. The notion of streamlining the APA process to provide tax certainty in a more timely manner is top of mind for many jurisdictions and is a topic of discussion at the Organisation for Economic Co-operation and Development’s (OECD) Forum on Tax Administration (FTA). The CRA is committed to multilateral approaches to manage international tax administration and to the promotion of tax certainty. The CRA is an active participant in OECD and FTA efforts to deliver early tax certainty for taxpayers who take their tax compliance obligations seriously. The CRA will continue to challenge aggressive tax planning and base erosion by multinational enterprises that attempt to achieve double non-taxation of their profits in Canada.</p>
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Question Number (on the TEI submission)	D. Audit/Appeal Matters, Question 6
Question Title	2018 Auditor General's Report: Report 7, Compliance Activities
Question - Text	<p>In November 2018, the Office of the Auditor General of Canada released its report on the CRA's compliance activities. The report found that the CRA did not know the full results of its compliance activities and set out a number of recommendations for the CRA to fully determine those results. TEI invites the CRA to provide an update regarding its progress in implementing the Auditor General's recommendations with respect to the following:</p> <p>a) At paragraph 7.74 of the report, the Auditor General recommended that the CRA should clearly document how it sets its targets for additional revenues, also known as tax earned by audit, and that those targets should be supported by an analysis of trends in its targets and results. The CRA agreed to more clearly document the process used to establish revenue projections and pledged to complete its analysis of the trends in its targets and results by March 2020. Please comment on the status of this process, any preliminary learnings or observations, and whether the March 2020 deadline for completion will be met.</p> <p>b) At paragraph 7.86 of the report, the Auditor General recommended that the CRA should analyze whether there are more accurate measures to track additional revenue that is generated from budgetary funding. The CRA agreed to analyze the accuracy of its performance measures for a "return on investment" from budgetary funding and propose new measures in the performance measurement framework by March 2020.</p> <ul style="list-style-type: none"> i. Please comment on the status of this process, any preliminary learnings or observations, and whether the March 2020 deadline for completion will be met. ii. TEI invites the CRA to describe its current computation methodology for its return on investment from budgetary investments in compliance activities. <p>c) At paragraph 7.91 of the report, the Auditor General recommended that the CRA should enhance its performance indicators to fully measure and report on compliance activities' results and actual collected tax revenues. The Auditor General specifically noted that without accounting for objections, appeals and write-offs of uncollectable amounts, the CRA's calculation of taxes collected was incomplete. The CRA agreed with this recommendation and stated it had started to work on new horizontal performance measures as a more comprehensive measure of program outcomes. It also referenced its previously launched tax gap estimate process; agreed to establish additional strategic measures that will</p>

	<p>estimate the impact of litigation, collections, and deterrence impact; and agreed to develop a performance measurement framework for its compliance programs, including measures that factor litigation and collections, by March 2020.</p> <ul style="list-style-type: none"> i. Please comment on the status of this process, any preliminary learnings or observations, and whether the March 2020 deadline for completion will be met. ii. TEI invites the CRA to provide additional details regarding the initiated work on the “horizontal performance measure” referenced in its response. iii. Can the CRA confirm that this process will attempt to quantify the amount of tax earned by audit that is ultimately collected after completion of the objection process and litigation? <p>d) Earlier this year the CRA completed and released its tax gap estimate for the 2014 tax year. The tax gap was defined as “the difference between the tax that would be paid if all obligations were fully met in all instances, and the tax actually paid and collected.” In this release, large corporations in Canada were estimated to contribute approximately \$6.7–\$7.9 billion toward the Tax Gap in underreported federal income taxes. It was also estimated that CRA assessment impact would reduce this Tax Gap by \$5 billion, for a net Tax Gap of \$1.7–\$1.9 billion attributable to underreported federal income taxes paid by large corporations in Canada. Can the CRA explain what metrics were used to compute these figures? Specifically, do these figures use the “tax earned by audit” or similar measures that do not include measurement for objections and collections as pointed out by the Auditor General, or do they use a new statistical measure that is tracked by the CRA as part of a computation of “return on investment”? Please advise.</p>
CRA Answer	<p><u>Part A</u></p> <p>In response to the Auditor General's recommendation 7.74, the CRA has tasked a working group to more clearly document how the Agency sets its TEBA targets, international consultations with other tax authorities are also in progress to explore how other countries establish TEBA targets, and the CRA is working on a trends analysis. At this time, the CRA is on track to meet the March 2020 deadline for completion.</p> <p><u>Part B(i)</u></p> <p>In response to the Auditor General's recommendation 7.86, the CRA has established a working group to analyze whether there are more accurate measures to track additional revenue that is generated from budgetary</p>

funding. The CRA is consulting with other government departments and other tax jurisdictions. At this time, the CRA is on track to meet the March 2020 deadline for completion.

Part B(ii)

As stated in the OAG report, the CRA uses a proportional – or pro-rated – approach to measure the results of compliance activities funded through recent federal budgets. While both the Treasury Board of Canada Secretariat and the Department of Finance Canada are satisfied with the CRA’s current methodology for tracking additional revenue generated from budgetary funding, the CRA will analyze the accuracy of its performance measures for return on investment of budget investments.

Part C(i)

In response to the Auditor General’s recommendation 7.91, a new compliance performance measurement framework is under development, which will include a review of existing measures and the creation of potential new measures. At this time, the CRA is not in a position to share any preliminary learnings or observations, however, the CRA is on track to meet the March 2020 deadline for completion.

Part C(ii)

In the spring of last year, the Canada Revenue Agency (CRA) undertook an initiative to develop horizontal performance indicators (HPI) that could be used to track outcomes of programs such as the GST/HST Audit Program, which could also be considered for a similar application across other business lines. For the purposes of this initiative, horizontal performance indicators are defined as cross-functional in nature and aim to contribute to or measure the Agency’s strategic outcomes (voluntary compliance, non-compliance is addressed, and trust in the CRA) across the entire compliance continuum (registration, filing, reporting, dispute, and collection).

Our approach began with reviewing best practices from various sources, including publications of other tax administrations and international organizations such as the Organization of Economic Cooperation and Development (OECD) and the International Monetary Fund (IMF). We also engaged the Australian Taxation Office (ATO), which publicly reports on some horizontal compliance indicators. The ATO’s methodology and approach were then analyzed to determine applicability within the context of the CRA. A community of practice was established to leverage the extensive expertise already in existence within the CRA, in addition to other stakeholders, including other tax administrations, international

	<p>organizations, and academic experts. We undertook to prove concepts and test performance indicators with available data from various branches across the Agency.</p> <p>Based on extensive engagement and feasibility testing, options that could comprehensively measure Agency outcomes in a horizontal manner were developed and are currently under review and discussion by CRA's senior management community. One option includes an approach to measure the proportion of additional GST/HST liabilities identified through audit that are collected, taking into account the objections and collections functions.</p> <p>At this time, there is no plan to publically report on these horizontal performance measures. That said, the CRA has begun publishing the impact of audits on reducing the tax gap earlier this year (T2 tax gap report). Going forward, we are planning to publish the impact of audits on other tax gaps.</p> <p><u>Part C(iii)</u></p> <p>The CRA confirms it is in the process of developing a methodology for an indicator that measures audit results factoring in litigation and collections.</p> <p><u>Part D:</u></p> <p>In June 2019, the CRA released a report that examined the federal corporate income tax gap related to reporting non-compliance for tax year 2014. This tax gap captured estimated tax loss due to corporations not providing complete or accurate information on their income, deductions and/or credits. To estimate the tax gap for large corporations, the CRA applied two statistical methods to its risk-based audit reassessment data to measure the extent to which additional federal taxes would have been assessed if all large corporations were audited. In addition, audit reassessment data were used to estimate the potential impact of audits on reducing the tax gap.</p> <p>The main metric used were federal tax adjustments from audit, which is defined as the change in federal income tax liability due to an audit reassessment. For the purposes of tax gap analysis, federal tax adjustments are based on a single tax year and do not consider future years' tax adjustments or any penalties and interest. In addition, the corporate tax gap report focused on estimating <u>reporting</u> non-compliance and, therefore, did not include the impact of objections, appeals or collections. However, future reports will examine additional tax gaps, including the payment gap for corporations.</p>
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	<p>Given that risk-based audits of large corporations can take time to complete, the CRA used risk-based audit results for tax year 2011 to estimate the federal tax gap and the potential impact of audits in reducing the tax gap. To remain consistent with other tax gap estimates published by the CRA, these results were projected to tax year 2014. The federal reporting tax gap for large corporations was estimated to be between \$6.7–\$7.9 billion for tax year 2014 and the impact of audits toward reducing this tax gap was estimated to be about \$5 billion. Therefore, the net tax gap was estimated to be between \$1.7–\$2.9 billion for large corporations in tax year 2014. For further information on the corporate tax gap and the methodology used to estimate it, please refer to the report, <i>Tax Gap and Compliance Results for the Federal Corporate Income Tax System</i>.</p>
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Question Number (on the TEI submission)	E. Technical Matters. Question 1
Question Title	Withholding Tax – Dividend “Pays or Credits”
Question - Text	<p>Pursuant to subsection 212(2) of the Act, every non-resident person shall pay an income tax of 25 percent on every amount that a corporation resident in Canada pays or credits, or is deemed by Part I or Part XIV to pay or credit, to the non-resident person as a dividend. Consider the application of that subsection to the case of a Canadian corporation that declares a dividend of \$100 and issues a cheque (net of withholding tax) to a U.S.-resident shareholder but the cheque is returned to the Canadian corporation. Has the requirement to withhold pursuant to subsection 212(2) been met? More specifically, has the “pays or credits” element of that subsection been met?</p> <p>TEI invites the CRA to comment on its interpretation of the phrase “pays or credits” in subsection 212(2). We further invite discussion of the following questions:</p> <p>a) Returning to the example above where a Canadian corporation declares a dividend of \$100 and issues a cheque (net of withholding tax) to a U.S.-resident shareholder but the cheque is returned, if the requirements of subsection 212(2) are not met, what is the appropriate method for the Canadian corporation to recover the over-remitted amount of withholding tax?</p>

	<p>b) If the requirements of subsection 212(2) are met but, due the cheque being returned, the Canadian corporation cannot avail itself of the treaty-reduced withholding tax rate because the shareholder's address is no longer known, what would be the appropriate method to amend and augment the withholding without penalizing the Canadian corporation?</p> <p>c) If the shareholder in the preceding question was a Canadian resident and, upon receipt of the returned cheque, the Canadian corporation no longer had confirmation that the shareholder was a resident of Canada, what would be the appropriate method to amend and augment the withholding without penalizing the Canadian corporation?</p>
CRA Answer	<p>The determination as to whether a corporation resident in Canada "pays or credits" an amount to a non-resident person as, on account or in lieu of payment of, or in satisfaction of, a dividend for the purposes of subsection 212(2) of the Act is generally a question of fact. Such a determination is to be made taking into account all the relevant facts and circumstances of each particular situation.</p> <p>Information Circular 77-16R4 - Non-Resident Income Tax, issued on May 11, 1992 [Archived], includes the following comments in respect of the concept of "credited":</p> <p style="padding-left: 40px;">"5. The words "credits" and "credited" cover any situation where a resident of Canada or, in certain cases, a non-resident (see 8 below) has set aside and made unconditionally available to the non-resident creditor an amount due to the non-resident such as where (a) a tenant or agent deposits rents in a bank account on behalf of a non-resident landlord; (b) a bank credits interest to the savings account of a non-resident; (c) an insurance or trust company deposits a pension or annuity payment in the bank account of a non-resident; or (d) the amount due is applied by the resident (or deemed resident) against an amount owing by the non-resident. When an amount is subject to tax under section 212, subsection 214(1) provides that the tax is payable on the full amount paid or credited without any deduction from the amount."</p> <p>From an application perspective, the current practice of the Non-Resident Audit Section is to audit and analyse each file on a case-by-case basis. Many relevant details need to be considered in respect of each particular case and therefore it is not possible to provide specific comments on hypothetical scenarios which may be incomplete without considering all of the facts of a particular situation. In these circumstances, we invite Canadian corporations facing issues in respect of withholding obligations</p>

	that may result from the application of subsection 212(2) and section 215 of the Act to contact their Tax Services Office.
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Question Number (on the TEI submission)	E. Technical Matters. Question 2
Question Title	LIBOR Conversion
Question - Text	<p>In response to concerns regarding the reliability and robustness of the London Interbank Offer Rate (“LIBOR”), other interbank offered rates (“IBORs”), and new regulatory standards/guidelines, the financial services sector will be moving to alternative, risk-free rate benchmarks (“RFRs”). The transition from LIBOR and other IBORs to RFRs is expected to be completed by the end of 2021.</p> <p>Since there are currently a broad range of products that reference LIBOR and other IBORs—including derivatives, loans, bonds, and securitized products (collectively, “IBOR Instruments”)—the transition to RFRs necessitates modifications to IBOR Instruments to reflect the new reference rates. Although some IBOR instruments may contain provisions addressing the discontinuance of IBORs and their replacement with alternative benchmarks, many do not, and many others contemplate temporary, rather than permanent, discontinuances of the relevant IBORs. It is expected that many IBOR Instruments will need to be amended to accommodate the transition to RFRs (“RFR Amendments”) to avoid unintended economic consequences. Given the magnitude of the number of instruments and transactions affected by this change, it is vitally important that taxpayers have certainty as to the expected tax consequences of RFR Amendments.</p>

	<p>TEI invites the CRA to confirm that, in its view, making a RFR Amendment to an IBOR Instrument to accommodate the transition from IBOR to RFRs would not constitute a disposition of the IBOR Instrument for Canadian federal tax purposes. We note that the CRA provided similar guidance in connection with the conversion of obligations denominated in existing European currencies to the Euro in 1999. The conversion to the Euro constituted a similar industry-wide change, mandating similar amendments to existing instruments to give effect to the commercial reality arising from the conversion to the Euro. TEI believes that it is necessary and appropriate for the CRA to adopt a similar position on the conversion of IBOR Instruments to RFRs as it did for the conversion of financial instruments to the Euro.</p>
CRA Answer	<p>In general terms, the determination of whether an obligation has been disposed of for Canadian income tax purposes depends on whether these events are considered to result in the discharge of the obligation and the substitution of a new obligation under the law governing the former obligation, taking into account the facts and circumstances of each case. Where the governing law is Canadian law, it is our view that making a RFR Amendment to an IBOR Instrument to accommodate the transition from IBOR to RFRs, in and of itself, would generally not constitute a disposition of the IBOR Instrument for Canadian income tax purposes.</p> <p>Where foreign law governs an obligation, the determination of whether the obligation has been disposed of for Canadian income tax purposes depends, in part, on foreign legal principles. In other words, the legal effect of these events on such an obligation under the relevant foreign law must be considered in order to determine if the obligation has been disposed of for Canadian income tax purposes.</p>

Question Number (on the TEI submission)	E. Technical Matters. Question 3
Question Title	Blockchain Technology and Cryptocurrency

<p>Question - Text</p>	<p>Cryptocurrency is a type of virtual currency that utilizes cryptography to secure transactions that are digitally recorded on a distributed ledger, such as a blockchain. The use of blockchain technology and cryptocurrency has gone from a nascent concept on internet message boards to what is today—a legitimate method of payment for goods and services, a basis for smart contract, and a store of value.</p> <p>TEI members, as well as major financial institutions and governments, are commissioning white papers to prepare themselves for what is increasingly anticipated to be a major disruption across many industries, transaction platforms, supply chains, and commerce in general.</p> <p>TEI is aware that the CRA has provided guidance on the Canadian federal tax implications of cryptocurrency, most recently updated in June 2019. TEI invites the CRA to share its observations regarding the adoption of blockchain technology, and cryptocurrency specifically, by Canadian taxpayers and discuss any actions it might be taking in anticipation of greater adoption in commercial transactions.</p>
<p>CRA Answer</p>	<p>Actions taken in anticipation of greater adoption in commercial transactions</p> <p>In anticipation of greater adoption of cryptocurrencies, the CRA has created a dedicated team to provide functional leadership and program direction for cryptocurrency audits. Fintech is transforming financial services markets and changing business models, resulting in tax compliance challenges. This team is developing strategies to identify and address non-compliance involving cryptocurrency transactions.</p> <p>CRA remains focused on developing a better understanding of the compliance risk posed by cryptocurrencies. We liaise with internal and external stakeholders regularly to resolve the operational, legislative and policy issues which may pose a challenge to the auditors and the Agency as a whole.</p> <p>The CRA currently has a number of audits underway and will use the results of these early compliance actions to determine the level of risk and appropriate next steps. The Agency continues to research adoption rates, new Initial Coin Offerings and other trends in this emerging technology.</p> <p>The CRA also participates in a working group with several other countries including the US, Australia and the UK that focuses on supporting the development of operational approaches to the identification and resolution of tax risks in the crypto-asset space.</p> <p>Observations of adoption</p> <p>In addition to the cryptocurrency ecosystem developing more convenient solutions for people in Canada to acquire and spend cryptocurrencies and the rise of recognized companies accepting</p>

cryptocurrencies as payment (e.g. Microsoft, Expedia, Overstock, Etsy, Subway, and many others), we have been following current findings:

Bank of Canada report published on July 23, 2018:

- research conducted in 2016 and repeated in 2017
- bitcoin transactions increased by 32% during this period, from 280,000 transactions per day to 360,000 transactions per day
- the level of awareness rose from 64% to 85% percent
- highest levels of awareness was residents of BC (93%) and Canadians with an income of \$70,000 and above (92%)
- increased in ownership from 2.9% in 2016 to 5% in 2017
- the main reason participants owned Bitcoin changed from transactional purposes to investment purposes
- only half of Bitcoin users were found to regularly use Bitcoin to buy goods and services or send money to other people

Source: <https://www.bankofcanada.ca/wp-content/uploads/2018/07/san2018-23.pdf>

Ontario Securities Commission (OSC) published a report on June 28, 2018:

- over 500,000 Ontarians currently hold cryptoassets
- men aged 18-34 were substantially more likely to report owning a cryptoasset than the general public
- approximately 50,000 Ontarians reported spending \$10,000 or more acquiring cryptoassets
- the most common means of acquiring cryptoassets is through a cryptoasset trading platform, though a substantial number also acquired cryptoassets through mining
- 170,000 Ontarians have participated in an ICO
- over 1 in 10 Ontarians have been approached about or sought information about an ICO

Source:

http://www.osc.gov.on.ca/documents/en/Investors/inv_research_20180628_taking-caution-report.pdf

Blockchain technology at the CRA

The benefits of blockchain technology can also be applied to the services that CRA provides to taxpayers.

The CRA recently conducted research and analysis to advance a proof of concept using blockchain technology to enhance service delivery to Canadians by:

- validating identity for users of our secure online portals;
- exchanging information with third parties;

	<ul style="list-style-type: none">• allowing clients to consent to share their personal information with digital asset consumers; and• evaluating the service and ecosystem to determine its capability to improve client experience, realize operational efficiencies, and extend CRA’s reach to new clients – while ensuring that privacy, security, and legal concerns have been addressed. <p>The CRA tested a new blockchain-enabled service that allows users to share data attributes, including their digital identity, in a secure environment by obtaining verifiable information from Financial institutions, Telecommunications companies, and other participating institutions (e.g. Canadian provincial and territorial governments) and will be working towards implementation of a pilot project with taxpayers once this technology has met all the Agency’s legal and privacy requirements.</p>
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