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**The Role and Strategies of
the Tax Administration in Developing Countries**

Methods to Promote Voluntary Compliance

presented by

THE CANADA CUSTOMS AND REVENUE AGENCY

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INTRODUCTION

The purpose of this paper is to address the role and strategies of the tax administration in developing countries, with emphasis on identifying methods to promote voluntary tax compliance. To do so, the paper will discuss the Canada Customs and Revenue Agency's (CCRA) general compliance strategy as well as specific initiatives that have been implemented to promote voluntary compliance.

BACKGROUND

No other public organization touches the lives of more Canadians on a daily basis than the CCRA. With approximately 45,000 employees, it is the federal government's largest civilian organization. Of all the public interactions with the Government of Canada, it is the CCRA that is most frequently contacted. Our ability to manage this relationship wisely and achieve healthy and sustainable levels of compliance with tax, trade, and border laws is a critical factor in shaping public attitudes toward the government in general.

Four enduring values guide the way in which we interact with our clients, our colleagues at CCRA, and other stakeholders and partners, such as other governments and private sector associations.

- **Integrity** is the cornerstone of our administration, ensuring that we treat people and apply the law fairly. Integrity requires that we act with honesty and openness.
- **Professionalism** is the key to success in achieving our mission, reflecting an ongoing commitment to the highest standards of achievement. Professionalism requires that we act with dedication and skill.
- **Respect** is the basis for our dealings with colleagues and clients, being sensitive and responsive to the rights of individuals. Respect requires that we act with courtesy and consideration at all times.
- **Co-operation** is the foundation for meeting the challenges of the future and building partnerships aimed at realizing common goals.

CCRA's responsibilities include revenue collection; the administration of tax laws for the Government of Canada and for most provinces and territories; customs services at the border; the administration of international trade legislation; and the delivery of various social and economic benefit programs. In fulfilling these responsibilities, we service hundreds of thousands of Canadians and visitors to our country every day.

Programs delivered include:

- Administration of personal and corporate income taxes, the Goods and Services/Harmonized Sales Tax (GST/HST), collection of Canada Pension Plan and Employment Insurance premiums, customs and excise duties, federal excise taxes;

- For provinces for which the federal government has agreements, administration of provincial sales taxes, tobacco taxes, liquor markups and levies on non-commercial imports; and
- The CCRA also administers elements of the North American Free Trade Agreement (NAFTA) and other international tax and trade agreements.

The CCRA does not take these responsibilities lightly. We understand that by ensuring consistency in the application of the laws we administer, we are facilitating the competitiveness of business in Canada by providing a level playing field for all. As well, in maintaining sustainable levels of compliance, we know that we must not become an impediment to business. We must minimize the compliance burden and assist business by helping to create an environment in which they can succeed, both domestically and in global markets.

CCRA STRATEGY

Our approach to compliance is best described in our mission statement.

“Our mission is to promote compliance with Canada’s tax, trade, and border legislation and regulations through communication, quality service, and responsible enforcement, thereby contributing to the economic and social well-being of Canadians.”

As the CCRA operates in a multi-jurisdictional environment it must remain sensitive to that environment and must be well positioned to respond to the pressures, changes and challenges it faces. In today’s operating environment these include:

- Safety and security of the country and implications for border management within a North American context;
- Globalization of the economy;
- Demographic trends of the population which affect the revenue base, the demand for service and the composition of the CCRA’s workforce;
- Electronic commerce; and
- Enhancing the CCRA’s relationship with Canada’s provinces and territories.

Canadians and Canadian businesses have also had to adapt rapidly to the threats and opportunities posed by technology, free trade and globalization by showing innovation and adaptability in a new economy.

Ensuring compliance in this environment is an ongoing challenge. It requires credible enforcement strategies that are seen to protect honest taxpayers by making sure those who cheat are caught. But it also requires public education, community outreach and a strong client focus. It means making voluntary compliance as easy as

possible for all taxpayers -- businesses and individuals alike. And it means staying ahead of change -- being able to predict new trends and adapting compliance strategies to meet them, often working in partnership with groups who share similar objectives.

If one word can be used to describe the self-assessment system it is "democratic". Our system is based on citizen responsibility; taxpayers figure out their taxes owing and remit the amount. If they are owed a refund, or are entitled to an income tested benefit program, their claims are assessed and processed quickly because of the assumption that returns are filed honestly and correctly.

But for the system to work, a high level of voluntary compliance is necessary. In the absence of that, the system would quickly become burdensome and intrusive, losing the attributes that currently make it so efficient. Under this system, the overriding challenge for the government becomes fostering a culture of compliance.

Public education, client service and credible enforcement represent both the underpinning and the strategy toward a culture of compliance.

Public Education

Educating our clients on their rights and responsibilities is a key part of our communication strategy. Working with individual taxpayers, business associations and professional organizations, the CCRA provides information through "user friendly" guides and brochures, offers a technical inquiry service, and provides special sessions on topics of particular concern. Employees of the CCRA are often invited to address annual meetings of industry associations, take part in round table discussions at national industry conferences or private sector sponsored professional training sessions, and participate in business trade fairs. Other educational activities include presentations at schools, colleges, and universities.

Consequently, communication is a key element of our compliance strategy and we put a great deal of emphasis on the maintenance of excellent communication and partnership mechanisms. These mechanisms provide a number of benefits for both the CCRA and our clients. On the one hand, they permit us to distribute information about tax law and our administration of the law to the people who are affected by it. On the other, they allow our clients to tell us about irritants in tax administration, and to suggest how we can improve.

The CCRA publishes extensive material designed for a wide variety of audiences. It ranges from one-paragraph inserts and pamphlets to detailed guides and papers that target the most complex and technical areas of tax law. Most of this information is available both in paper and in electronic form over the Internet. Published material covers the vast majority of the questions that we commonly receive, and it is constantly updated to remain current.

But published material has its limitations. It is one-way only. It does not provide a way for taxpayers, their advisors, or the public to make their views known to us. Feedback like this requires a structured way of identifying and meeting with representative groups of our clients. In these meetings, we hear what is working and what is not, we explore, together, possible solutions to problems, and we solicit opinions about our ideas for future changes to tax administration. Interaction between CCRA and

business and professional organizations is an effective way to improve compliance with the laws we administer.

Client Service

Making it easier to self-assess and file is a key objective of the CCRA, as it encourages individuals and businesses to complying voluntarily. This means providing quality service to individuals and businesses and reducing the administrative load for all businesses.

CCRA works in close partnership with industry and labour associations to address problem areas, both from the CCRA's and association's perspective, as well as on strategies for streamlining processes. It has established more than 30 advisory committees, including ones for seniors, large business and small business, collections, international issues, and electronic commerce, to name a few.

In April of 2001, the CCRA launched the Future Directions initiative, which focuses on transforming its core business in order to improve client service and enhance compliance. The Future Directions initiative enabled the CCRA to gain a complete understanding of Canadians' future service needs, through an extensive consultation process with 3,000 individuals, charities, and business clients, as well as 2000 employees. Details regarding the Future Directions initiatives are outlined later in the paper.

Credible Enforcement

Credible enforcement is an integral part of any compliance strategy as it acts not only to deter tax evasion but also serves to remind taxpayers that CCRA is working to maintain the fairness of the tax system by ensuring that all pay their fair share.

The CCRA carries out various verification and enforcement activities regarding all taxes administered including commodity taxes and income tax. For individual returns, these activities range from the identification of non-filers and GST/HST non-registrants, to initial assessment of returns by matching information and assessing risk, to post assessment reviews of higher risk files, to periodic reviews of deductions and credits, to special projects. They also include audits of the self-employed and unincorporated businesses and investigative and other measures to fight tax evasion.

Risk assessment is an integral part of responsible enforcement. The CCRA monitors trends in revenues, examines compliance patterns, conducts studies of the factors affecting compliance including the impact of education and program redesign, to mention a few. This enables the CCRA to ensure the effective use of limited resources by directing enforcement to the areas of highest risk.

For large businesses given the large dollar amounts and complex transactions involved, good risk management means that all tax returns of Canada's largest corporations are audited. The coverage rate for other businesses will vary, depending on their size, complexity and risk assessment.

CCRA INITIATIVES TO PROMOTE VOLUNTARY COMPLIANCE

Interaction with Business and Professional Organizations

Cooperation has been an integral part of the CCRA's compliance strategy for many years. By partnering with the CCRA, business is able to minimize the compliance burden and ensure that programs to counter non-compliance are effective and efficient. In addition, the CCRA benefits from the expertise and wealth of information possessed by the industry and business associations to assist in its understanding of the industry and thus improve compliance through the design of appropriate enforcement activities.

In order to build partnerships, we must foster an environment of mutual trust and respect. The CCRA and industry and professional organizations have developed such an environment and consequently, have worked together to institute program changes, implement program delivery and consult on new and emerging issues. And we have had a number of excellent successes, a few of which are described below.

(A) ANALYSIS OF CAUSES OF NON-COMPLIANCE

An important aspect of our compliance strategy is issue analysis. Thorough and thoughtful analysis enables the CCRA to determine the nature and magnitude of the non-compliance. By identifying the underlying cause of a problem, we can target our efforts in the most effective manner and take appropriate action.

Business and professional associations have proven to be invaluable in helping the CCRA analyze the root cause of non-compliance and develop strategies to find solutions. The following is an example of how industry helped analyze and develop a solution for the deductibility of meal and entertainment expenses at "special work sites":

Special Work Sites:

Industry was having a problem concerning the deductibility of meal and entertainment expenses incurred by their employees at "special work sites", which are defined as work locations that are at least 30 kilometres from the nearest urban area that has a population of at least 40,000 people. Businesses that claim a deduction for tax purposes for such expenses are limited by law in the amount that they can deduct, except if the employees worked in a "special work site". In those circumstances and subject to certain other specified conditions, the expense is fully deductible. Employers, many of who were members of various industry associations, found it difficult to determine if a particular site was in fact a "special work site" and thus comply with the law. For example, municipal boundaries, which are used as the base for the 30-kilometer distance calculation, are usually very irregular in shape and were often disputed by the employers and the CCRA. Working in partnership, the CCRA, industry associations and other government departments studied the issue and developed an interactive electronic search map, which determines whether a named location is a "special work site" in relation to nearby urban areas. The

information on which the site map is built is maintained by Statistics Canada, which also provides a greater level of independence and credibility to the determination. The site for this search map is found on the CCRA website and is available to all Internet users at <http://www.cca-adrc.gc.ca/tax/business/smallbusiness/searchmap-e.html>. Now the problems encountered in the past have been virtually eliminated.

(B) MINIMIZE COMPLIANCE BURDEN

If we are to achieve and maintain sustainable levels of compliance, the burden of complying must not be too cumbersome or restrictive. Otherwise, our clients will give up in frustration. Consequently the CCRA works in partnership with business and professional organizations to find ways to make it as easy as possible for business to comply with its obligations. The following example involves life insurance companies and illustrates how the CCRA works with its stakeholders to keep the compliance burden to a minimum.

Insurance Industry

When filing their income tax returns, life insurance companies must include a form on which they detail the differences between income per their financial statements and income as reported on their tax return. This reconciliation is very detailed and complex, often requiring arbitrary calculations for which the information is often not readily available. Due to changes in the law, the form needed to be updated. The Industry asked our Insurance Industry Specialists if a major overhaul of the form could be made at the same time in order to get rid of some of the reporting requirements that were difficult to provide and were often arbitrary calculations. A committee was formed by the Canadian Life and Health Insurance Association, along with our Industry Specialists, to study the matter. As a result of this partnership, the committee recommended that the form be completely rewritten and much of the information previously required, including the arbitrary calculations, be removed. We are in the process of developing a less burdensome form that will, as well, be able to be filed electronically. In this case, the CCRA worked with the industry to obtain a result that helped industry significantly reduce the time and effort to complete and file their income tax returns while still maintaining the integrity of the information requirements of the CCRA.

(C) PROGRAM IMPROVEMENT AND REDESIGN

Industry and professional organizations have played an important role in the improvement and redesign of our programs, often providing a critical yet constructive perspective. They are generally on the receiving end of our programs, whether it be the receipt of an incentive, such as the Scientific Research and Experimental Development (SR&ED) tax credit, or an audit. If there are difficulties with the delivery of the program,

who better to be aware of the shortfalls than the user. One of our more dramatic success stories in cooperating with business involves the SR&ED program.

Scientific Research and Experimental Development

The Scientific Research and Experimental Development Program (SR&ED) is a major element in the Canadian government's strategy to improve competitiveness, given the strong link between investments in science and technology and economic growth. The SR&ED Program is the largest single source of federal funding for Canadian industrial R&D. The objective of the Program is to deliver SR&ED incentives in a timely, consistent, and predictable manner, while encouraging companies to assess their own claims in compliance with tax laws, policies and procedures.

To respond to industry concerns about the effectiveness and efficiency of the claims process, an Action Plan was developed with the full and active involvement of industry in order to redirect the program to a more client-centered focus and to provide enhanced predictability, certainty and timeliness. Industry and professional organizations played an important role in the implementation of the action plan. Through wide ranging partnerships forged with industry, CCRA has created a rich source of information and guidance about the Program. By streamlining paperwork and simplifying the claim process, companies find it easier to access and benefit from the program.

(D) ASSISTANCE IN DEVELOPING ADMINISTRATIVE PROCEDURES AND GUIDELINES

In order to properly administer complex legislation, administrative procedures and guidelines are developed to make compliance easier. The CCRA has obtained the assistance of industry and professional organizations on a number of occasions to assist in the development of such procedures and guidelines. The following are two recent examples of the CCRA working with its stakeholders on such matters.

Technical Advisory Groups

In response to recommendations put forward in 1998 by the Minister's Advisory Committee on Electronic Commerce, four Technical Advisory Groups (TAGs), composed of private sector tax experts and representatives of industries involved in electronic commerce, were formed. The four topics addressed by the groups include: consumption taxes; interpretation and international co-operation; compliance and administration; and taxpayer service. These groups provided valuable advice to the CCRA on a variety of policy, technical, administrative and compliance matters related to the electronic commerce environment.

The consultations have proven to be effective and have resulted in advice on electronic service delivery, input into the CCRA's draft electronic commerce compliance strategy, as well as the development of position papers on the interpretation of legislation involving income tax and tax treaties relating to electronic commerce. In addition, the consultations have helped the CCRA participate in international discussions on electronic commerce with partners such as the Organization for Economic Cooperation and Development.

Third party penalties (TPP)

With the proliferation of tax shelters and tax planning arrangements in recent years, the need for penalty provisions for dubious conduct concerning the promotion of tax shelters and the filing of returns became apparent. However, early in the legislative process it was recognized that the subject of third party penalties was a sensitive issue that would have a significant impact on the tax community. It was therefore decided to involve tax practitioners and their associations in the development of policies and administrative guidelines for the application of the penalties.

The CCRA consulted the tax community to get their views with respect to the content of the guidelines. We consulted 26 professional and industry organizations that were likely to be impacted by the TPP. During this process, a number of information sessions were also held with some of the organizations to keep them informed about the status of the process. As a result of this communications and partnership initiative, the tax community became an integral part of the solution. They were invited to, and did, voice their concerns. But they also provided us with excellent suggestions during the process of how we could make the guidelines as clear, and the application as transparent, as possible.

We believe that we have a much better product because of the involvement of these stakeholders and we published our final Information Circular on the Application of the Third-Party Civil Penalties on September 18, 2001 on the CCRA's Internet site. But we won't stop there. We also intend to update the tax community on a regular basis about our experience with the application of the TPP.

(E) PRIVATE SECTOR INSIGHT THROUGH INTERCHANGE ASSIGNMENTS

In looking at all opportunities to benefit from the private sector's insight on compliance issues, the CCRA has found that hiring private sector executives through short to medium term interchange assignments can also be an effective way to tap into private sector experience and expertise. Two examples of such interchange assignments are as follows:

Scientific Research and Experimental Development Program

As noted earlier, in response to industry's concerns regarding the effectiveness and efficiency of the Scientific Research and Experimental Development (SR&ED) tax credit program, the Minister of National Revenue announced a number of measures to improve service for companies claiming these investment tax credits. A key step in gaining the full support and trust of the industry, and in partnering with them to implement the resulting Action Plan, was to enter into an interchange agreement with one of the affected professional organizations. Specifically, we hired a Vice President from the Information Technology Association of Canada to carry out the duties of the Director General, SR&ED Directorate and to partner with industry to redirect the focus of the program. This interchange, which ended recently, proved to be very successful in providing the CCRA with the private sector's insight into research and development compliance issues, and in fully implementing the Minister's Action Plan.

Advice on Review Committees to Address Sensitive Issues

The CCRA has also engaged, for a period of approximately two years, the part time services of a tax lawyer from the private sector to serve as a member of a number of CCRA review committees, including the *General Anti-Avoidance Rule* and *Third Party Penalties* review committees. We believe this assignment was mutually beneficial. It provided the CCRA with a private sector perspective on the resolution of some sensitive issues, and hopefully provided the private sector lawyer with a greater appreciation of some of the compliance issues faced by the CCRA.

The Underground Economy

The underground economy has been a significant element in the Canadian economy for many years, as it is in virtually all countries. In Canada, it implicates many industry sectors but is heavily weighted to the construction, hospitality and other sectors where cash payment is prevalent.

Estimates of the size of the underground economy vary greatly due to the differences in definitions and measurement methodologies used. The wide variations in estimates demonstrate the difficulty in attempting to quantify the size of the underground economy. The CCRA does not measure the size of the underground economy, but agrees it is substantial under any scenario. As a result, we must also recognize the complexity and difficulties associated with addressing the problem. Accordingly, we believe that a balanced approach of enforcement and education is the best means to enhance compliance in this area.

In summary, the CCRA's underground economy strategy consists of the following objectives:

- Encouraging voluntary compliance through activities such as community visits to business establishments and public education;

- Working co-operatively with the provinces, other government departments and key interest groups to encourage and find ways to exchange information;
- Strengthening programs to identify non-filers and non-registrants through the matching of databases to identify areas of potential non-compliance and increasing enforcement for verification purposes;
- Enhancing effectiveness by refining audit techniques or developing legislative proposals to address non-compliance;
- Focusing on high non-compliance sectors through improved workload development and identification of high-risk sectors;
- Publicizing tax evasion convictions to serve as a deterrent to non-compliance; and
- Conducting compliance research to support and analyse the effectiveness of compliance efforts.

The following are some recent examples of initiatives implemented by the CCRA to address underground economic activity:

(A) DEDICATED RESOURCES

The CCRA has devoted approximately 1000 audit resources directly to the Underground Economy Initiative to identify unreported income. In addition, we have improved our risk assessment systems for audit selection purposes and utilize our regular audit program resources to identify potential instances where underground economic activity may occur.

(B) CONTRACT PAYMENT REPORTING SYSTEM:

In February 1998, the federal budget instituted the Contract Payment Reporting System (CPRS). This requires all federal departments, agencies, crown corporations and the construction industry to issue information slips for payments for service contracts that cost more than \$500 annually. The CCRA uses the information to identify individuals and businesses who have under-reported their income.

(C) FEDERAL / PROVINCIAL WORKING GROUP

A federal/provincial Working Group was established to focus on education, data sharing and enforcement. In this regard, the group launched projects to engage schools in educating students on the value of a voluntary self-assessment tax system, to research why people participate in the underground economy, and to conduct joint federal/provincial enforcement operations and information sharing.

(D) PARTNERSHIP WITH NATIONAL ASSOCIATION

In 1997, the CCRA engaged the Canadian Home Builders Association (CHBA) in a partnership to address the construction and home renovation sectors of the economy.

The initiative began with a *Get It In Writing!* pamphlet, which was produced jointly by the CHBA and the CCRA and distributed by the CHBA to its members, associates and the public. The positive reaction to the pamphlet led to a second phase, consisting of 39 seminars delivered by local CHBA associations to over 1400 contractors. These seminars taught individual contractors how to effectively deliver the campaign's message about the risks in dealing with illegitimate contractors to their clients. The seminars were so effective that we expanded the program. A new *Get It In Writing!* campaign was launched, supported by the CCRA and again to be delivered by the CHBA, only this time targeted at consumers.

At issue is the non-compliance of building contractors who deal in the underground economy. By not reporting their revenues and thus not paying their fair share of taxes, they put honest businesses at a competitive disadvantage and reduce revenues for governments thereby putting important government programs such as health and national security at risk.

The objective of the campaign is to inform consumers of the risks from their perspective inherent in dealing with businesses operating in the underground economy. Legitimate contractors are experts in their profession and take pride in the quality of their work. Unlike illegitimate businesses, they are fully insured and offer legally binding warranties.

The campaign will also continue to support the *Get It In Writing!* message, in order to increase consumer demand for documentation with respect to transactions with contractors which in turn will lead to increased paper trails. With increased paper trails, the CCRA is of the view that the level of self-compliance will increase and that non-compliance will be easier to identify and address leading to a more level the playing field.

This partnership approach serves to complement traditional compliance activities as it involves stakeholders, independent of the tax administration, who have an intimate knowledge of the industry. Having the campaign delivered by their own industry association provides a greater level of credibility to the message than would otherwise be available if delivered only by the tax administration. In addition, by involving individual members of the industry in the campaign, we are able to put more resources to the initiative as well as reach a much larger audience.

The actual impact of the consumer awareness initiative will be difficult to assess accurately. We do not have any control over numerous other variables that normally influence behavior. However, as noted by the Royal Canadian Mounted Police, "The best way to reduce fraud/cash economy is through increased public awareness; the informed consumer poses the greatest threat to the perpetrator of fraud."

Accordingly, we will be conducting a separate evaluation to measure the effectiveness of the campaign in delivering the key messages, through industry and CCRA surveys.

(E) EDUCATIONAL OUTREACH ACTIVITIES

As part of its normal operations, the CCRA conducts outreach activities that include community visits and meetings with taxpayers, groups and associations. Through these activities, the CCRA tries to inform the public on the dangers of engaging in the underground economy, its effect on legitimate businesses and taxpayers who do pay their taxes, and to provide any additional information that will make self-compliance easier. The following outlines details on two of our outreach initiatives: the community visit and the books and records review.

The Community Visit Initiative

Community visits were initiated as an efficient way to increase the visibility of the CCRA's compliance efforts in dealing with the underground economy and to encourage *voluntary* compliance. The visits are primarily educational and service oriented, which enables the CCRA to provide information to businesses on various services, on CCRA policies such as the voluntary disclosure policy, and on our efforts to deal with the underground economy. In addition, the visits provide an opportunity for business people to inform the CCRA of concerns or suggestions they might have about dealing with the CCRA.

Visits are made to businesses located in a specific geographic location such as a small town, a remote community not frequently visited by the CCRA as well as business streets or blocks in large urban areas, and shopping malls. A number of teams, each consisting of two staff with expertise in income tax, GST/HST and sometimes employee payroll deductions, spend a day visiting businesses in the particular location.

On occasion, provincial government staff participate in community visits. This participation enables teams to provide expert assistance to businesses on provincial sales tax as well as federal tax matters. It also shows that government is co-operating to make revenue administration more efficient and effective.

A typical business visit is completed in less than one hour. Participation by businesses is voluntary.

To maximize exposure and publicity to this initiative, local offices will often contact the following parties to advise of an upcoming community visit:

- Local media;
- Local federal Members of Parliament and members of provincial legislatures;
- The mayor and/or members of local councils;
- Merchants' associations, as appropriate;
- The local chamber of commerce; and
- Police agencies (local, provincial, RCMP) in case they receive calls from

citizens concerned that unauthorized officials are conducting the visit.

Since 1994 we have visited 402 communities across the country involving over 63,402 businesses.

An evaluation of this initiative determined that community visits are generally well perceived by the business community, departmental managers, auditors in the underground economy initiative and other staff. Both managers and staff favour the increased visibility obtained through these visits and agree that this activity has had considerable success in identifying non-filers and non-registrants.

The evaluation also revealed that once the businesses visited understood CCRA's overall underground economy strategy, they were very supportive of the initiatives, including community visits. Many felt that the CCRA was serious about addressing non-compliance in the underground economy.

The evaluation also identified the following concerns about the visits.

From the perspective of business visited:

- Confusion over the purpose of the visit, and difficulty in recalling the information package or issues discussed during the visit;
- Feeling that the visits were interruptions and that the questionnaires took too long to complete; and
- Belief that the visits should be directed to hidden businesses rather than to legitimate ones, and questions about the cost effectiveness of the visits.

From the perspective of auditors conducting community visits:

- In some offices, the underground economy and the CCRA's voluntary disclosure policy were not discussed during community visits or were discussed only briefly.

The CCRA has taken this feedback into consideration. National guidelines on community visits and on communications related to community visits have been drafted and discussed with field staff. These guidelines cover such topics as the purpose of the visits, the objectives, and key messages to convey to businesses, planning the visit, the questionnaire and follow-up. The guidelines clarify procedures and will promote national consistency in conducting the visits.

The Books and Records Review Initiative

In the 2000-2001 fiscal year, the CCRA also introduced a new visibility outreach initiative known as the Books and Records Review. These reviews are on-site visits to review a taxpayer's books and records, to ensure that they are adequate. The visits are directed primarily at new businesses or specific industries where the adequacy of the books and records was noted as a concern in previous audits.

A books and records review is a separate non-audit activity that is part of our balanced approach to increase compliance. The CCRA visits premises to:

- Provide information and advice;
- Ensure more complete and comprehensive record keeping practices by explaining why these are important;
- Ensure adequate books and records are maintained so that an auditor can reasonably verify accuracy of income and/or expenses; and
- Bring about behavioural change leading to long-term compliance, where a taxpayer's history might warrant it.

An auditor from the CCRA will meet with the taxpayer/business to review the books and records to make sure they are adequate for *Income Tax*, *Goods and Services Tax*, and *Harmonized Sales Tax* purposes. With the aid of a questionnaire, the auditor will gather general business information and review some of the accounting transactions. The objectives of such a review are:

- To document, analyse and report on the state of the current books and records, accounting system and control procedures in place;
- To identify areas that require attention; and to make recommendations for corrective action; and
- Where required, conduct a follow-up visit to ensure appropriate changes have been made.

The CCRA auditor performing this review will assist the taxpayer/business in understanding what is required to maintain adequate books and records. Some of the benefits of this initiative are:

- Businesses/taxpayers visited are provided an opportunity to ask questions about our requirements for books and records, about other matters related to the programs CCRA administers and to correct any deficiencies that may be discovered, without facing penalties; unless we detect serious non-compliance like unreported income;
- Well-kept records can prevent most of the problems that can be encountered during an audit of income tax or goods and services tax/harmonized sales tax (GST/HST) returns;

- Tax savings are possible by keeping better books and records; and
- The maintenance of proper books and records will keep the proprietor better informed about the financial position of their business.

Future Directions

Future Directions was launched in April 2001 to help identify the essential elements that must be in place to ensure good performance in the future and thereby allow us to remain a recognized leader in responsible and fair customs and revenue administration. It is a fundamental stock-taking of our relationship with key client groups to ensure that the programs and services we provide are effective, both now and in the foreseeable future, in promoting compliance, in achieving client satisfaction, and in securing public confidence in the integrity of customs and revenue administration in Canada. We deliberately set out, through Future Directions, to look at our services and activities through the eyes of our clients. To do this, we organized our efforts around client groups rather than our traditional functions such as audit, customs, and collections.

Future Directions created four high-level working groups to examine our services and programs and develop a strategic vision for relationships with our four principal client groups:

- Individuals
- Small and Medium Enterprises
- Large Business
- Charities

Each working group was led by a Headquarters and a regional Assistant Commissioner and comprised top-performing executives from all regions and branches. The Future Directions process has been one of vigorous client engagement. It has provided a focused opportunity to have a meaningful and open dialogue with our clients and stakeholders about the CCRA's services and activities.

Over an 18-month period, we consulted over 3,000 clients from the four principal groups as well as some 2,000 CCRA employees. Discussions were also held with provinces, territories, and several foreign revenue administrations. Future Directions, along with the consultations surrounding the Customs Action Plan (see the description at the end of this chapter), has been the most extensive and inclusive review ever undertaken by the CCRA or its predecessor, Revenue Canada.

Positive feedback was received throughout the Future Directions process. Clients indicate that we are doing a credible job in promoting compliance, meeting client needs, and achieving public confidence. They believe we have the right fundamentals in place and that the pace of program and service changes is appropriate. Surveys conducted by business associations and the CCRA itself confirm these findings.

While we are pleased with the outcome of our dialogue on Future Directions, perhaps of greater significance to us is that clients have seized the opportunity to identify additional changes and actions that they believe would help ensure good performance by the CCRA in the future. Both clients and employees identified significant opportunities where we can further enhance our performance. These opportunities form the basis for our new strategic vision for the CCRA.

While the feedback received through the Future Directions consultations largely validated the CCRA as a sound and innovative organization, a dominant, central message emerged: the CCRA needs to go further in instituting a client-centred orientation and culture. People believe that compliance can best be achieved by taking a holistic view of the client and targeting information, service, and verification to particular clients or groups of clients.

This message means that the CCRA will need to progressively and thoughtfully shift the way it operates away from its traditional methods, centred around broad solutions that generally meet the needs of vast numbers of clients, to more tailor-made, targeted solutions that can more fully and effectively meet the needs of individual clients and client groups. It will necessitate a fuller understanding of whom our clients are and their particular requirements. It will demand a broader range of program offerings that can be available as needed.

Future Directions, together with the Customs Action Plan, has been the most extensive consultation we have ever undertaken with clients, partners, stakeholders, and employees. This open and meaningful dialogue has enabled our client groups to provide us with valuable insight about their future service needs and expectations and will enable us to better plan and develop our future services and activities. All our clients recognized the importance and the benefits of this dialogue and have been eager to contribute. Clients strongly recommend that we continue this dialogue in the future. We agree. We are committed to vigorous dialogue and consultation as we move forward with the implementation of our vision. We recognize the importance of working with clients if we are to continue to provide good and effective service that meets rapidly changing needs and priorities. We have outlined a number of actions that are targeted to the needs and particular circumstances of our clients. We will be putting some actions into place immediately to assist clients. Other actions will be built around our existing service framework and will be implemented over the longer term to ensure that they are both affordable and effective. More detail about all actions and initiatives will be included in future Corporate Business Plans, starting in 2003–2004. We will report on our progress in implementing these actions and initiatives in our annual report which is made public each fall.

This vision of compliance through client-centred service will be realized through seven strategic directions that emerged during consultations. Together, these seven directions encompass a broad range of initiatives and activities, all of which are essential to the complete realization of the vision. The ultimate test for any new initiatives or activities will be the degree to which they contribute to advancing compliance through a client-centred service. The vision, along with the directions, will also be used to help assess existing programs and activities.

The Seven Strategic Directions:

- We will aggressively apply technology to the full range of CCRA services to enable our clients to self-serve where appropriate thereby making compliance even easier.
- We will establish a new capacity to direct and develop our interaction with a particular client or client group by providing them with a single point of contact that they may contact for assistance or clarification.
- We will accelerate our work with interested provinces, territories and First Nations to create new opportunities for collaboration and partnerships.
- We will adopt a customized approach to compliance that is client-based and supported by a fully informed risk management framework.
- We will enhance the timeliness of our activities and transactions with clients across the full range of services.
- We will stress plain language when communicating with clients, and will provide clients with clearer explanations about how and why we make a decision.
- Finally, but by no means any less important, we will actively support staff and address current and longer-term needs in hiring, training, and retaining qualified staff.

CONCLUSION

The CCRA operates in a complex environment characterized by rapid change. Ensuring compliance, voluntary or otherwise, in this environment is an ongoing challenge requiring communication, quality services, and credible enforcement strategies. For the CCRA to be successful, it must not only continue but also enhance its partnerships with business and professional organizations, identify, analyze and address areas of non-compliance as well as remain innovative in transforming our core business in a manner that keeps pace with changes in technology, business and management practices, and the expectations of Canadians.