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## **Tax Debt in Canada**

**On April 30, 2013**, the Canada Revenue Agency released a fact sheet that provides information on tax debt in Canada, and what the CRA is doing to address it.

The spring 2013 Auditor General's (AG) report provides the results of a follow-up review to determine the Canada Revenue Agency's (CRA) progress against action plan commitments made in response to a 2006 audit of its tax collection program. Overall, the AG concluded that the CRA has made satisfactory progress against its commitments, and makes four additional recommendations to further strengthen the administration of the program. The CRA accepts all recommendations and has already taken action to respond to them.

### **What is the tax debt?**

If an individual or business fails to pay their taxes on time, those amounts become a tax debt owed to the Government. The CRA works to collect all debts through the collections process. The outstanding tax debt is an inventory of amounts owed that are known and actively managed by the CRA. New amounts are continually added, while others are collected or addressed through other measures.

### **Why is the tax debt increasing?**

A number of factors influence the amount of the tax debt at any given time. In recent years, the reasons for the increase in tax debt include:

- An increase in overall revenue due to higher population and more businesses as well as the harmonization of federal and provincial taxes;
- More effective targeting of measures to combat aggressive tax planning and transfer pricing, leading to additional amounts to be collected; and
- Interest charges on outstanding debts which are themselves added to the debt.

## **How does the CRA collect the tax debt?**

The majority of Canadian taxpayers pay amounts owing on time. Over the last five years, over 90% of individuals and corporations paid their taxes on time and without any intervention.

Taxes owing that are not paid are resolved through different means, depending on complexity, the taxpayer's previous compliance history, and ability to pay. Low complexity accounts are resolved through reminder phone calls or letters to taxpayers.

## **How successful is the CRA at collecting tax debt?**

The CRA has focused on continuously improving its tax collection program through the introduction of better strategies to prevent the debt from occurring, or resolving it before legal action is required. That has resulted in increased productivity through earlier intervention at a lower cost. As a result, the amount recovered has grown by 87% between 2005-2006 and 2011-2012. In the 2011-12 fiscal year alone, the CRA recovered \$40 billion in tax debts.

An international tax benchmarking study in 2011 highlighted Canada's strength in collecting tax debt and ranked Canada in the top 2 among 10 countries reviewed in the study, for:

- The lowest cost of collecting a dollar of debt; and
- Collecting the most debt as a percentage of total tax revenues.

Canada also has one of the lowest levels of new debt per taxpayer – an indication that the CRA's approach is effective at ensuring that a higher proportion of taxes owed is paid in full and on time.

## **How is the CRA managing the tax debt?**

The total amount of the tax debt, currently \$29 billion, represents numerous types of debt, and most amounts owing are secured or under active collection. The CRA is working to recover all debts, either through automated strategies led by the Debt Management Call Centre, payment arrangements, or active collections by the CRA's Tax Service Offices.