

# Canada Revenue Agency Annual Report to Parliament 2006-2007



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Canada Revenue  
Agency

Agence du revenu  
du Canada

Canada 

# Who We Are

The Canada Revenue Agency (CRA) touches the lives of all Canadians through our administration of Canada's tax laws and benefit programs for individuals and families. Whether it is the birth of a child that makes a family eligible for a benefit, filing a tax return, investment in a business, or the purchase of goods over the Internet, the CRA must be able to deliver the programs and services that Canadians need when and how they need them.

Our organization is guided by four enduring values—integrity, professionalism, respect, and co-operation. We believe in providing service excellence through our 57 service sites across the country, supported by fair and responsible compliance action, to win the trust and confidence of Canadians and our clients. This ensures the integrity of Canada's tax system and benefit programs. The CRA employs approximately 44,000 people, and the tax revenue it collects pays for the public goods and services that enhance the quality of life of all Canadians.

Accountability for our performance forms a common thread through every aspect of CRA operations. By being accountable, fair, and service-oriented, we maintain the trust and confidence of Canadians. This enables us to maximize our potential, and to build on our services and programs in ways that will benefit Canadians and their governments into the future.





## 2006-2007 CRA at a Glance



- Just over \$346 billion collected—averaging over \$1.3 billion every working day—including:
  - \$110.6 billion in personal taxes
  - \$37.7 billion in corporate taxes
  - Over \$52 billion on behalf of Canada's provinces, territories, and First Nations
  - Over \$17 billion in Employment Insurance (EI) premiums
- Almost \$50 billion in Goods and Services Tax (GST)/ Harmonized Sales Tax (HST) collected from over three million GST/HST registrants
- Over \$15.2 billion benefit and credit payments distributed to over 11 million entitled Canadians
- Over 1.6 million corporate tax returns processed, including 14.0% electronically
- Almost \$13 billion identified through measures for addressing non-compliance, a portion of which may be overturned as a result of appeals and an additional portion of which may be uncollectible
- Over 36 million tax-related visits to the CRA's Web site and over 61 million forms and publications downloaded
- 60% increase in visits to My Account by taxpayers
- More than 15,800 volunteers completed over 500,000 simple tax returns for low-income, eligible taxpayers
- Almost 23 million public enquiries answered
- Almost 25 million individual tax returns were filed, including 50.6% electronically filed
- Approximately 1.6 million employers withheld and remitted over \$192 billion in source deductions—about 56% of the revenues we collected
- More than 8,200 voluntary disclosures processed with related assessments totalling over \$525 million
- Almost \$466 million in interest and penalties waived or cancelled under our Taxpayer Relief Provisions
- Over \$32 billion in contributions on behalf of the Canada Pension Plan (CPP)



# Highlights

The CRA is committed to being accountable to Canadians about how well it administers Canada's tax and social benefit programs. We do this by setting meaningful performance goals and objectively measuring results as a way to drive continuous improvement in our program activities. As shown in the chart below, in 2006-2007, we continued to achieve the majority of the expected results that we established for our Tax Services and Benefit Programs strategic outcomes. We also identified some areas where results fell short of our expectations.

## Notable Successes

- More than 90% of individuals, employers, and GST/HST registrants continued to file tax returns on time.
- More than 90% of individuals paid their taxes on time.
- We sustained strong performance in issuing more than 99% of almost 86 million payments on time under the Canada Child Tax Benefit program, the GST/HST credit program, and related provincial and territorial benefit and credit programs.
- We leveraged our federal delivery infrastructure to administer 72 benefit programs and services for provinces, territories, and other government departments, up from 67 last year.
- Our programs to address non-compliance with reporting obligations identified a total dollar value of almost \$13 billion, a 21% increase from 2005-2006.
- We earned an A grade for "ideal compliance" under the *Access to Information Act* and the *Privacy Act* for responding within legislated timeframes.
- We received two gold, two silver, and one bronze Government Technology Exhibition and Conference awards for information technology achievements.
- The Treasury Board of Canada Secretariat and the Privy Council Office awarded the CRA Government On-line Teams with an Award of Excellence.
- In support of our sustainable development priority, we lowered our paper consumption by 10% over 2005-2006, increased our purchases of greener products by about 30%, and significantly exceeded our solid waste diversion target.

## Areas for Improvement

- Total tax debt grew from \$18.5 billion to \$20 billion.
- Our estimate of timely filing by taxable corporations increased slightly from last year (86.4%), but remained below our 90% target.
- The rate of timely payments by taxable corporations declined to 85.4% from 88.7% in the previous year while timely payments of source deductions by employers declined from 88.7% to 87.7% in 2006-2007.
- Levels of identified non-compliance by individuals with deductions and credits not subject to third-party reporting decreased slightly, but remained high (14.7%).

## Priorities to Achieve Improved Results

The CRA identifies areas where improvements are required, and addresses them through various strategies and initiatives. In pursuing improved results, the CRA balances its efforts to deliver changes with the requirement to maintain the integrity of our current program delivery systems. Key improvement priorities include the following activities:

- We will continue to focus on addressing the growth of our tax debt and to implement strategies that will eventually reduce our inventory of receivables.
- We will continue to investigate the impact of certain trends, such as the decrease in timely filing by taxable corporations, the decline in the timely remittance of payments by taxable corporations and in the remittance of employer deductions, and the decrease in accuracy of claims by individuals with deductions and credits not subject to third-party reporting. Strategies will be established to raise compliance rates to targeted levels in these three areas.

## Message from the Minister



Ensuring that Canada's tax laws are applied fairly and consistently contributes to the social and economic well-being of Canadians. The confidence of Canadians in the Canada Revenue Agency's (CRA) integrity is fundamental to its success in administering tax and benefit programs on behalf of governments across Canada. It is an honour to be, as the Minister of National Revenue, responsible for an organization that has a world-class reputation for excellence in service, protection of information, transparency in the way we account for our performance, and fairness in our dealings with taxpayers and benefit recipients.

During the past year, while continuing to meet its objectives of promoting taxpayer compliance and delivering timely and correct benefit payments to eligible Canadians, the CRA has identified ways to help ensure simpler, more secure, and less costly options for Canadians to meet their tax obligations and receive benefits. For instance, the CRA is committed to implementing ambitious initiatives to simplify the tax process for small and medium sized businesses and to sustaining the focus on burden reduction in the years to come in a manner consistent with its overall accountability for tax compliance and revenue collection. In addition, the Prime Minister has moved to put in place a Taxpayer Bill of Rights and a Taxpayers' Ombudsman to ensure the CRA will continue to serve taxpayers with high standards of accuracy, professionalism, courtesy, and fairness.

It is with pride that I table the Canada Revenue Agency's Annual Report to Parliament 2006-2007. I am confident that this report demonstrates that we are successfully meeting our mandate.

A handwritten signature in black ink, reading "Gordon O'Connor". The signature is written in a cursive, flowing style. The name "Gordon" is written in a larger, more prominent script, while "O'Connor" is written in a smaller, more compact script. The signature is positioned above the printed name of the Minister.

The Honourable Gordon O'Connor, P.C., M.P.  
Minister of National Revenue



## Foreword by the Chair



The Board of Management is responsible for overseeing the organization and administration of the Canada Revenue Agency and the management of its resources, services, property, personnel, and contracts. The Board plays a crucial role in the governance of the CRA, providing rigorous management and administrative oversight to enable the Agency to achieve its goals. The strategic nature of our work means that our influence is felt throughout the CRA's internal operations and external service delivery.

Board members take their fiduciary oversight responsibilities very seriously. With the addition of four new members to the Board in 2006-2007, steps were taken to ensure their proper orientation. Ongoing development opportunities were also provided to all members to enhance their knowledge of the CRA and keep abreast of emerging corporate governance practices and other related developments.

During 2006-2007, the Board also oversaw the development of the Board of Management Oversight Framework, a key governance tool that will complement the Treasury Board of Canada Secretariat's Management Accountability Framework. This new oversight framework sets out a clear list of management expectations addressing those management responsibilities that have been specifically assigned to the Board of Management under the CRA Act. Using this framework, the Board will undertake a comprehensive annual overview of CRA processes and practices.

As in the past, the Board will continue to add value through our direction and advice on a wide range of issues such as financial management, risk management, information technology, and human resources management which includes succession planning. Our continued focus on these issues demonstrate the seriousness with which we take our oversight role, which in turn, enables CRA's management to achieve more effective results.

It has been my privilege over the past years to work with many dedicated individuals who are committed to enable the CRA to build on its past achievements, to help the Agency to attain its goal to be fully accountable to clients and Canadians, and to enable the CRA to tangibly deliver results, not only this year, but in the future.

I am pleased to recommend this report to the Minister of National Revenue, the Honourable Gordon O'Connor, for tabling in Parliament.

A handwritten signature in black ink, appearing to read 'C. Roveto', written in a cursive style.

Connie I. Roveto, ICD.D  
Chair, Board of Management

The Auditor General's assessment of CRA's results information is presented in the section of this report entitled "Our 2006-2007 Results". This information has not been audited; the assessment is done only at a review level of assurance.

The Auditor General's audit opinion on the CRA financial statements is presented in the "Financial Statements" section of this report.

The Auditor General has not reported on other sections of this report.



# Management's Representation and Statement of Responsibility for Performance Information

I submit for tabling in Parliament the 2006-2007 Annual Report (Departmental Performance Report) for the Canada Revenue Agency (CRA). The *Canada Revenue Agency Act* requires that an annual report be tabled in Parliament. This report must include information about the Agency's performance on objectives established in its Corporate Business Plan. It may also include an assessment by the Auditor General of Canada of the fairness and reliability of that information. It is not the role of the Auditor General of Canada to assess or comment on the Agency's actual performance.

This report has been prepared on the basis of reporting principles and other requirements in the *Guide to the Preparation of Part III of the 2006-2007 Estimates: Reports on Plans and Priorities and Departmental Performance Reports* (Treasury Board of Canada Secretariat, May 2007). The CRA maintains systems and practices that provide reasonable assurance that the results information presented in this report is consistent, accurate, comprehensive, and balanced. Some of the results information, however, is based on management's best estimates and judgments, and this is appropriately disclosed. The Agency is continuing to make progress on the development of robust measures and indicators for its strategic outcomes and expected results.

The CRA's Corporate Audit and Evaluation Branch conducts independent reviews of various aspects of the Agency's results. Also, the Board of Management's Audit Committee oversees management's responsibilities for maintaining internal controls and financial and results reporting systems; its members meet regularly with internal and external auditors. The Board of Management recommends the Annual Report to the Minister for approval.

This Annual Report includes the CRA's results information with the assessment of the Auditor General of Canada, as shown on page 11. This Annual Report also includes the Agency's audited financial statements, prepared on a full accrual accounting basis, and unaudited supplementary financial information for reporting to Parliament on the use of appropriations, which is based on approved numbers from the Estimates and the Public Accounts. Program activity spending is consistent with the reporting method for parliamentary appropriations, which is different from the full accrual basis of accounting used for the audited financial statements. A reconciliation of the expenditures reported under these two financial reporting methodologies is shown in Table 10 on page 159 under the financial statements section of this report.



William V. Baker  
Commissioner and Chief Executive Officer  
Canada Revenue Agency

10 October 2007





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The Canada Revenue Agency's (CRA) mission is to administer tax, benefits, and related programs and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians. The CRA is the primary tax collector for the Government of Canada, and its predominate responsibility is to protect Canada's revenue base. In addition, the CRA is the delivery agent for various income-based benefit programs, credits, and other services that contribute to the well-being of Canadians. These two roles are reflected in the CRA's two strategic outcomes:

- Taxpayers meet their obligations and Canada's revenue base is protected, and
- Eligible families and individuals receive timely and correct benefit payments.

## Taxpayers meet their obligations and Canada's revenue base is protected

Our primary focus is to have taxpayers meet their obligations under Canada's tax laws without our intervention. In 2006-2007, we collected just over \$346 billion on behalf of the Government of Canada, the provinces (except Quebec), the territories, and certain First Nations governments. The vast majority of these taxes were remitted voluntarily by taxpayers.

The CRA's strategic outcome measures show that, in 2006-2007, the majority of Canadian individuals and businesses continued to voluntarily meet their filing and registration obligations. We did not meet our overall expectations related to remittance compliance in large part because our measures for timely remittance compliance for corporations (85.4%) and employers (87.7%) demonstrate a continued downward trend.

Macro-indicators related to reporting compliance indicate that, on the whole, income reported by taxpayers to the CRA tracks favourably against external and internal benchmarks, contributing to our assessment that the majority of taxpayers report complete and accurate information on their tax returns.

These statistics, coupled with other measurements of taxpayer compliance in 2006-2007 with their reporting obligations, form the basis of our assessment that, for the majority of Canadian taxpayers, the incidence and magnitude of non-compliance is relatively low, though financially significant. Based largely on this assessment, we conclude that the CRA met its tax services strategic outcome in 2006-2007.

Although we recognize that many factors outside our control determine whether or not taxpayers voluntarily comply with Canada's tax laws, we believe that the activities we undertake within our threefold approach of service, enforcement, and redress serve to promote taxpayers' compliance with their tax obligations. Our performance in 2006-2007 against the expected results identified for our tax-related program activities lends support to our assessment that the CRA promoted compliance with taxpayer obligations, and protected Canada's revenue base.

## Eligible families and individuals receive timely and correct benefit payments

Our aim is to ensure that Canadians access federal, provincial, and territorial benefits to which they are entitled. It is important that the payments we issue be timely and correct. For some recipients, tax-free benefit payments make up a substantial portion of their monthly income. In 2006-2007, our benefit strategic outcome measures indicated that almost all (99.99%) benefit payments were received on time, and that over 95.5% of Canada Child Tax Benefit recipients met their obligations to provide us with complete and accurate information to permit the accurate calculation of their benefit entitlements.

In addition to providing timely and accurate benefit payments, our flexibilities as an agency and the adaptability of our systems enable us to leverage our federal delivery infrastructure to administer a wide range of benefits, one-time payment programs, and other services on behalf of provinces, territories, and other federal government departments. In 2006-2007,

the CRA was the delivery agent for four ongoing federal and 17 provincial/territorial programs, as well as the new federal Universal Child Care Benefit. In addition, we delivered the one-time Ontario Home Electricity Relief program, making it the eighth one-time program that we have delivered since we became an agency in 1999. In total, we issued almost 86 million payments totalling over \$15.2 billion. We also added three new data exchange and data transfer clients, bringing the number of these clients to 42. We share limited data using a two-way online electronic link—and always with taxpayer consent—with provinces, territories, and other federal government clients. Using this data, clients administer their own benefit programs, such as social assistance, student aid, or extended health benefits. In all, during 2006-2007, we administered 72 different benefit-related programs and services to provinces, territories, and other government departments.

The results we achieved in 2006-2007 allow us to conclude that we met our benefit strategic outcome—that eligible families and individuals receive correct benefits in a timely way.

## Agency Governance

The CRA has a unique governance structure which includes a 15 member Board of Management, with 11 members who have been nominated by Canada's provinces and territories. Our Board of Management has the responsibility of overseeing the development of policies related to the management of the CRA,

such as resources, services, property, personnel, and contracts. The Board brings private sector rigour and expertise to the CRA. It also presents a diversity of perspectives, as its members come from a variety of professional backgrounds as well as from across Canada.

In 2006-2007, our Board focused on key issues such as risk management, Corporate Tax Administration for Ontario, and the approval of new and revised versions of several corporate policies on internal audit and program evaluation, health and safety, workplace committees, employee travel, sustainable development, and the environment.

## Conclusion

Overall, the results we achieved in 2006-2007 demonstrate that we continue to meet our strategic outcomes for tax services and benefit programs, tangibly confirming that we are achieving results that are beneficial to Canadians.

During 2006-2007, our legislative flexibilities as an agency, our business expertise, the adaptability of our automated systems, and the dedication of those who develop and maintain these systems enabled us to deliver tax and benefits services on behalf of the Government of Canada, most provinces and territories, and certain First Nations governments. As we move forward, we will continue to strengthen our abilities to deliver our core business as efficiently and effectively as possible.



**AUDITOR GENERAL'S ASSESSMENT  
of Performance Information in the Canada Revenue Agency's  
2006-2007 Annual Report to Parliament**

**To the Commissioner and Board of Management of the Canada Revenue Agency, and to the Minister of National Revenue**

***What I Assessed***

As required by the *Canada Revenue Agency Act*, I have assessed the fairness and reliability of the Agency's performance information for 2006-2007 with respect to the objectives established in its corporate business plan.

***Management's Responsibility***

The performance information reported in the Agency's annual report is the responsibility of management.

***My Responsibility***

My responsibility is to assess the fairness and reliability of the performance information included in the Agency's annual report against the objectives established in its corporate business plan.

My assessment covered only the performance information included in the section of its annual report titled "Our 2006-2007 Results", on pages 13 to 73 of the report. It did not include an assessment of the objectives set out in the corporate business plan or information referenced by Web links included in the report. My responsibility does not extend to assessing or commenting on the Agency's actual performance.

***The Nature of My Assessment***

My assessment comprised a review performed in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants. The assessment consisted primarily of enquiry, analytical procedures, and discussion related to the performance information. I conducted this assessment using the criteria for the assessment of fairness and reliability described in the Annex.

An assessment based on a review provides a moderate level of assurance and does not constitute an audit. Consequently I do not express an audit opinion on the Agency's performance information.

***Conclusion***

Based on my assessment, nothing has come to my attention that causes me to believe that the Agency's performance information for 2006-2007, with respect to the objectives established in its corporate business plan, is not, in all significant respects, fair and reliable using the criteria described in the Annex to this report.

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
10 October 2007

**CRITERIA FOR THE ASSESSMENT OF FAIRNESS AND RELIABILITY  
OFFICE OF THE AUDITOR GENERAL OF CANADA**

The following criteria were developed to assess the fairness and reliability of the information about the Agency's performance with respect to the objectives in its corporate business plan. The key issue addressed is: Has the Agency reported fair and reliable performance information? Performance information is fair and reliable if it enables Parliament and the public to judge how well the entity or program in question is performing against the objectives it set out to accomplish.

**FAIRNESS**

- Relevant** The performance information reports in context, tangible, and important accomplishments against objectives and costs.
- Meaningful** The performance information describes expectations and provides benchmarks against which performance is compared.
- Attributable** The performance information demonstrates why the program made a difference.
- Balanced** A representative and clear picture of performance is presented, which does not mislead the reader.

**RELIABILITY**

**RELIABILITY** The performance information adequately reflects the facts.

*These criteria were developed specifically for the assessment. The Canada Revenue Agency has acknowledged that they were suitable for the assessment.*

More information on the criteria is available on our Web site at  
[http://www.oag-bvg.gc.ca/domino/other.nsf/html/200310frpi\\_e.html](http://www.oag-bvg.gc.ca/domino/other.nsf/html/200310frpi_e.html)



## Introduction

The Canada Revenue Agency exercises its mandate within a complex framework of laws enacted by Parliament, as well as by provincial and territorial legislatures. The CRA collects over \$300 billion annually on behalf of Canada, the provinces<sup>1</sup> (except Quebec), the territorial governments, and the First Nations governments. The CRA also delivers income-based benefits, credits, and other services that contribute directly to the economic and social well-being of Canadians. In short, no other public organization touches the lives of more Canadians on a daily basis than the CRA.

In addition to the administration of income tax and benefit programs, the CRA administers sales tax for three provinces, and verifies taxpayer income levels in support of a wide variety of federal, provincial, and territorial programs, ranging from student loans to health care initiatives. We also provide other services, such as the Refund Set-Off Program, through which we aid other federal departments and agencies, as well as provincial and territorial governments, in the collection of long-standing debts that might otherwise become uncollectable.

The following two strategic outcomes summarize the CRA's contribution to Canadian society.

**Taxpayers meet their obligations and Canada's revenue base is protected**

**Eligible families and individuals receive timely and correct benefit payments**

1. In 2006, the governments of Canada and Ontario signed a memorandum of agreement to transfer the administration of Ontario corporate income tax from the Ontario Ministry of Revenue to the CRA. We will also administer other taxes on corporations—the capital tax and special additional tax on life insurers—on a cost-recovery basis. This initiative will increase the harmonization of the tax systems in Canada, reduce compliance costs for businesses, and reduce administration costs for governments.

## Strategic Results Chain

The *CRA Annual Report to Parliament 2006-2007* is a comprehensive reporting of our results through the use of identified measures. Our assessment of these results is presented in a structured way (see Strategic Results Chain on page 14).

This results chain illustrates the different levels of results the CRA seeks to achieve. At the higher levels of the chain, it becomes more increasingly challenging for us to directly demonstrate our influence. The lower part of our results chain shows the expected results that we work toward in order to influence the strategic outcome measure results above. Building on our achievements against our expected results, we use our strategic outcome measures as indicators of Canadians' behaviour to assess whether we met our strategic outcome.

Beginning on page 43, we assess each expected result for each of our Program Activities and rate our results against the key indicators and targets set out in the CRA's *Corporate Business Plan 2006-2007 to 2008-2009*. Since our key expected result, "Reporting non-compliance is detected and addressed", spans several of our Program Activities, the illustration of our results chain does not exactly match the CRA's Program Activity Architecture shown on page 44.

In addition, we use our results chain to identify gaps and address the relevancy of our results measures and indicators. Over the coming years, we intend to take further steps to add indicators that will help improve our ability to support our conclusions about whether we have met our strategic outcomes.

This report includes a section devoted to Agency Governance (page 83). This section has been designed to highlight the achievements of the CRA's Board of Management and report on our human resource, information technology (IT), and other key management strategies that have a significant impact on CRA results.

## Strategic Results Chain

The CRA results contribute to two of the Government of Canada's strategic outcomes:

- *Federal organizations that support all departments and agencies, and*
- *Income security and employment for Canadians.*

### Our Mission

To administer tax, benefits, and related programs and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians

### Strategic Outcomes

**Tax Services**  
Taxpayers meet their obligations and Canada's revenue base is protected

**Benefit Programs**  
Eligible families and individuals receive timely and correct benefit payments

### Strategic Outcome Measures

Registration Compliance

Filing Compliance

Reporting Compliance

Remittance Compliance

Payment Timeliness

Benefit Payment Correctness

Reliance on CRA as a Key Service Provider

### Our Approach

Service

Enforcement

Redress

Service

Validation

Redress<sup>1</sup>

#### Expected Result

Taxpayers, businesses and registrants receive timely, accurate, and accessible information (PA1)

#### Expected Result

Assessment and payment processing are timely and accurate (PA2)

#### Expected Result

Reporting non-compliance is detected and addressed (PA2/3/4)

#### Expected Result

Tax and non-tax debt are resolved on a timely basis and are within targeted levels (PA3)

#### Expected Result

Taxpayers receive an impartial and timely review of contested decisions (PA5)

#### Expected Result

Benefit recipients receive timely, accurate, and accessible information (PA6)

#### Expected Result

Eligibility determination and payment processing are timely and accurate (PA6)

<sup>1</sup> As the number of benefits-related requests for redress is negligible, the workload is handled under Tax Services Appeals (PA5).

Measures for each of these expected results can be found in the Program Activity section starting on page 43.

## Spending Profile – Program Activities by Strategic Outcome

|   | 2006-2007              |                   |                  |
|---|------------------------|-------------------|------------------|
|   | (thousands of dollars) |                   |                  |
|   | Planned Spending       | Total Authorities | Actual Spending  |
| <b>Strategic Outcome: Taxpayers meet their obligations and Canada's revenue base is protected</b>       |                        |                   |                  |
| Client Assistance (PA1)   | 309,836                | 347,072           | 319,608          |
| Assessment of Returns and Payment Processing (PA2)  | 756,093                | 854,351           | 801,844          |
| Filing and Remittance Compliance (PA3)  | 613,677                | 712,654           | 645,262          |
| Reporting Compliance (PA4)  | 1,094,565              | 1,209,550         | 1,165,716        |
| Appeals (PA5)   | 128,380                | 143,180           | 121,654          |
| <b>Strategic Outcome: Eligible families and individuals receive timely and correct benefit payments</b> |                        |                   |                  |
| Benefit Programs (PA6)  | 319,905                | 359,038           | 351,039          |
| <b>Total Spending<sup>1</sup></b>   | <b>3,222,456</b>       | <b>3,625,845</b>  | <b>3,405,123</b> |

<sup>1</sup> Corporate Services planned spending, total authorities, and actual spending have been attributed to the six program activities under the two strategic outcomes. For reconciliation to audited statements, please see Table 10, Reconciliation to the Statement of Operations on page 159.

## Human Resources

| Full Time Equivalents (FTE) | 2006-2007 |                     |            |
|-----------------------------|-----------|---------------------|------------|
|                             | Planned   | Actual <sup>1</sup> | Difference |
|                             | 38,303    | 38,179              | 124        |

<sup>1</sup> Full-time equivalent (FTE) totals by program activity can be found at the end of the performance discussion for each PA section.

## Agency Link to the Government of Canada Outcomes

| Program Activity   | 2006-2007              |                |               |                    |                             |                  |
|--|------------------------|----------------|---------------|--------------------|-----------------------------|------------------|
|  | (thousands of dollars) |                |               |                    |                             |                  |
|  | Operating              | Grants         | Contributions | Gross Expenditures | Revenues Credited to Vote 1 | Total Actuals    |
| <b>Government of Canada Outcome – Federal organizations that support all departments and agencies:</b> |                        |                |               |                    |                             |                  |
| Client Assistance (PA1)  | 341,759                |                | 528           | 342,287            | (22,679)                    | 319,608          |
| Assessment of Returns and Payment Processing (PA2)   | 841,907                |                |               | 841,907            | (40,063)                    | 801,844          |
| Filing and Remittance Compliance (PA3)   | 781,748                |                |               | 781,748            | (136,486)                   | 645,262          |
| Reporting Compliance (PA4)   | 1,181,852              |                |               | 1,181,852          | (16,136)                    | 1,165,716        |
| Appeals (PA5)  | 133,211                |                |               | 133,211            | (11,557)                    | 121,654          |
| <b>Government of Canada Outcome – Income security and employment for Canadians:</b>                    |                        |                |               |                    |                             |                  |
| Benefit Programs (PA6)   | 152,198                | 201,842        |               | 354,040            | (3,001)                     | 351,039          |
| <b>Total</b>   | <b>3,432,675</b>       | <b>201,842</b> | <b>528</b>    | <b>3,635,045</b>   | <b>(229,922)</b>            | <b>3,405,123</b> |

## Spending Profile

Of the \$3,625.8 million total authority, CRA's actual spending totalled \$3,405.1 million, resulting in \$220.7 million unexpended at year-end. After adjusting for technical items such as a Treasury Board (TB) directed lapse of \$37.1 million for all of the CRA's CPP/EI activities, an under-expenditure of \$500,000 related to the Charities contribution program, and a TB-directed \$15.4 million reversal of payments to the Department of Justice in 2006-2007, the remaining \$167.7 million is available for use by the CRA in 2007-2008. This amount is within 5% of the total authority.

## Rating Our Results

We use qualitative and quantitative indicators to determine the results achieved in terms of our strategic outcomes and expected results. Survey results, statistical sampling, and operational data inform our assessments. Although we have made progress in developing robust indicators for each of our strategic outcome measures and expected results, we need to make some of them more concrete and measurable.

### Results Ratings

| Rating            | Results  |
|-------------------|--|
| <b>Met</b>        | Our results <b>met</b> or exceeded our expectations.                                       |
| <b>Mostly met</b> | While the results <b>met most</b> of our expectations, some <b>gaps</b> exist.             |
| <b>Not met</b>    | <b>Significant gaps</b> exist in results and <b>most or key expectations were not met.</b> |

## Rating Our Data Quality

In conjunction with the performance results ratings, we also assign each indicator a data quality rating.

For each indicator we use consistent approaches in evaluating the information derived from our data collections systems and all other sources. We rely upon CRA managers to vouch for the completeness of the records for data integrity purposes (i.e., data belongs to the same category, is collected for the same period, and by the same method). We examine data for relevance, formulas for accuracy, and other factors that must be considered. We also use

We also rate our strategic results and those of our program activities in terms of whether the targets identified in our *Corporate Business Plan 2006-2007 to 2008-2009* were met, mostly met, or not met. The table below, 'Results Ratings', defines these terms. Where additional indicators are needed to fully report on our strategic measures or expected results, they have been included.

Our targets identify the percentage or degree we expect to attain for a performance level. Where targets are numeric in nature, they are listed beside each indicator. Targets identified at the program activity level are established by CRA managers through analysis of affordability constraints, historical performance, the complexity of the work involved, and the expectations of Canadians. Development of, and adjustments to, performance and results targets can be a challenging exercise. In some cases, our targets may not reflect recent factors that could have led to adjustments to them. To address this, during 2006-2007, we undertook a formal review of our targets related to our Strategic Outcome measures; changes resulting from this review are reflected in our *Corporate Business Plan 2007-2008 to 2009-2010*.

comparable information from prior years for the purpose of historical comparison, which often appears in the Annual Report. To ensure consistency, we perform the following tasks to verify that the information reported in our numerous reports is valid, reliable, and is accompanied by appropriate evidence:

- **Validation:** This is a process of verification to ensure that the data meets the requirements for its intended purposes. We review and evaluate data for completeness and plausibility (accuracy, timeliness, interpretability, coherence). We also identify contact information, check calculations,

confirm system reliability (verifying the source of information), and note and address any errors.

- Data quality assessment: We apply a data quality checklist and review prior years' data to assess the quality of data for each indicator.
- Electronic filing system: We store data in a database for easy reference and further analysis for other purposes.
- Physical filing system: We maintain physical files of the evidence collected from all sources to provide validation and assurance that our data quality ratings are accurate and supported.

We always endeavour to use the most appropriate and reliable data when evaluating our results. There are

## Data Quality Ratings

| Data Quality Ratings |   |
|----------------------|---|
| <b>Good</b>          | Results rating based on management judgment <b>supported by an appropriate level of accurate information</b> (including management estimates) obtained from reliable sources or methods.                          |
| <b>Reasonable</b>    | Results rating based on management judgment <b>supported, in most cases, by an appropriate level of accurate information</b> (including management estimates) obtained from reliable sources or methods.          |
| <b>Weak</b>          | <b>Significant gaps in robustness of results information;</b> results rating based on management judgment <b>supported by entirely or predominantly qualitative information</b> from informal sources or methods. |

mainly two data sources for the Annual Report: administrative data (normally communicated in aggregate or after some simple calculations are performed on them) and survey data. All data sources are validated for accuracy and a data quality rating of good, reasonable or weak as categorized below is applied to each indicator.

We believe that these three levels of data quality ratings provide a reasonable assessment of the reliability of the data. Generally, our data sources provide reliable information. In situations where the supporting data is too imprecise to draw firm conclusions, it is reflected in the data quality rating.

# Achieving Our Tax Services Strategic Outcome

## Taxpayers meet their obligations and Canada's revenue base is protected

Canada's revenue base provides funding toward social and economic objectives that enhance our quality of life. A fair and effective tax administration is, therefore, essential to the well-being of all Canadians. Under the Tax Services strategic outcome, the CRA works to promote taxpayer compliance and protect Canada's revenue base. We do this by delivering a number of programs that help taxpayers meet their obligations, and we detect and address instances where this does not occur.

### Our Focus

The Canadian tax system is based on voluntary compliance and self-assessment. Taxpayers are expected to determine their own liability under the law and then pay the correct amount of tax. The CRA's fundamental approach to tax administration is to have individuals and businesses comply with their obligations without our intervention. We believe that promoting voluntary compliance is the most cost-effective way to administer taxes in Canada.

Compliance with Canada's tax laws means that taxpayers

- register as required under the law in specific circumstances (for example, for the GST);
- file returns on time;
- report complete and accurate information to determine tax liability; and
- pay all amounts when due.

Non-compliance is the failure by taxpayers to meet any of these obligations.

We strive to minimize the compliance burden for taxpayers by streamlining administrative processes and providing quality service, while respecting the intention of relevant legislation. In those instances where individuals and businesses either unintentionally or intentionally fail to fully comply, we use a wide range of mechanisms in our verification and enforcement programs to induce taxpayer

compliance and to protect Canada's revenue base. When taxpayers disagree with us, we provide them with the opportunity for redress, which is a formal, objective review of their file.<sup>2</sup> This fosters taxpayers' confidence in the fairness of our self-assessment system, and encourages them to meet their obligations voluntarily.

Underpinning this threefold approach is our use of risk management to identify current as well as emerging compliance risks, and to assess them for their potential effect on the revenue base and on compliance in general. We then develop strategies for mitigating the greatest risks to compliance. These strategies address specific segments of the tax population or particular areas of non-compliance, using a mix of instruments and activities, such as outreach activities or audits. Part of our risk management strategy is to maintain an audit presence across all industry sectors and for all types of taxpayers. Overall, we believe this approach helps promote voluntary compliance and deters non-compliance by increasing the credibility and visibility of our compliance programs.

### Our Influence on Taxpayer Behaviour

We recognize that taxpayer behaviour is sensitive to multiple factors, such as the public's perception of government, the values held by society, the economy and people's ability to pay, all applicable legislation, people's feelings about the fairness of Canada's tax regime, and the growing complexity of taxpayer issues.

Other factors also contribute to the outcome we seek to achieve. We are aided by legislation that reduces the risks of non-compliance; for example, the *Income Tax Act* requires employers to withhold and remit deductions at source. We also support the Department of Finance as it seeks appropriate legislation by providing information on compliance

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2. On May 28, 2007, the Minister of National Revenue announced two new redress initiatives, a Taxpayer Bill of Rights and a Taxpayers' Ombudsman.

challenges that we have identified and the costs of administering proposed legislative changes.

In addition, financial institutions offer convenient, accessible services that enable taxpayers to receive and deposit refunds and remit tax payments on time. We also work with international tax administrations and organizations to share expertise and research results, as well as to discuss emerging compliance issues. Notwithstanding these factors, the CRA's administration of Canada's tax laws plays a key role in shaping taxpayers' compliance behaviour. Our efforts toward achieving our expected results contribute significantly toward achieving our strategic outcome. The results identified through our strategic outcome measures provides evidence in support of our conclusion that taxpayers meet their obligations and Canada's revenue base is protected.

## Our Strategic Outcome Measures

We use our Compliance Measurement Framework (CMF) to monitor and measure compliance as well as to evaluate and refine our approaches to addressing compliance issues. Using data from internal and external sources as a baseline of compliance information, the CMF monitors compliance through a series of indicators related to filing, registration, remittance, and reporting requirements.

We group these indicators into four broad categories of taxpayer obligations, which help us measure and assess our results against our Tax Services strategic outcome:

- Registration Compliance estimates the proportion of Canadian businesses that have registered as required by law to collect the GST/HST.
- Filing Compliance indicators estimate the proportion of taxpayers who file their returns on time.
- Reporting Compliance indicators contribute to our assessment of the degree to which taxpayers report complete and accurate information.
- Remittance Compliance indicators estimate the proportion of taxpayers who paid on time, or the amounts due that were paid on time.

To facilitate further research into and analysis of compliance, the CMF partitions the Canadian taxpayer population into the following segments: individuals, self-employed individuals, corporations, GST/HST registrants, and employers. Also included in the CMF are macro-indicators which we use to evaluate reporting compliance trends and to determine if trends in economic data could provide an early indication of a change in the levels of compliance.

## Our Tax Services Strategic Outcome Measures

### Our Measure: Registration Compliance – Rates of registration for the GST/HST

|  |                |           |           |           | Performance rating |            | Data quality |
|--|----------------|-----------|-----------|-----------|--------------------|------------|--------------|
|  |                |           |           |           | 2006-2007          | Met        | Good         |
|  |                |           |           |           | 2005-2006          | Mostly Met | Good         |
| Our Indicator  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006          | 2006-2007  | Rating       |
| Canadian businesses that were registered for the GST/HST | 90%            | 84.6%     | 86.6%     | 88.8%     | 89.5%              | 93.0%      | ✓            |

|       |  |           |
|-------|--|-----------|
| ✓ Met | <input checked="" type="checkbox"/> Mostly Met | ✗ Not Met |
|-------|--|-----------|

Our estimates of the rate of registration compliance have climbed steadily over the past several years. By comparing our data with information from Statistics Canada, we estimate that 93.0% of businesses were registered as required by law (or who had done so voluntarily) to collect GST/HST in 2006-2007. This result of 93.0% met our 90% target. In our view, this represents a high degree of registration compliance, considering that many businesses are not required to register for GST/HST, for example, because their gross revenues are below the registration threshold.

Our assessment is also supported by the results from our Non-Registrant program (discussed on page 55), which seeks to ensure that all businesses that are

required to register for the GST/HST meet their obligations. Each year, this program identifies several thousand small businesses that are required to register, mostly those that are new or that recently exceeded the registration threshold. We believe that there is a very low risk that medium-sized or large enterprises are carrying on business without being registered to collect the GST/HST.

We continue to work to develop compliance indicators for both registered plans and charities. Based on recent findings, it is likely that these indicators will focus on risks other than those associated with registration compliance (see page 31).



## Our Measure: Filing Compliance – Rates of filing on time without direct intervention by the CRA

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | Performance rating |       | Data quality |
|---|----------------|-----------|-----------|-----------|--------------------|-------|--------------|
|   |                |           |           |           | 2006-2007          | Met   | Good         |
|   |                |           |           |           | 2005-2006          | Met   | Good         |
| Individuals who filed a timely return   | 90%            | 93.1%     | 92.6%     | 92.6%     | 92.8%              | 93.0% | ✓            |
| Corporations – taxable incorporated businesses that filed their returns on time | 90%            | 87.2%     | 87.1%     | 86.0%     | 85.9%              | 86.4% | ☑            |
| Businesses that filed their GST/HST returns on time                             | 90%            | 91.6%     | 92.0%     | 92.6%     | 91.8%              | 91.4% | ✓            |
| Employers who filed their T4 returns on time                                    | 90%            | 96.4%     | 96.5%     | 94.5%     | 94.5%              | 96.0% | ✓            |

|   |  |                                  |
|---|--|----------------------------------|
| <input checked="" type="checkbox"/> Met | <input checked="" type="checkbox"/> Mostly Met | <input type="checkbox"/> Not Met |
|---|--|----------------------------------|

Individual taxpayers include all persons who file or are required to file a T1 Individual Income Tax and Benefit Return. By comparing our data with census data from Statistics Canada, we estimate that filing compliance for the Canadian population aged 18 and over was 93.0%, which exceeded our 90% target. This estimate, in our view, provides assurance that there is a high level of voluntary compliance among individuals when it comes to filing tax returns.

A number of individuals have no legal obligation to file a tax return, for example, because their income is below the filing threshold and they are not subject to any special provisions (e.g., disposition of capital property) that would otherwise require them to file. While some of these individuals file to claim social benefits, such as the Canada Child Tax Benefit and the GST/HST Credit, others are not entitled to these benefits or do not wish to participate. Known individuals who do not file and who we anticipate owe tax at the end of the calendar year are subject to our Non-Filer program (see page 55). On balance, we consider these estimates to be a demonstration of a high degree of voluntary compliance, and filing rates by individuals as a low risk to the protection of Canada's tax base.

In the case of corporations, our compliance rate estimates apply only to those that are taxable, which are those corporations that filed a T2 Corporation Income Tax Return showing total tax payable greater than zero. The incidence of timely filing among taxable corporations has increased slightly to 86.4%, which is below our 90% target. The remaining 14% filed their returns after the due date, either voluntarily or as a result of our Non-Filer program. We are in the midst of a study of the downward trend of corporate filing compliance estimates, and expect to improve our reporting of the impact of these estimates in coming years.

The proportion of GST/HST returns that were filed on time during 2006-2007 is estimated to be 91.4%, which meets our target of 90%. As with corporations, the remaining GST/HST returns filed were late.

Employers (which include individuals, corporations, and charities) are legally responsible for deducting, remitting, and reporting federal and provincial income tax, CPP contributions, EI premiums, and employer-provided benefits. During 2006-2007, most employers (96%) filed their T4 Information Returns on time, exceeding our 90% target, which means that only four percent were filed after the deadline.

## Our Measure: Reporting Compliance

|  |                   |           |           | Performance rating |           | Data quality |
|--|-------------------|-----------|-----------|--------------------|-----------|--------------|
|  |                   |           |           | 2006-2007          | Met       | Good         |
|  |                   |           |           | 2005-2006          | Met       | Good         |
| Our Indicators <sup>1</sup>  | Current Target    | 2003-2004 | 2004-2005 | 2005-2006          | 2006-2007 | Rating       |
| Trend in growth in personal income reported to the CRA compared with personal income estimated by Statistics Canada  | Tracks favourably | Yes       | Yes       | Yes                | Yes       | ✓            |
| Trend in growth in net GST collected compared with retail sales and personal expenditures  | Tracks favourably | Yes       | Yes       | Yes                | Yes       | ✓            |
| Trend in corporate income tax assessed by the CRA relative to corporate profits before tax estimated by Statistics Canada  | Tracks favourably | Yes       | Yes       | Yes                | Yes       | ✓            |
| Trend in net income of unincorporated businesses reported to the CRA relative to net income of unincorporated businesses per Statistics Canada National Accounts estimates | Tracks favourably | Yes       | Yes       | Yes                | Yes       | ✓            |
| Non-Compliance Rate Estimates  |                   |           |           |                    |           |              |
| Key tax credits and deductions not subject to third-party reporting – individuals  | Downward trend    | N/A       | 13.9%     | 15.5%              | 14.7%     | ✓            |
| Random audits – Small and Medium-sized Enterprises that collect GST/HST <sup>2</sup>   | Downward trend    | N/A       | 12.3%     | N/A                | 9.1%      | ✓            |

<sup>1</sup> Our assessments against some indicators are based on the latest available data.

<sup>2</sup> The Core Audit Program selects, in multi-year intervals, random samples of tax files from different segments of the SME population for auditing, in order to estimate a reliable non-compliance rate. The years in which these results are reported are presented. The rates in the present table are for non-compliance greater than \$5,000 in net federal tax.

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

Our macro indicators (see page 23) show that growth in personal income reported to the CRA tracks favourably relative to that estimated by Statistics Canada. This leads us to believe that Canadians are accurately reporting changes in personal income to the CRA. Also, the net GST/HST revenue tracks favourably with retail sales and personal expenditures on goods and services, which indicates that the majority of Canadian businesses are reporting and remitting to the CRA the GST/HST they collect (see Figure 1 and Figure 2).

Similarly, growth in corporate income taxes assessed by the CRA tracks favourably with growth in corporate profits before tax estimated by Statistics Canada (see Figure 3) and growth in net income of unincorporated

businesses reported to the CRA tracks favourably with National Accounts Estimates of the growth in net income of unincorporated businesses (see Figure 4).

While our macro indicators provide us with assurance that taxpayers, in general, are complying with their obligations, we conduct various studies and reviews to detect areas where non-compliance with reporting obligations may be emerging or increasing. For example, we conduct an annual random sample program to estimate the non-compliance rate for individuals with respect to key deductions and credits that are not subject to third-party reporting.<sup>3</sup>

<sup>3</sup> It should be noted that this emerging non-compliance is found in a relatively small segment of the population of individual taxpayers.

## Our Macro Indicators

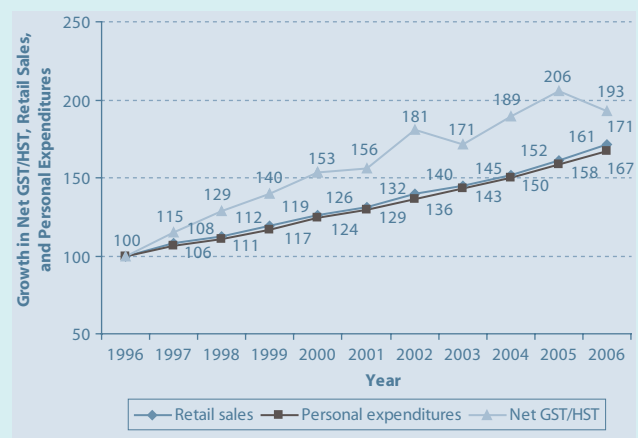
**Figure 1** Growth in Personal Income Reported to the CRA Compared With Personal Income Estimated by Statistics Canada (1998 = 100)



\* Figures for the years 2003 and 2004 have been restated as a result of improved data.

**Data quality:** Good

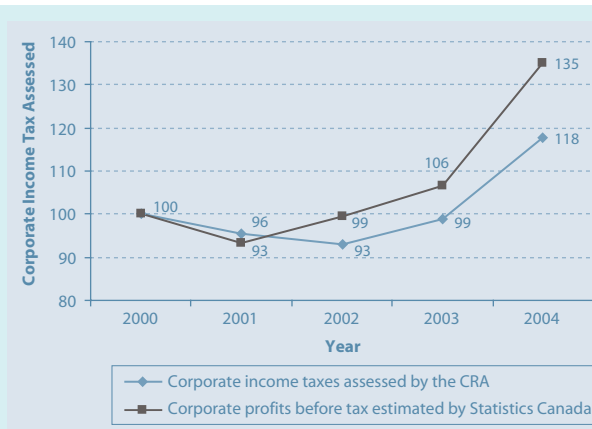
**Figure 2** Growth in Net GST/HST Revenue Compared With Retail Sales and Personal Expenditures (1996 = 100)



\* Figures for the years 2001 and 2002 have been restated as a result of improved data.

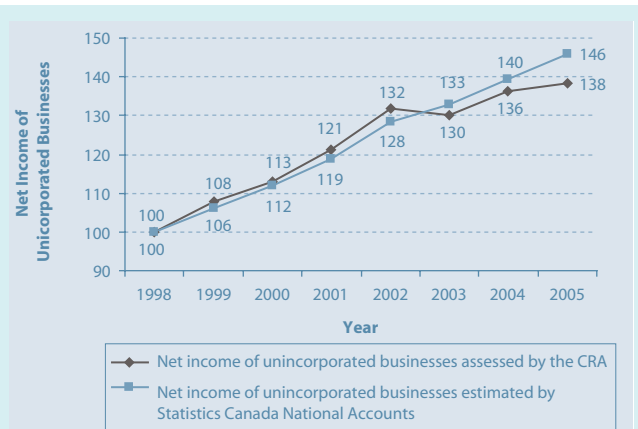
**Data quality:** Good

**Figure 3** Comparison of corporate income tax assessed by the CRA relative to corporate profits before tax estimated by Statistics Canada (2000 = 100)



**Data quality:** Good

**Figure 4** Comparison of net income of unincorporated businesses reported to the CRA relative to net income of unincorporated businesses per Statistics Canada National Accounts estimates (1998 = 100)



**Data quality:** Good

Our sample for 2006-2007 estimated this non-compliance rate for individuals as 14.7%, primarily for 2005 tax returns. This estimate fell slightly between the 2004 and 2005 program year.<sup>4</sup> Other studies we conducted suggest that the reporting non-compliance rate for individual income tax returns filed using NETFILE exceeds that of returns filed using paper, EFILE, or TELEFILE. Our findings also show that users of tax software—who ultimately file their returns either by NETFILE or by paper—demonstrate a higher non-compliance rate when compared with tax software users who employed a third-party tax professional, or with individuals who paperfile without the use of tax software. We continue to analyze these findings to identify strategies to promote compliance in this area.

Our reporting compliance indicators focus on small business because our risk assessment systems indicate that non-compliance is more prevalent among the self-employed and businesses than among individual wage earners. This is because deductions for individual wage earners are usually withheld at source by employers and submitted to us. Also, we review large businesses (those with a gross income of \$250 million or more) every two years and, of those selected for audit, we audit the current and prior years.

Most businesses audited under the Small and Medium-sized Enterprise (SME) audit programs are selected on the basis of risk. Our Core Audit Program (CAP), however, selects a random sample of SMEs for audit to estimate a reliable compliance rate. Different segments of the SME population are selected each year. This approach provides us with accurate compliance estimates that allow for monitoring compliance trends over time.

4. In 2006-2007, we removed the RRSP component of the key deduction and credit claims that were reported by individuals because we obtained third-party matching for this component. Since the RRSP claim population is very large, and has a relatively low non-compliance rate, the inclusion of this component had the effect of reducing the overall non-compliance rate for all claims as reported in our previous annual reports. To facilitate comparison of the 2005 rate of 14.7% with previous years, the overall non-compliance rate was recalculated without the RRSP component for program years 2003 and 2004. This resulted in rates of 13.9% and 15.5%, respectively.

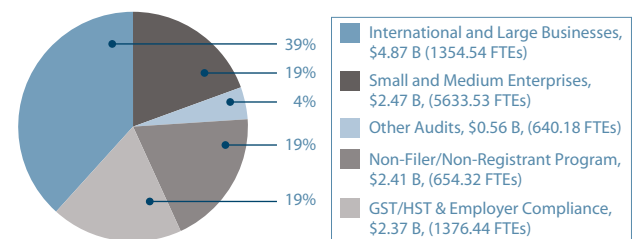
The CAP also generates information for validating and refining the risk criteria used in our risk assessment system. Non-compliance rate data is available only in multi-year intervals following the CAP research plan. This data is provided in the Reporting Compliance table on page 22. Knowledge gained from this program also helps us review our compliance strategies within and across the segments of the SME population.

Most recently, our CAP examined the GST/HST registrants segment in the SME population. This segment's estimated rate of significant non-compliance (i.e., \$5,000 or more in additional federal tax owing) was 9.1%. CAP results from prior years also found the rate of significant non-compliance to be 8.6% and 8.5% in the SME segments for self-employed individuals and corporations, respectively. These rates support our assessment that non-compliance is at relatively low levels.

### Dollar Value of Identified Non-Compliance

Although results against our strategic outcome measures provide evidence that non-compliance is generally at relatively low levels, the results of our program activities demonstrate that such non-compliance is, in total, financially significant. In 2006-2007, our programs to address reporting non-compliance identified a total dollar value of about \$12.7 billion (see Figure 5), exceeding our estimates, which we based on historical results combined with available resource levels.

**Figure 5** Total Dollar Value of Identified Non-Compliance



**Data quality: Good**

\* Other Audits include the Special Enforcement Program and reviews of tax incentives.

## Our Measure: Remittance Compliance – Rate of timely payments without direct intervention by the CRA

| Our Indicators  | Current Target | Performance rating                    |                                       |                                       |                                       |                                     | Data quality |
|---|----------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|-------------------------------------|--------------|
|   |                | 2006-2007                             |                                       | Not Met                               |                                       | Good                                |              |
|   |                | 2005-2006                             | Mostly Met                            |                                       |                                       | Good                                |              |
|   | 2002-2003      | 2003-2004                             | 2004-2005                             | 2005-2006                             | 2006-2007                             | Rating                              |              |
| Individuals who paid their reported taxes on time                                 | 90%            | 93.1%                                 | 94.3%                                 | 93.2%                                 | 93.1%                                 | 94.3%                               | ✓            |
| Taxable corporations that paid their reported taxes on time                       | 90%            | 93.1%                                 | 91.0%                                 | 90.7%                                 | 88.7%                                 | 85.4%                               | ✗            |
| Businesses that collected GST/HST <sup>1</sup>                                    | N/A            | 2.5 million collected<br>\$44 billion | 2.6 million collected<br>\$44 billion | 2.7 million collected<br>\$47 billion | 2.8 million collected<br>\$52 billion | 3 million collected<br>\$50 billion | N/A          |
| Employers who forwarded at-source deductions on behalf of their employees on time | 90%            | 90.4%                                 | 90.5%                                 | 89.2%                                 | 88.7%                                 | 87.7%                               | ✗            |
| Trend in ratio of outstanding tax debt to gross cash receipts                     | N/A            | 5.31%                                 | 5.54%                                 | 5.43%                                 | 5.62%                                 | 5.79%                               | N/A          |

<sup>1</sup> Businesses based in Quebec register with the Ministère du Revenu du Québec, which administers GST on behalf of the CRA and remits the net amount due to the CRA.

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

Our remittance compliance estimates reflect the degree to which various taxpayer segments paid all taxes determined through self-assessment on or prior to the filing deadline. Where monies owing were not paid at the time of filing, we initiated a series of steps to obtain payment; these steps are explained beginning on page 32.

We estimate that 94.3% of individuals with taxes owing paid the entire amount of their self-assessed taxes upon filing in 2006-2007. This remittance compliance estimate exceeds our 90% target.

The estimated percentage of tax remitted on time by taxable corporations fell during 2006-2007 to 85.4%, not meeting our expectation. We are currently studying the downward trend of corporate remittance compliance estimates, and expect to improve our reporting of the impact of these estimates in coming years.

Businesses are also an important contributor to the level of remittance compliance in their collection and remittance of GST/HST. In 2006-2007, businesses collected almost \$50 billion in GST/HST, which

represents a significant portion of the total amount of tax collected during the same period. This figure does not directly demonstrate the level of remittance compliance by businesses. However, the generally consistent upward trend in numbers of businesses registered, combined with our macro indicator showing that net GST/HST revenue tracks favourably with retail sales and personal expenditures on goods and services (Figure 2 on page 23), provide assurance that businesses are remitting GST/HST as required by law.

Our ability to estimate/assess the level of remittance compliance has been constrained, given limitations with our GST/HST system. As a result, we have used indirect indicators of compliance in this area (such as trends in revenues vis-à-vis retail sales, etc.). As ongoing releases result in increased functionality of the redesigned GST/HST systems, we will have better data and capacity for analyzing compliance.

Our estimates of the rate of remittance compliance by employers for 2006-2007 show the continuation of a trend toward less timely payment of source

deductions to the CRA. We estimate that 87.7% of employers remitted on time in 2006-2007; this result did not meet our target of 90%. We have begun to study this trend and anticipate reporting on the results of our research in 2008-2009.

Although we do not establish a target for the ratio of tax debt to gross cash receipts, it is a useful trend indicator. This ratio increased slightly to 5.79% in 2006-2007 from the 5.62% level in the previous year. A discussion of the challenges we face in managing tax debt begins on page 32.

Overall, revenues continued to increase year-over-year (see Canada Revenue Agency Financial Statements – Administered Activities on page 125); for example, corporate revenues increased 19% between 2005-2006 and 2006-2007. Although there are areas for improvement related to voluntary compliance by taxpayers with their remittance obligations that have led us to rate this measure as not met, we do not consider there to be an immediate threat to the integrity of Canada's revenue base, especially in view of our legislated authorities to collect outstanding tax debt.

## Achievement of Our Expected Results

On the following pages, we interpret our achievements during 2006-2007 against our expected results. Our expected results are grouped under three headings that equate to our threefold approach to tax administration: service, enforcement, and redress. We further examine how the CRA's work in these areas influences taxpayer behaviour in meeting their obligations to file, register, and remit on time, and to accurately report their tax circumstances.

### Our Approach: Service

We believe that people are more likely to participate in Canada's tax system and pay the taxes they owe if we provide the services necessary to help them do so. Research shows that rates of compliance are positively affected by access to information, tools, and assistance that encourage taxpayers to meet their obligations.

People find it easier to participate in Canada's tax regime when the system is accessible, when service is timely, and when tax information is accurate. The accurate and timely processing of returns and payments encourages participation, and shortens the time between filing and the receipt of taxes owing or the distribution of refunds.

These principles shape our expected results related to service.

**Expected Result:** Taxpayers, businesses, and registrants receive timely, accurate, and accessible information (PA1)

**Our Assessment:** Met

While maintaining our core business of providing information products and answering enquiries, our strategy is to strengthen our business by investing in more affordable and accessible channels—such as the Internet and our toll-free telephone networks. Our aim is to effectively deliver tax information through innovative and efficient means that are readily available to all taxpayers. As described in detail in our Client Assistance (PA1) section beginning on page 45, it is our assessment that we succeeded in 2006-2007 in providing taxpayers with timely, accurate, and accessible information. This is demonstrated by the following achievements:

- we met key timeliness service standards for answering telephone enquiries;
- accuracy remained high; and
- we met our accessibility expectations.

As noted in our *Corporate Business Plan 2006-2007 to 2008-2009*, our focus is on maximizing the use of technology to optimize cross-channel service delivery via the following platforms:

- telephone enquiry services at our call centres;
- in-person services at our Tax Services Offices (TSOs); and
- our Web site.

Our use of technology includes intelligent call routing to centres of expertise, and delivering automated content management to create, distribute, and reuse information across all channels.

We continued to implement our strategies to direct taxpayers to more cost-effective service channels. For example, as of January 2007, all of our TSOs offer appointment-only service, resulting in the assurance that agents are matched to the appropriate taxpayer-specific enquiries in a timely and effective manner. Also during 2006-2007, walk-in clients who arrived at one of our offices were informed by TSO staff about the information available via our convenient alternative service-delivery channels. They were then guided to priority-service telephone lines and Web kiosks. Feedback on this strategy was positive. One of our studies showed that 95% of the individuals who were redirected to the telephone had their enquiries resolved that way—without the need for an appointment. The result was that only about 24,000 appointments were needed and almost 60% fewer individuals needed to visit our TSOs in 2006-2007.

We also spent \$8 million across all of our program activities this past year to proactively reach out to communities and help ensure that filing and reporting is as straightforward and convenient as possible. Our current focus is to better target and customize our outreach programs, expand taxpayer consultation by focusing on changing demographics, address national and local compliance issues, and ensure that taxpayers receive their entitlements.

The Minister of National Revenue recently created the Action Task Force on Small Business Issues. Its mandate is to identify which of our administrative practices imposed the greatest burden on small businesses, develop solutions to reduce this burden, and introduce a systemic approach to burden reduction within the CRA. The final report, entitled *Helping Small Businesses by Reducing the Compliance Burden*, was released in March 2007. It identified over 50 initiatives that the CRA will undertake in support of real burden reduction. We are committed to implementing these initiatives and sustaining the focus on burden reduction in the years to come in a manner consistent with our overall accountability for tax compliance, revenue collection, and taxation data collection.

Our Web site provides a wide range of updated information and answers to frequently asked questions. The design of our Web site facilitates self-service and taxpayer understanding of their tax obligations, and the site is complemented by telephone and in-person services. The ongoing redesign of our Web site continues to make it easier for users to navigate by taxpayer type, program, or activity. For example, in response to public opinion research and as part of our service improvement strategy, we implemented a new search engine with enhanced functionality in December 2006. Subsequently, there was a marked increase in search traffic on our Web site, which we attribute to the implementation of new search engine. Web site usage statistics suggest that we are achieving positive results in our strategy to encourage taxpayers to move to self-serve options such as the Web. As well, a recent survey<sup>5</sup> found the following results among those surveyed:

- overall satisfaction levels were 74% for small business representatives and 80% for third-party intermediaries;
- over 80% of users felt that the information was up-to-date; and
- more than 75% of users indicated that the information on the site was easy to understand.

Further results related to our Web site are discussed on page 47.

In our view, the levels of voluntary compliance discussed earlier are significantly influenced by our commitment to quality service. Our approach to promoting voluntary compliance is consistent with the Government of Canada's approach to service, and includes our work on citizen-focused service standards (see page 75 for a complete discussion and a list of our public service standard results for 2006-2007).

5. Web Site Business User Survey, March 2007. We are cautious in attributing too much significance to the results, due to the response rate (34.5%).

**Expected Result:** Assessment and payment processing are timely and accurate (PA2)

**Our Assessment:** Met

The processing of tax returns and remittances has long been a key strength of the CRA. The achievement of this expected result is critical to our being able to positively influence taxpayers to participate in Canada's tax system, thereby promoting compliance.

The results discussed in our Assessment of Returns and Payment Processing (PA2) section, beginning on page 49, demonstrate that we met this expected result, by achieving the following in 2006-2007.

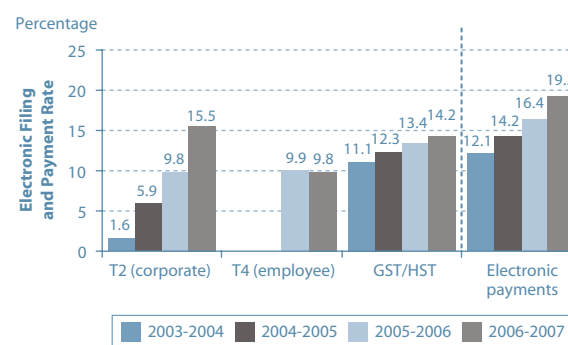
- We met all of our key external service standards and most internal performance targets for our key indicators.
- The take-up of electronic filing continued to rise, especially with businesses.
- Our quality assurance results related to processing individual paper returns met our 98% target for accuracy.

Over the past several years, changes in technology and taxpayer needs have had a significant impact on the way we deliver our processing services. We believe that, by encouraging wider use of electronic filing, we have improved the accessibility and efficiency of our programs. As described on page 49, more than 50% of individual tax returns were filed electronically. The increase in electronic filing by more than one percent over last year means that about an additional 550,000 returns were processed more efficiently in 2006-2007.

On March 6, 2007, the CRA experienced system difficulties with our personal income tax and related automated systems. Services—including NETFILE, EFILE, TELEFILE and My Account—were temporarily suspended as a precautionary measure to ensure the integrity of taxpayer information. On March 14, 2007, our databases were successfully restored and tax centres returned to normal operations, processing returns and payments. Despite these system difficulties, there was an increase from last year in the number of individual income tax returns that were electronically filed.

We have worked hard over the past several years to promote electronic filing for all sectors. Although the numbers of GST/HST, corporate, and employer returns filed electronically remain modest, two of the three areas experienced a notable percentage increase in 2006-2007, which we anticipate will continue in the future. The proportion of payments processed electronically this past year also increased over 2005-2006 (see Figure 6).

**Figure 6** Rates of Electronic Filing and Payments (other than individual income tax returns)



**Data quality:** Good

In 2006-2007, we continued to strengthen our core business by enhancing our electronic service channels. For example, on September 25, 2006, we expanded our existing suite of electronic services to provide businesses with self-serve access to real-time account information, through a new service called My Business Account. Initiatives such as this, that tailor tools and information to taxpayers' needs, encourages them to meet their obligations voluntarily, and reduces the cost and burden of compliance.



Our ongoing improvements in electronic service delivery have meant that taxpayer account information is more up-to-date. Improved electronic service delivery has also resulted in greater efficiency and accuracy on our part in the processing of tax returns and payments.

We continued to enhance My Account, our secure portal that provides individuals with an online view of their tax information and account history, as well as transactional services. As of February 2007, individuals can arrange for direct deposit of their refunds and benefit payments, set up a pre-authorized payment plan for tax arrears, and view the last seven tax returns they filed. Visits to My Account have increased by approximately 60%.

By increasing convenience and accessibility for taxfilers through electronic filing and payment technology, we encourage compliance in terms of filing and remittance obligations, thereby helping to protect Canada's revenue base.

### Our Approach: Enforcement

Although quality service helps to promote compliance, there will always be some instances where individuals and businesses either unintentionally or intentionally fail to fully comply. Much of our assurance that we are achieving our strategic outcome is based on our robust system of checks and balances—which includes both preventive and detective activities. These activities incorporate a mix of compliance tools—such as outreach, audits, enforcement, and legal measures—to protect Canada's revenue base from non-compliance. We employ these activities to achieve our expected result that reporting non-compliance is detected and addressed.

We devote more of our compliance and enforcement resources to areas in which our analyses indicate that the risk and potential revenue consequences of non-compliance are highest. The activities we undertake to ensure compliance are guided by research into existing and emerging non-compliance trends and threats to the tax base. This research supports our sophisticated risk assessment systems

which examine the characteristics of taxpayers to detect areas of possible non-compliance.

Non-compliance takes many forms, from errors and omissions to deliberate tax evasion. We verify compliance with the law, correct past mistakes, and educate taxpayers on the correct application of the law for the future. Audit and enforcement covers a range of activities—from routine verification procedures (such as matching third-party information), to limited examinations, to full audits. In the most serious cases, we carry out tax evasion and fraud investigations, which can lead to fines and imprisonment.

The integrity of Canada's tax regime is also compromised by taxpayers who do not honour their obligations to pay the amounts they owe. For this reason, we have a program to collect tax debts. To decrease the risk that a debt will become uncollectable, we focus on collecting outstanding balances in a timely manner. Some of these arrears, however, are not recoverable for various reasons (such as the financial situation of the taxpayer). Consequently, an important element of our management of tax debt is to keep it within targeted levels. These two key aspects of debt management are reflected in our expected result for tax debt.

Our achievements against both of these expected results demonstrate how the CRA contributes to protecting Canada's revenue base.

**Expected Result:** Reporting non-compliance is detected and addressed (PA2/3/4)

**Our Assessment:** Met

Detecting and addressing non-compliance are so vital to the protection of Canada's revenue base that work toward achieving this result occurs almost everywhere in the CRA. Indeed, efforts toward this expected result are explicitly reported in three of our five program activity sections (PA2, PA3, and PA4), and are implicit in the other two (PA1 and PA5).

As described in our section on the Assessment of Returns and Payment Processing (PA2), we detect and

address non-compliance by individuals through pre-assessment and post-assessment reviews.

### **Pre-assessment reviews**

Despite the convenience and compliance benefits that third-party reporting provides, a risk remains that taxpayers will make errors on their tax returns, choose to under-report income, or overstate deductions or tax credits. Once tax returns are filed, we conduct pre-assessment reviews based on a risk-scoring approach to select returns for detailed review.

These reviews detect errors and omissions that result in significant reassessments every year, including \$107.4 million in additional tax assessed in 2006-2007.

### **Post-assessment reviews**

Our post-assessment work involves targeted reviews based on risk assessment and random reviews. Our random reviews facilitate both an estimate of the non-compliance rate for deductions and credits (see Figure 11 on page 51), and continual refinement of our assessment systems.

Through our matching program, we compare amounts reported by individuals for a wide range of income and deduction items (such as wages and registered pension plan contributions) with the amounts reported on third-party information slips. For the minority of taxpayers who make reporting errors, the matching process allows us to effectively identify and correct these errors.

In some instances, taxpayers calculate an amount of tax payable greater than the amount that should be assessed. In the interest of fairness, we adjust returns to allow amounts to which the taxfiler is entitled, and issue a refund, if applicable; we call these actions "beneficial adjustments." Beneficial adjustments amounted to about \$75 million in 2006-2007.

### **Non-filing**

The tax return is the basis for establishing filers' tax liability and their entitlement to benefit programs (see

page 36 for more information on the benefit programs we administer). The CRA supports filing compliance not only through the broad assortment of service programs discussed earlier, but also by conducting responsible compliance actions when taxpayers fail to file their tax returns. Our non-filer program is aimed at detecting high-risk cases based on danger of revenue loss and assessment potential. Our main strategy is to conduct a data match using third-party information and undertake enforcement actions as appropriate—including prosecution.

In 2006-2007, we identified a total dollar value of \$2.4 billion from T1/T2 Non-filers and GST non-registrants, as well as about 7,400 GST/HST registrants who failed to file (see PA3, page 54).

### **Employer compliance**

Canada's tax administration system is greatly aided by employers and other third-party information reporting. Both play a vital role in maintaining compliance among the 25 million individual taxpayers. The relative risk of individual non-compliance related to deductions at source is very low.

In 2006-2007, a total of \$251 billion in cash receipts was obtained from deductions at source by employers and third-party reporting. In other words, almost 73% of total cash received by the CRA was remitted in this way with limited or no intervention on our part.

There are, however, a number of compliance challenges associated with the obligation of employers to deduct payroll taxes from their employees, to remit these amounts periodically to the CRA, and to report those earnings to us on information slips. To promote compliance among employers, we use a variety of approaches, such as education, rulings, legislative instruments, computer-assisted enforcement reviews, audits, and prosecutions.

In 2006-2007, we identified a dollar value of \$2.3 billion in Employer/Payroll/GST non-compliance (see PA3, page 54).

## Audit and investigations

Generally speaking, our audit activities begin after tax returns are processed and assessments are sent to taxpayers. We manage our audit approach through a range of different programs tailored to the characteristics of specific groups. For example, large corporations conduct transactions worth many millions of dollars; they are also subject to complex elements of tax legislation. The dollars involved and the legislation at issue elevate the risk factors for large companies. As a result, we audit all large corporation files (where material tax-at-risk exists) over a two-year audit cycle. In 2006-2007, these audits identified a dollar value of \$3.2 billion.

As mentioned earlier, part of our risk management strategy is to maintain an audit presence across all industry sectors and types of taxpayers. The section on Reporting Compliance (PA4) beginning on page 57 describes the measures that offer us assurance that reporting non-compliance is detected and addressed.

The Compliance Review, which we completed in 2004-2005, confirmed that the greatest risks to compliance include aggressive tax planning, the underground economy, and GST/HST fraud. As described in our section on Reporting Compliance (PA4), we have focused much of our audit and investigation resources on these types of non-compliance.

Our Special Enforcement Program conducts audits and undertakes other civil enforcement actions on individuals who derive or are suspected of deriving income from illegal activities. Our section on Reporting Compliance (PA4) provides more details on this program. In cases of suspected tax evasion and fraud, we conduct investigations to accumulate sufficient evidence to support conviction for deliberate or wilful evasion of Canada's tax laws. These activities are a fundamental part of the CRA's enforcement presence, and are essential to ensure a level-playing field for all taxpayers and businesses.

In addition to our regular ongoing audit and investigation activities to detect non-compliance, we also continued to focus on specific projects to strengthen our core business, which are described in our *Corporate Business Plan 2006-2007 to 2008-2009*.

For example, as a result of an announcement in the 2005 federal budget, the CRA was allocated \$8 million over five years as part of the Tobacco Compliance initiative. This past year, we conducted 175 compliance visits to tobacco manufacturers to promote compliance. Although we had planned to complete 300 such visits over the 2005-2006 and 2006-2007 fiscal years, we faced some challenges in hiring and training the staff required to undertake these additional compliance activities. We were also required to divert resources to the one-time Tobacco Products Inventory Tax introduced in the May 2006 federal budget. We intend to complete the remaining visits in 2007-2008. Overall, these compliance visits have demonstrated that licensees were generally compliant with their legislative and administrative obligations.

### The registered plans sector: An emerging risk

Registered plans is another sector in which we have identified emerging compliance risks. These plans are important economic, fiscal, and social instruments that benefit millions of Canadians by permitting the deferral of tax on savings for retirement and post-secondary education. Based on risk assessments, we decided to streamline our registration processes in order to realign our resources to compliance activities. This realignment—coupled with audits undertaken through our random sampling compliance project—resulted in a 35% increase in the total number of audits conducted in 2006-2007. Once the materiality and program integrity impacts of these audits have been assessed, we should be in a better position to determine the scope of non-compliance in the sector.

### Charities

The charitable sector has recently been the focus of ongoing regulatory review by the CRA. In 2006-2007, the overall results of our charities audits led us to the following conclusions:

- We need to continue to enhance our outreach and education efforts to registered charities in order to facilitate voluntary compliance.
- Cases of wilful non-compliance are minimal but do exist.

- The proper and timely completion of the T3010 registered charities information return remains a concern.

We will use these results to fine-tune our regulatory approach to the charitable sector.

The results discussed in the preceding pages demonstrate that we have continued in 2006-2007 to detect and address non-compliance.

**Expected Result:** Tax debt and non-tax debt are resolved on a timely basis and are within targeted levels (PA3)

**Our Assessment:** Mostly met

As discussed in the section on Filing and Remittance Compliance (PA3), details of which begin on page 54, we achieved the following in 2006-2007:

- we met our timeliness targets for the resolution of receivables;
- we exceeded our plans to resolve more than \$10.4 billion in accounts with outstanding tax owing; and
- we resolved more than 90% in terms of the value of new intake as a result of collections activities in our TSOs.

We did not, however, achieve our expectation to reduce to less than 16% the proportion of tax debt that is greater than five years of age.

Overall, it is our assessment that we mostly met this Expected Result.

### Managing Tax Debt

We work hard to encourage taxpayers to voluntarily comply with their obligation to pay on time. We also apply responsible enforcement remedies where needed to provide assurance to taxpayers who pay their taxes when due that the CRA manages outstanding debts effectively.

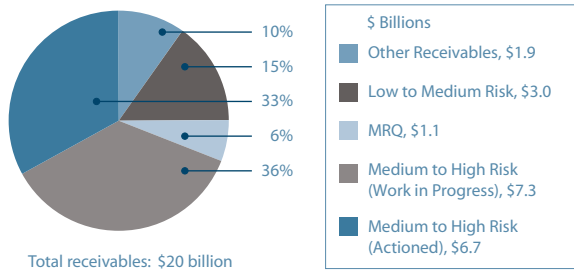
Unlike a private sector business that has processes in place to select and pre-screen its clients, the CRA deals with all taxpayers, whether they are good or bad risks, in remitting amounts owed. We have strategies in place to manage tax debt—which totalled \$20 billion at the end of March 2007, an increase from the March 2006 balance of \$18.5 billion. We use risk assessment and modern techniques to maximize our return on investment, while treating all taxpayers fairly and equally. Our strategy is designed to identify the millions of dollars of new tax debt arising every year, assess the risk represented by these accounts in terms of danger of loss, and identify the need for the appropriate actions to protect the Crown's interests. These actions are a series of escalating strategies designed to manage both low-risk, high-volume accounts and lower-volume, high-risk accounts.

With most new tax debt, immediate forceful measures are not warranted, because many debts are paid once the taxpayer is notified of the amount owing. After a suitable period to allow for late payments, however, remaining debts are subject to a graduated series of measures that are applied to remind and encourage debtors to pay their arrears.

- An automated notice cycle and agents at our outbound call centre remind taxpayers of their obligations.
- Self-service telephone and Internet options are available to assist taxpayers who desire to manage their affairs themselves.
- A process is in place to automatically set off tax refunds against the outstanding low-dollar tax debt of low-risk, individual tax debtors.

We manage millions of low-risk accounts (representing income tax, corporate tax, GST/HST, and payroll source deductions) in this fashion on an ongoing basis, at a very low cost per file. As of March 31, 2007, the value of low-risk accounts managed through these strategies was \$3.0 billion (see Figure 7).

**Figure 7 Accounts Receivable Inventory Components**



**Data quality: Good**

Accounts that present a greater risk are assigned to our TSOs for more intensive analysis and investigation. Here, the files are actioned on the basis of complexity, with the more complex files being assigned to our most experienced staff. More than 90% of our tax debt resources are located in our TSOs working with these higher-risk files.

At any given point in time, a portion of the outstanding tax debt being worked on is either resolved by negotiated acceptable payment arrangements or legal actions initiated by the CRA, such as garnishments or writs; or they are determined to be uncollectible and are written off. Over and above this, the remaining accounts include debts that we have secured, estimated bad debt that will ultimately be written off, work in progress, and accounts yet to be assigned.

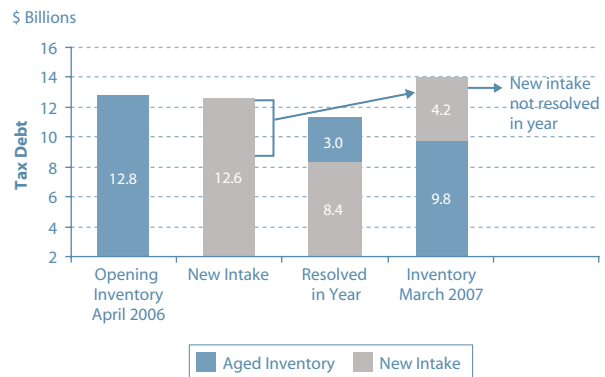
We estimate that, of \$14.0 billion in TSO tax debt inventories as of March 31, 2007, measures were in place on \$6.7 billion in debt to generate payments or write off the accounts (see Figure 7). The remaining \$7.3 billion represents work in progress, bad debts, secured amounts, and accounts yet to be assigned. Fundamentally, our tax collections program continues to improve inventory turnover, shifting accounts from “work in progress” to “actioned” as quickly and efficiently as possible. As reported to the Public Accounts Committee in 2006, we are constantly enhancing and improving our approach to the management of accounts receivable inventory, with significant focus being directed in the area of technological innovation and process improvements.

Tax administrations around the world have reported marked increases in tax debt inventories, a trend reported in various Organisation for Economic

Co-operation and Development (OECD) studies. The contributing factors are acknowledged to be numerous and complex, as the impact of increased efficiencies in collection efforts are offset by large shifts in the intake of new debts, due to variables such as changing taxpayer compliance patterns, economic factors affecting business viability, and the impact of heightened compliance activity. Our focus on compliance activities has resulted in additional revenue for the Government of Canada, some of which is reflected in our accounts receivable.

This trend has been noted in Canada as well (see Figure 8). In the Auditor General’s May 16, 2006, Status Report, the growth in tax debt is noted, despite an increase in our collections productivity. The Auditor General’s recommendations reinforced the need for investment in debt management research to understand the make-up of tax debt and the reasons for its growth. In addition, the report recommended improvements to our tax debt performance information; risk-scoring and file management systems; and business processes—explaining that further increases in productivity could result in additional revenue recovery.

**Figure 8 TSO Tax Debt Growth Due to Unresolved Intake**



**Data quality: Good**

We concurred with these recommendations and have taken significant steps to continue existing efforts to strengthen our core business by improving our collections productivity through enhancements in these areas. Detailed action plans (see Schedule B on page 88) were provided to the Public Accounts Committee in 2006. Activities that are under way focus on significantly refining our program

delivery model, improving our processes and systems infrastructure through the Integrated Revenue Collections (IRC) Project, and undertaking improvements designed to manage our tax debt workloads more effectively.

### Our Approach: Redress

The availability of a dispute resolution process is integral to our tax administration. To earn and maintain the trust of taxpayers, we must have a redress process that is fair and is seen to be fair. Taxpayers who feel that they have been treated fairly have increased confidence in their dealings with us. In turn, taxpayer confidence in the CRA enhances our capacity to protect Canada's revenue base, a benefit to all Canadians. A basic aspect of fairness is ensuring that taxpayers are informed of their rights to redress and how to exercise them.<sup>6</sup> Making sure that the redress process is timely, accessible, and consistent also contributes to its actual and perceived fairness.

In addition, since the 1990s, taxpayer relief provisions have permitted the CRA in certain situations to be more flexible and responsive to taxpayers' circumstances when it would be unreasonable or unfair to penalize them.

**Expected Result:** Taxpayers receive an impartial and timely review of contested decisions (PA5)

**Our Assessment:** Mostly Met

When taxpayers do not agree with us on a tax or penalty matter, they are entitled to a formal, objective review of their file. Our aim is to ensure that all taxpayers have access to responsive and impartial redress, as we discuss in our section on Appeals (PA5).

This past year, we again achieved positive results from our Quality Assurance Program. Our 2006-2007 results indicate some improvement in areas previously

6. On May 28, 2007, the Minister of National Revenue announced two new redress initiatives, a Taxpayer Bill of Rights and a Taxpayers' Ombudsman. In addition to introducing these two new measures, the CRA will now track the types and number of complaints received through a new service complaints process.

identified as deficient, although, in specific instances, they still require significant improvement to meet our benchmarks.

On balance, our 2006-2007 Quality Assurance Program results demonstrate that our dispute resolution processes are transparent to the taxpayer and that our decisions are being consistently applied.

Overall, we feel we have mostly met our expected result related to redress activities. In doing so, we believe, we have fostered confidence in the fairness of Canada's self-assessment system, thereby encouraging taxpayers to meet their obligations and promoting voluntary compliance.

### Conclusion

Although we did not achieve our expectations related to some indicators, our estimates of taxpayers' filing and registration compliance indicate that overall levels of voluntary compliance with Canada's tax laws continued to be high in 2006-2007. We also recognize that improvements are needed in the area of remittance compliance, where our overall assessment is that we did not meet our expectations.

Most importantly, the reporting compliance results we have reported for 2006-2007 provide the foundation for our overall assessment that, for the majority of Canadians, the incidence and magnitude of non-compliance are relatively low, although in total this non-compliance is financially significant. Our conclusion, therefore, is that, in 2006-2007, the CRA continued to meet its strategic outcome, namely that taxpayers meet their obligations and Canada's revenue base is protected.

Based on our achievements this past year in relation to our expected results, as well as the steps we have taken to strengthen our core business, we believe that we are delivering an appropriate mix of activities to fulfil our role in protecting Canada's revenue base. On balance, we met our expectations in 2006-2007 in terms of information and processing and mostly met our Redress-related result. We feel that these results continued to have a positive influence on taxpayer

behaviour, as reflected in the high levels of voluntary compliance discussed beginning on page 18.

In 2006-2007, we also continued to achieve our expectations related to the detection and addressing of non-compliance. The effectiveness of our compliance programs results in additional revenues for the Crown; a portion of this additional revenue is accounted for as a receivable. We recognize that challenges remain in our management of the tax debt

that results from this compliance activity. Our long-term tax debt collection strategies are yet to be fully implemented, while our short-term approach—though resolving more dollars each year—has not stemmed the growth of our tax debt inventory.

Our achievements related to all of our program activities are discussed in detail, beginning on page 43.

# Achieving Our Benefit Programs Strategic Outcome

## Eligible families and individuals receive timely and correct benefit payments

Income security is essential to the economic and social well-being of Canadians. As far back as 1918, the Government of Canada recognized the desirability of providing support to families using the tax system by establishing a deduction for children. With the introduction of a deduction for persons with disabilities in 1944, the Refundable Child Tax Credit in 1978, the Goods and Services Tax Credit program in 1990, and the Child Tax Benefit program in 1993, the CRA became a key contributor to the Government of Canada's objective of income security and employment for Canadians, through its role as the delivery agent for federal income-based benefits and credits to individuals and families.

In 1996, with the implementation of the BC Family Bonus program, the CRA's delivery infrastructure was leveraged for the first time to administer benefit programs for provinces and territories. We now administer 17 ongoing child benefit and credit programs on their behalf.

We also deliver one-time payment programs to respond to the immediate priorities of governments, and we support the administration of programs (ranging from student loans to health care initiatives) through the data exchange and data transfer services that we provide for other levels of government.

In 2006, we launched the federal Universal Child Care Benefit (UCCB) on behalf of Human Resources and Social Development Canada. The UCCB is a monthly payment of \$100 for each child under age six who is eligible for the Canada Child Tax Benefit (CCTB), and it is paid to all families.

The complete list of the programs we administer and the services we deliver in support of Canada's income security system is provided at the end of this chapter on page 42.

## Our Focus

Our primary focus is to ensure that Canadians access federal, provincial, and territorial benefits to which they are entitled. Although there is no requirement for parents to apply for child benefits, or for individuals to apply for tax credits, the overwhelming majority of eligible Canadians do access these programs. We provide benefit recipients with information, tools, and services that are accessible through a variety of channels: our telephone service, proactive outreach efforts, and Web sites that provide information and allow benefit recipients to do transactions online.

We believe that recipients will comply with their benefits-related obligations when they are informed about them and clearly understand what they need to do to meet eligibility requirements and receive their entitlements. When recipients give us the information we need, we can determine their eligibility and help ensure that they receive timely and accurate benefit payments—no less and no more.

We facilitate service for other levels of government by combining the provincial or territorial entitlements under ongoing benefit programs (with the exception of the Alberta Family Employment Tax Credit program) with the federal amounts into a single payment. Postage and processing costs that would otherwise have been incurred by issuing the entitlements separately are saved, as are the costs of developing independent administrative systems. By the same token, parents need to file only one application to be considered for income-based child benefits from both levels of government. Individuals need only "tick the box" when they complete their annual tax and benefit return to be considered for sales tax credits offered from both levels of government. In total, of the almost 86 million payments we issued in 2006-2007, 3.4 million combined a provincial/territorial entitlement with a federal entitlement into a single payment, and a further 1.9 million payments were issued for a provincial amount only.

Our data exchange and data transfer services also assist both clients and recipients. The sharing of



data—always a limited amount, using File Transfer Protocol methodology<sup>7</sup>, and always with taxpayer consent—allows provinces, territories, and other federal government departments to administer their own income-tested benefit and payment programs, such as social assistance, student aid, or extended health benefits. Data sharing not only simplifies the administration of programs, it also minimizes the burden on applicants, since they do not need to contact our offices to get the required information themselves.

## Our Influence on Benefit Recipients and Clients

We recognize that the behaviour of benefit recipients is sensitive to many factors. Since they are also taxpayers, they perceive government, society, the economy, legislation, and the fairness of Canada's benefits systems in a variety of ways. We also recognize that the requirements of clients for new benefit programs or related services are subject to their own determination of priorities or available funding.

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7. This is a secure, two-way, online electronic link.

In our administration of benefit programs, the CRA has an influence on the behaviour of benefit recipients which, in turn, contributes to the achievement of our strategic outcome. We are aided by federal, provincial, and territorial legislation to clearly identify who is eligible to receive benefits and the amount of their entitlements. We also count on Public Works and Government Services Canada and Canada Post for on-time issuance and delivery of the cheques and crediting of the direct deposits that we have calculated.

## Our Strategic Outcome Measures

We measure results against our benefits strategic outcome under three headings that focus on the timeliness of benefit payments, the extent to which recipients meet their obligations to provide us with up-to-date eligibility and account information, and the attractiveness of our program and service delivery infrastructure to federal, provincial, and territorial clients.

## Our Benefit Programs Strategic Outcome Measures

|  |                  | Performance rating | Data quality |
|--|------------------|--------------------|--------------|
|  | <b>2006-2007</b> | <b>Met</b>         | <b>Good</b>  |
|  | 2005-2006        | Met                | Good         |

### Payment timeliness

| Our Indicator                               | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Benefit recipients receive payments on time | 99%            | 99.9%     | 99.9%     | 99.8%     | 99.9%     | 99.99%    | ✓      |

### Benefit payments are correct

| Our Indicator  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| CCTB recipients provide complete and accurate information and receive the proper entitlement | 95%            | 94.1%     | 95.5%     | 93.2%     | 95.1%     | 95.5%     | ✓      |

### Provinces, territories, and other government departments rely on the CRA as a key service provider

| Our Indicator   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006       | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------------|-----------|--------|
| Trend in number of programs and services administered | Upward         | 46        | 51        | 58        | 67 <sup>1</sup> | 72        | ✓      |

<sup>1</sup> The result has been restated from the *CRA Annual Report to Parliament 2005-2006* to reflect an additional data transfer with the ministère du Revenu du Québec to assist in the administration of the Quebec *Income Tax Act*.

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

### Our Measure: Payment timeliness

It is important for the payments we issue to be timely. For some recipients, federal benefit payments make up a substantial portion of their monthly income. Receiving the expected payment on time is an important factor in their ability to meet household expenses. For example, although the CCTB was paid to an estimated 88% of families with children as of June 2006, the maximum annual benefit goes only to those with net income below \$20,435. Over 850,000 families—more than 26% of all families receiving the CCTB—received the maximum benefit, which is \$6,175 for a two-child family (\$514.58 per month). In 2006-2007, 99.99% of the almost 86 million payments we issued were received on time.

### Our Measure: Payments are correct

Payments need not only to be timely, they also need to be correct. Just as taxpayers have the obligation to file income tax returns and report their income properly, benefit recipients need to continually provide us with complete and accurate information to

maintain their eligibility and permit the accurate calculation of their entitlements. Our indicator of overall benefits compliance measures the percentage of recipients who met their obligations to properly report changes that affect their benefit payments. These include the following:

- changes to marital status;
- address changes;
- changes in family circumstances (e.g., the number of children in care); or
- changes in immigration or residency status.

In 2004-2005 (the benefit year of our most recent study), we estimate that approximately 95.5% of CCTB recipients supplied us with complete and accurate information,<sup>8</sup> and received proper entitlements. The accuracy of benefit payments when processing benefit applications and account maintenance adjustments is discussed on page 68.

8. Compliance Levels Exhibited by Recipients of CCTB—Final Report, February 28, 2007 (target population as of November 2004).

## Our Measure: Provinces, territories, and other government departments rely on the CRA as a key service provider

The CRA does not create the benefit and credit programs it administers or the benefit programs it supports. The CRA is chosen by clients to deliver the programs or services that respond to their priorities or requirements. The proven success of the CRA's delivery infrastructure is our most important selling point, as we continue our efforts to become the provider of choice for the delivery of benefit programs and benefits-related services for other governments across Canada. Whether we deliver programs on behalf of clients, or support programs that clients administer themselves, ensuring that recipients receive timely and correct benefit payments (or, in some instances, non-monetary benefits provided under provincial or territorial programs we support) is the outcome we aim to achieve.

### New Benefit Programs

We continued to attract new business as a program administrator in 2006-2007.

- In July 2006, as previously noted, we began to deliver the Universal Child Care Benefit, under which almost \$1.8 billion was issued in nine months to over 1.6 million families.
- In October 2006, we launched the Ontario Home Electricity Relief program, a one-time payment program under which we issued more than \$105 million to over 1.5 million recipients on behalf of the province. This is the eighth one-time payment program we have implemented since 2000.

The fact that jurisdictions have opted to use the CRA's infrastructure to deliver programs on their behalf strongly suggests that the CRA offers important efficiencies in delivering a cash benefit. Two jurisdictions—Nunavut and the Northwest Territories—have specifically noted that integration of territorial benefits with the CCTB reduces duplication and streamlines efficiency.<sup>9</sup>

### New Benefits-Related Services

We continued to attract new business as a provider of benefits-related services in 2006-2007, adding three new data exchange and data transfer clients:

- Ontario Ministry of Community, Family and Children's Services (Ontario Works Program);
- Newfoundland Ministry of Health and Community Services (Prescription Drug Program); and
- Nova Scotia Department of Community Services (Pharmacare for Children of Low-Income Families program).

There are now 42 programs using our data exchange and data transfer services: in 2006-2007, we responded to a total of more than 88 million requests for data.

Through our Commissioner's annual reports to each province and territory, we report to our clients about the work we do on their behalf. In total, we administered 72 different benefits-related programs and services for provinces, territories, and other government departments.

9. National Child Benefit (NCB) Progress Report 2005, published February 2007, available at [www.nationalchildbenefit.ca](http://www.nationalchildbenefit.ca)

## Achievement of Our Expected Results

On the following pages, we interpret our achievements during 2006-2007 against our Benefit Programs expected results. Our two expected results relate to our approach to benefits administration, as it applies to the provision of information and enquiries services; the processing of the applications, elections, and correspondence that ultimately lead to issuance of timely and accurate benefit payments; and the validation of account information to ensure that recipients get the amount to which they are entitled. We further examine how our work in these areas influences the behaviour of benefit recipients and clients.

### Our Approach: Service

We believe that the results achieved against our strategic outcome measures demonstrate the willingness of recipients to meet their obligations without our intervention. We believe this willingness is significantly influenced by our commitment to quality service.

**Expected Result:** Benefit recipients receive timely, accurate, and accessible information (PA6)

**Our Assessment:** Met

Communications tools, including our timely and accessible telephone enquiries service and outreach activities, inform potential recipients about the benefits to which they are entitled and how to access them. They are designed to encourage take-up,<sup>10</sup> promote awareness of program requirements, and support overall rates of compliance with benefits-related obligations. It is our assessment that we succeeded in 2006-2007 in providing benefit recipients with timely, accurate, and accessible information. This is demonstrated by the following achievements:

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10. The CCTB take-up rate is calculated using census data: results will be available once data from the 2006 census is analyzed.

- we met our internal performance targets for the timeliness and accessibility of our telephone enquiries service;
- we were proactive in providing accurate information, through a variety of means, to existing and potential benefit recipients; and
- we provided channels allowing recipients to do various transactions online.

In handling almost 7.7 million benefits-related calls, we recognize that benefit recipients view the telephone as their preferred method of contacting us for general and account-specific benefits information. The recognition of this preference is reflected in the establishment of a new service standard for responding to CCTB telephone enquiries, which is being implemented in 2007-2008 (see page 79).

Our most important ongoing outreach vehicle is the CCTB application package, which is intended to be included in the kits that are given to new parents in hospital maternity wards across the country. Our 2006 survey<sup>11</sup> of first-time recipients showed the following results (against targets of 90%):

- 93% of respondents agreed that application instructions were easy to understand;
- 89% were satisfied with the information received; and
- 86% were satisfied with the service they received.

We also provide information using a wide variety of other methods (such as mail-out inserts, calendars, fridge magnets, and flyers) to promote awareness of benefit programs and corresponding obligations.

Our accessibility strategy includes reducing recipients' need to call by promoting the use of other technologies. We have worked hard to improve our Web site as an attractive alternative information channel: our My Account (Benefits) Web site attracted 6.2 million page views in 2006-2007 and the Child and Family Benefits Web page attracted almost 3.7 million page views. We also offer access to Web services that allow benefit recipients to do various transactions online:

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11. CCTB First-Time Applicants Survey, (September 2006). We are cautious in attributing too much significance to the results due to a low response rate (15%).

- Change My Address—almost 90,000 recipients entered transactions online.
- Children’s Special Allowances on the Web—31.5% of all government agencies or institutions that care for children (covering 60% of children) submit online their changes to care arrangements.

Our results in providing benefit recipients with timely, accurate, and accessible information, including a list of our most important outreach efforts, are described further on page 66.

**Expected Result:** Eligibility determination and payment processing are timely and accurate (PA6)

**Our Assessment:** Met

The CRA has a reputation for strong performance in the timely and accurate processing of benefit applications and elections, and of benefit payments. We also work toward maintaining high levels of overall benefits compliance by assisting recipients, not only through communications and outreach efforts, but also through the efforts of our validation and controls program to detect non-compliance and adjust accounts where necessary. The achievement of this expected result is an important aspect of the Government of Canada’s objective of income security for Canadians. As described in detail beginning on page 67, it is our assessment that we succeeded in meeting this expected result in 2006-2007. This is demonstrated by the following achievements:

- we met our key service standards of 98% for timely processing of benefits-related transactions;
- we met key internal performance targets, processing over 98% of benefits-related transactions accurately;
- we minimized the value of any overpayments that we issued; and
- our key indicators of benefits validation and controls suggest that we have effective criteria for selecting high-risk accounts for review.

## Payment Processing

Ensuring timely and correct payments for millions of recipients, based on the accurate determination of

program eligibility, takes continuous planning and effort; it is not automatic. Our payment issuance programs are designed with safeguards and checkpoints throughout the systems and processes to contain the risks of delays or interruption, because we know the importance of the payments we make to millions of recipients each month. Changes to our payment processing systems are thoroughly planned, monitored, and tested before implementation. When we successfully attract opportunities, new or revised programs are carefully negotiated with clients to ensure that their requirements can be met without interrupting existing program delivery commitments.

## Our Approach: Validation

We believe that the majority of potential recipients apply for benefit programs only when they are likely to qualify. To ensure this is so, however, we pursue a benefits-specific compliance strategy based on education, facilitated compliance, and the maintenance of a credible enforcement presence. Our validation work targets those accounts that have been identified as high-risk for potential overpayments—for example, where we note inconsistencies in reported marital status or other information in our records—to verify that benefits and credits are issued only to recipients who are eligible for them, and that they receive the correct amounts in accordance with applicable legislation.

## Conclusion

Based on our achievements this past year in relation to our expected results, we believe that we are providing quality information products and a timely and accessible enquiries service that responds to the needs of benefit recipients. We are also continuing our strong performance in issuing timely and accurate payments based on the correct determination of benefit eligibility. In addition, using our legislative flexibilities as an agency, the programs we deliver and the services we provide serve not only the Government of Canada, but also the provinces and territories.

Results against our strategic outcome measures for Benefit Programs indicate that eligible families and individuals are receiving timely payments, and that they are complying with the obligations to report changes in their circumstances that affect the accurate calculation of benefit payments. Results also indicate that provinces, territories, and a number of other government departments rely on the CRA to administer programs and deliver services that meet

their needs. We therefore conclude that the CRA has met its strategic outcome for Benefit Programs in 2006-2007, namely, that eligible families and individuals receive timely and correct benefit payments.

A detailed discussion of our achievements related to our Benefit Programs activity begins on page 66.

## Benefit Programs and Benefit-Related Services Delivered by the CRA

| Five Federal Benefit Programs  |
|--|
| <ul style="list-style-type: none"> <li>• Canada Child Tax Benefit</li> <li>• Universal Child Care Benefit<sup>1</sup></li> <li>• Goods and Services Tax / Harmonized Sales Tax Credit</li> <li>• Children's Special Allowances</li> <li>• Disability Tax Credit</li> </ul> |

<sup>1</sup> On behalf of Human Resources and Social Development Canada.

| 17 Ongoing Benefit Programs for Provinces and Territories      | 1 <sup>st</sup> Year |
|--|----------------------|
| • British Columbia – BC Family Bonus                           | 1996                 |
| • British Columbia – BC Earned Income Benefit                  | 1998                 |
| • Alberta Family Employment Tax Credit                         | 1997                 |
| • Saskatchewan Child Benefit                                   | 1998                 |
| • Saskatchewan Sales Tax Credit                                | 2000                 |
| • Yukon Child Benefit  | 1999                 |
| • Northwest Territories Child Benefit                          | 1998                 |
| • Northwest Territories – Territorial Worker's Supplement      | 1998                 |
| • Nunavut Child Benefit  | 1999                 |
| • Nunavut Territorial Worker's Supplement                      | 1999                 |
| • New Brunswick Child Tax Benefit                              | 1997                 |
| • New Brunswick Working Income Supplement                      | 1997                 |
| • Nova Scotia Child Benefit                                    | 1998                 |
| • Newfoundland and Labrador Child Benefit                      | 1999                 |
| • Newfoundland and Labrador – Mother Baby Nutrition Supplement | 2001                 |
| • Newfoundland Harmonized Sales Tax Credit                     | 1997                 |
| • Newfoundland and Labrador Seniors' Benefit                   | 1999                 |

| Eight One-Time Payment Programs                 | Tax Year |
|---|----------|
| • Ontario Home Electricity Relief               | 2006     |
| • Energy Cost Benefit program (federal)         | 2005     |
| • Alberta 2005 Resource Rebate                  | 2005     |
| • Nova Scotia Taxpayer Refund                   | 2003     |
| • British Columbia – BC Energy Rebate           | 2001     |
| • Alberta Energy Tax Refund                     | 2001     |
| • Ontario Taxpayer Dividend                     | 2001     |
| • Relief for Heating Expenses program (federal) | 2000     |

| 42 Data Exchange and Data Transfer Services   |
|---|
| • Nineteen income verification data exchanges with provinces to support programs  |
| • Eleven NCB Supplement data exchanges with provinces and territories to facilitate calculation of social assistance  |
| • Four data transfers with provinces to support top-ups for CRA-administered child benefit programs   |
| • Two data transfers of income and child information, to support administration of the Ontario Child Care Supplement and Quebec Family Allowance programs   |
| • Two data exchanges and transfers to support the new Nova Scotia Pharmacare program and to assist the ministère du Revenu du Québec in the administration of the Quebec <i>Income Tax Act</i>        |
| • Four data exchanges and data transfers to support federal administration of EI Family Supplement, Canada Learning Bond, Additional Canada Education Savings Grant, and Guaranteed Income Supplement |

## Our Program Activities

Our Program Activity Architecture identifies our program activities (PAs) and demonstrates how they link to our strategic outcomes (see page 44). This framework is based on the Management, Resources and Results Structure (MRRS) established by the Treasury Board of Canada Secretariat on April 1, 2005.

Program activities are groups of related activities that are designed and managed to meet a specific public need and often treated as a budgetary unit. Each program activity is articulated at a sufficient level of materiality to reflect how we allocate and manage our resources in order to achieve intended results. The CRA has six distinct program activities plus one for corporate services; our results related to corporate services are discussed beginning on page 70.

The following sections are organized according to these six program activities (PAs):

- **Client Assistance**<sup>12</sup> (PA1), which assists taxpayers in meeting their obligations under Canada's self-assessment system;
- **Assessment of Returns and Payment Processing** (PA2), which processes and validates taxpayer returns; registers, establishes, and maintains taxpayer accounts; and receives payments;
- **Filing and Remittance Compliance**<sup>13</sup> (PA3), which identifies and addresses non-compliance

12. to be renamed **Taxpayer and Business Assistance**

with taxpayer filing and remittance requirements, and manages tax debt;

- **Reporting Compliance** (PA4), which verifies the complete and accurate disclosure by taxpayers of all required information to establish their tax liabilities and protects the revenue base through audit and enforcement activities;
- **Appeals** (PA5), which provides a timely and impartial dispute resolution process for taxpayers who disagree with decisions taken by the CRA; and
- **Benefit Programs** (PA6), which provides Canadians with income-based benefits and other services that contribute directly to their economic and social well-being.

For each PA, we present a discussion of performance in relation to the PA's expected result(s), specify the key results achieved during the year and how these results served to support our strategic outcomes. We also provide a snapshot of the spending profile and key volumetrics of the PA. At the end of each section, we present the results against our key indicators logically in a report card format to demonstrate how we arrived at our conclusion for each expected result(s).

13. to be renamed **Accounts Receivable and Returns Compliance**

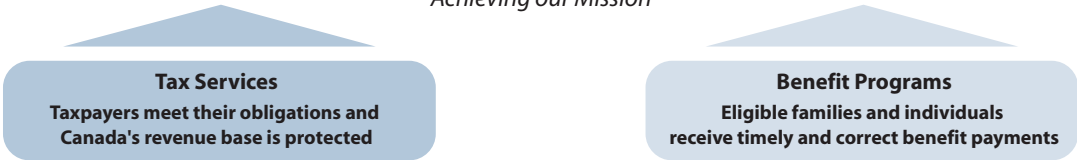
# CRA Program Activity Architecture

## Our Mission

To administer tax, benefits, and related programs and to ensure compliance on behalf of governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians

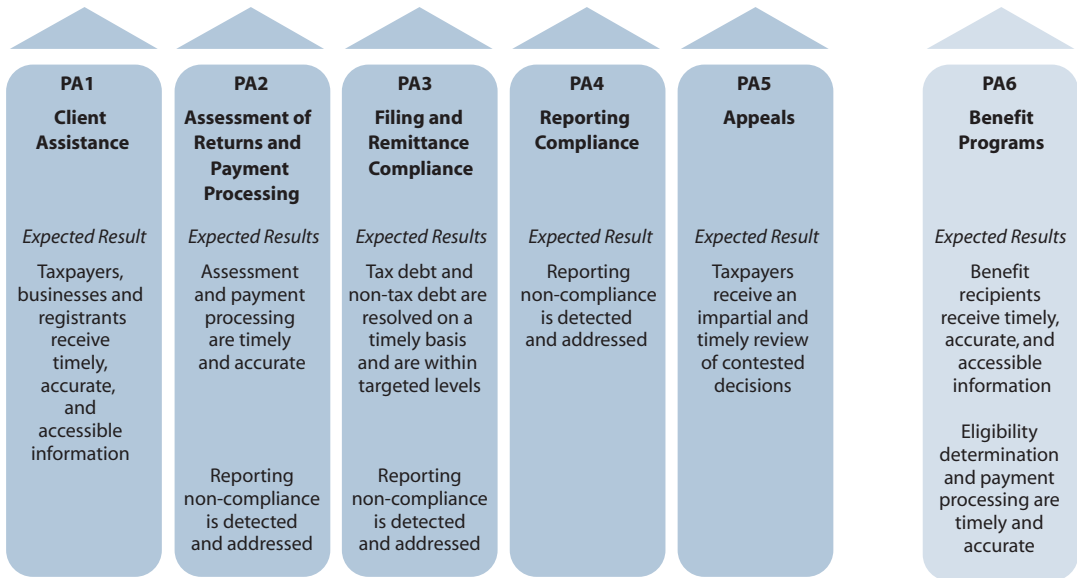
### Strategic Outcomes

*Achieving our Mission*



### Program Activities

*Meeting our Expected Results, thereby achieving our Strategic Outcomes*





## Client Assistance (PA1)

We carry out our Client Assistance program activity to provide taxpayers with the tools, assistance, and information that facilitate voluntary compliance with their tax obligations. To achieve our expected result, we engage in education and outreach programs, respond to enquiries, provide rulings and interpretations, register plans and charities, and administer duty programs for certain commodities.

As demonstrated in our Performance Report Card on page 48, it is our assessment that taxpayers continued to have access to timely and accurate information during 2006-2007; therefore, we met our expected result for our Client Assistance program activity. By meeting this result, we made it easier for taxpayers to understand and respond to their registration, filing, remittance, and reporting obligations under Canada's self-assessment system, thereby facilitating voluntary compliance.

**Expected Result:** Taxpayers, businesses, and registrants receive timely, accurate, and accessible information.

**Our Assessment:** Met

### Our Measure: Timely Information

In 2006-2007, it is our overall assessment that the levels of information services we provided continued to meet our expectations for timeliness. For example, we handled over 15 million tax-related public enquiries in 2006-2007 and met our service standards for answering general and business income tax enquiries in a timely fashion. This was achieved due to a one-time, in-year, infusion of resources which helped overcome increased volumes of complex, account-specific calls that required additional time to resolve, dedication of resources to priority lines for both Service Canada and CRA counter sites, and higher than expected call volumes from our Smartlinks initiative. We also met our service standard for charities calls. Coupled with the results we achieved against our accessibility targets (see page 46), we consider the results achieved against these service standards to be the principal indicator of

our success in meeting our expected result because the telephones remain the primary channel through which high volumes of taxpayers seek information from the CRA.

In addition, through our rigorous annual review process, we ensured that new information was accurately incorporated in a timely fashion in our tax related publications—documents that are critical to assisting taxpayers in meeting their legislative, policy, and procedural obligations and receiving their entitlements, in accordance with relevant federal and provincial legislation.

Our resources within the Client Assistance program activity are also focused on informing taxpayers in a timely and effective way about changes in law. Each year, we work with the Department of Finance and co-ordinate proposals for legislative change within the CRA. In 2006-2007, we implemented a number of changes that had been enacted. The most notable example occurred with the implementation of the 1% reduction in the GST/HST, which became effective July 1, 2006. We participated in the drafting of the 2007 federal budget's legislative measures, such as the new Child Tax Credit and the series of tax relief measures in support of the Vancouver 2010 Olympic and Paralympic Winter Games. Our work in these areas helps to ensure that proposed legislative amendments simplify and clarify the law, are administratively feasible, consider the burden on taxpayers, strengthen enforcement, and improve administrative efficiency. Each of these principles promotes voluntary compliance, and helps protect Canada's revenue base.

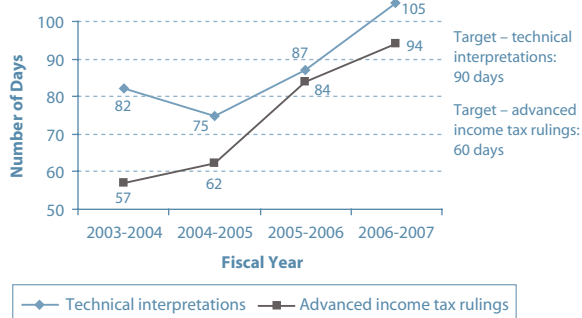
With respect to GST/HST rulings, we introduced a new service standard in 2006-2007 to provide written responses to GST/HST technical enquiries within 45 working days of receipt of the request. We exceeded our 75% target for responding to over 4,400 requests by issuing a timely response 87% of the time.

One area where improvement is needed in meeting our service standards is the provision of income tax technical interpretations within an average of 90 days. Our decision to focus our efforts on older files resulted in an increase in our average to 105 days for

the more than 2,400 technical interpretations we provided this past year (see Figure 9). With this one-time effort complete, our performance in issuing technical interpretations over the coming year should improve.

Another area that requires improvement is in meeting our service standard for issuing advance income tax rulings within an average of 60 days. We issued over 300 income tax rulings in 2006-2007 and, from an average of 114 days during the first quarter, our performance against our service standard steadily improved to an average of 94 days by the end of the fiscal year (see Figure 9). We expect this trend to continue next year with the hiring of additional resources, which is currently underway.

**Figure 9** Timely Response to Requests for Advance Income Tax Rulings and Technical Interpretations



**Data quality: Good**

It is important to resolve our performance issues in regard to these two service standards because, while only a comparatively small number of taxpayers were affected by those services, providing less timely service in these areas may result in these taxpayers undertaking questionable transactions—potentially leading to reduced compliance and more costly audit and appeals activities.

We also deliver timely services to other federal government departments where the benefit to the taxpayer accrues indirectly. One example of this is the service we provide to Human Resources and Social Development Canada (HRSDC) related to the CPP and EI. In 2006-2007, we again met the 85% service level for the timely completion of over 70,000 ruling requests set out in the memorandum of understanding. We view our results in fulfilling this

long-standing service level agreement to be the fundamental indicator of our timeliness in delivering service to our clients.

### Our Measure: Accurate Information

Providing accurate information to taxpayers is critical for them to comply with their obligations to self-assess and report their tax liability to the CRA. The single quantitative indicator we use to determine if our information services are accurate is our evaluation of the reliability of our telephone services. Results from our accuracy survey indicate that performance in responding to the tens of millions of telephone enquiries received in 2006-2007 remained high, relative to the 1996-1997 baseline year<sup>14</sup>. We believe that the result we achieved against this key indicator gives us a sufficient degree of assurance to conclude that we provide taxpayers with accurate information.

### Our Measure: Accessible Information

If taxpayers were not able to access the information, tools, and assistance we provide in a manner responsive to their needs, the value of timely and accurate services would be compromised. Overall, results against our key indicators for accessibility demonstrate that taxpayers continue to have the necessary access to the services they need to meet their obligations under Canada's tax system. In our judgment, we have met our accessibility expectations.

We rely on results achieved against our caller accessibility targets for general, business, and charities telephone enquiries to judge whether or not taxpayers have the necessary access to our information services. As noted in our Performance Report Card, we exceeded our 80% targets for these high-volume enquiries during 2006-2007—attaining 83% for general enquiries, 86% for business enquiries, and 96% for charities enquiries.

The continued consolidation of our call centres into centres of expertise and the implementation of national telephone networks during the past year have helped to maximize program efficiencies. For

14. We are cautious in attributing too much significance to the results of the accuracy survey due to a change in methodology, the limited scope of the survey, and a reduction in sample sizes.

example, our Smartlinks service aligns telephone and Web service delivery channels, allowing taxpayers using our site to connect directly to selected call centre agents. Feedback on the service is used to improve content and navigation, further enhancing this self-serve option.

Our Web site is another key element of our strategy to enhance taxpayer accessibility to the information they need and thereby help them to meet their compliance obligations. The number of visits to the CRA Web site in 2006-2007 (over 36 million) exceeded expectations and the number of publication downloads (over 61 million) increased from last year.

In 2006-2007, we worked to increase our visibility in the community through activities such as working with the Action Task Force on Small Business Issues, community visits, and involvement in trade shows. The following are some additional examples.

- The CRA led more than 1,000 outreach events involving more than 55,000 participants to provide

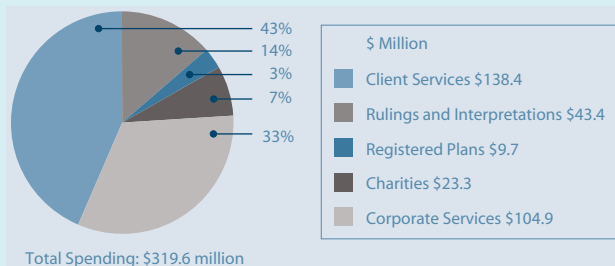
information on benefits and entitlements to individuals such as current and potential child benefit recipients, students, and newcomers to Canada.

- We presented almost 1,100 outreach events for businesses—involving more than 23,000 participants—to support the business community by facilitating compliance for such groups as small businesses, GST/HST/PST registrants, and potential business e-service users.
- A total of 358 visits were made to provide exporters of softwood lumber products with information about their rights and obligations under the new *Softwood Lumber Products Export Charge Act, 2006*.

Overall, we believe we have met our expectations related to the enhancement of our alternative information sources to expand the range and accuracy of our communications products.

## A Snapshot of Client Assistance (PA1)

**Figure 10** Resource Spending



In 2006-2007, spending for this program activity totalled \$319.6 million (4,062 FTEs) or 9.4% of the CRA's overall expenditures (Figure 10).<sup>1</sup> Of this \$319.6 million, \$214.7 million was for net program expenditures and \$104.9 million was allocated to this program activity for corporate services. Work within this program activity is undertaken through several Call Centres and 48 TSOs across Canada.

### Key Volumetrics by Sub-Activity:

- **Enquiries and Information Services** – We handled more than 15 million public enquiries and close to 36.4 million tax-related visits to the CRA Web site.
- **Excise and GST/HST Rulings and Interpretations** – We processed over 4,400 written enquiries for rulings and interpretations and handled over 120,000 GST/HST-related telephone enquiries.
- **CPP/EI Rulings** – We processed over 70,000 requests for rulings.
- **Registered Plans** – We administered approximately 30,000 plans (e.g., registered pension plans, deferred profit sharing plans, supplementary unemployment benefit plans, registered investments), reviewed related returns, and conducted 530 audits.
- **Charities** – We administered over 82,000 registered charities, processed their returns, and conducted 847 audits.

<sup>1</sup> Spending and FTE figures for sub-activities may not add up to this total due to rounding.

## Performance Report Card

| Expected Result | Year   | Performance Rating | Data Quality |
|-----------------|--|--------------------|--------------|
|                 | Taxpayers, businesses, and registrants receive timely, accurate and accessible information | 2006-2007          | Met          |
|                 | 2005-2006  | Met                | Good         |

### Timely Information

| Our Indicators   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007        | Rating |
|--|----------------|-----------|-----------|-----------|-----------|------------------|--------|
| General calls answered within two minutes of entering the queue                            | 80%            | 74%       | 77%       | 81%       | 80%       | 82%              | ✓      |
| Business calls answered within two minutes of entering the queue                           | 80%            | 70%       | 74%       | 81%       | 85%       | 81%              | ✓      |
| Charities calls answered within 60 seconds of entering the queue                           | 85%            | 67%       | 77%       | 90%       | 86%       | 89%              | ✓      |
| Legislative changes reflected in information to the public in a timely manner              | N/A            | n/a       | ✓         | ✓         | ✓         | ✓                | ✓      |
| Respond to written requests for GST/HST rulings and interpretations within 45 working days | 75%            | n/a       | 76%       | 86%       | 88%       | 87% <sup>1</sup> | ✓      |
| Average number of days to issue an income tax technical interpretation to taxpayers        | 90 days (avg)  | 78 days   | 82 days   | 75 days   | 87 days   | 105 days         | ✗      |
| Average number of days to issue an advance income tax ruling to taxpayers                  | 60 days (avg)  | 60 days   | 57 days   | 62 days   | 84 days   | 94 days          | ✗      |
| Percentage of CPP/EI rulings issued within targeted time frames                            | 85%            | 81%       | 86%       | 91%       | 92%       | 86%              | ✓      |

<sup>1</sup> This became a service standard in 2006-2007. Prior year results reflect performance against an internal performance target.

### Accurate Information

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Level of agent accuracy relative to the 1996-1997 baseline year | N/A            | ✓         | ✓         | ✓         | ✓         | ✓         | ✓      |

### Accessible Information

| Our Indicators   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| General callers that reach our telephone service   | 80%            | 91%       | 91%       | 83%       | 83%       | 83%       | ✓      |
| Business callers that reach our telephone service  | 80%            | 90%       | 86%       | 83%       | 91%       | 86%       | ✓      |
| Charities callers that reach our telephone service   | 80%            | n/a       | 96%       | 94%       | 93%       | 96%       | ✓      |
| Enhancement of our alternative information sources to expand the range and accuracy of communications products | N/A            | n/a       | ✓         | ✓         | ✓         | ✓         | ✓      |

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

## Assessment of Returns and Payment Processing (PA2)

We believe that providing taxpayers with increased convenience and accessibility through electronic filing and payment technology encourages their voluntary compliance and helps them comply with their tax obligations, thereby ensuring that Canada's revenue base is protected. For this reason, our Assessment of Returns and Payment Processing program activity has two expected results.

As demonstrated in our Performance Report Card, we achieved our first expected result by meeting the returns processing targets for our key indicators. These results speak to our success in positively influencing taxpayers to participate in Canada's tax system, thereby promoting compliance.

In addition, the recovery rates in our tax review programs during 2006-2007 provide the basis for our assessment that we also met our expectations related to the identification and addressing of non-compliance. These results demonstrate the vital role played by third-party information reporting in maintaining compliance among the 25 million Canadian individual taxpayers.

**Expected Result:** Assessment and payment processing are timely and accurate

**Our Assessment:** Met

### Our Measure: Timely processing

We met the majority of our most important processing service standards involving high-impact or high-volume activities in 2006-2007. Our results against our key external service standards were as follows:

- 12.4 million T1 paper returns were processed on average in 27 days, which is within our standard of four to six weeks;
- 12.8 million T1 electronic returns were processed on average in 11 days, which is within our standard of two weeks;
- we met our target of 95% by processing over 98% of 6.3 million GST/HST returns within 21 days;

- we processed more than 1.6 million T2 paper returns, 90% within 50 days, meeting our 75% target, and 97% within 90 days, meeting our 90% target;
- we processed all 1.9 million statements of arrears on time, meeting our 95% target; and
- we issued 100% of almost 2.7 million statements of interim payments on time, meeting our target of 95%.

Further details regarding our performance against our external service standards, including results for previous years, can be found on page 52.

Our results against our key internal performance standards for timeliness in 2006-2007 were as follows:

- we handled over 34.8 million payments, depositing over 99% of payments (based on value) within 24 hours, including almost 96% of non-electronic payments (based on value);
- by mid-June, we processed almost 100% of on-time T1 returns filed by April 30, meeting our target of 98%;
- we processed 86.6% of over 935,000 T4 returns (received between January 1 and March 31, 2007) by April 30, mostly meeting our target of 90%; and
- we processed almost 46% of over 288,000 T5 returns (received between January 1 and March 31, 2007) by May 31, not meeting our 90% target.

The decline in performance for processing T4 and T5 returns was largely due to two significant systems problems in January and March 2007 which we do not expect to recur. The processing delays did not impact service to taxpayers.

As discussed in Achieving Our Tax Services Strategic Outcome, an important part of our approach to improve the timeliness—as well as the accuracy and efficiency—of returns processing is to encourage greater participation by taxpayers in our electronic filing options. In 2006-2007, our electronic filing take-up for our key workloads was as follows:

- 50.6% of individual tax returns;
- over 15% of eligible corporate tax returns;
- almost 9.8% of T4 returns; and
- 14.2% of GST/HST returns.

## Our Measure: Accurate processing

The primary tool for determining if we assess returns accurately is our T1 Quality Evaluation Program, which reviews initial assessments of individual tax returns for each year. Our review for 2006-2007<sup>15</sup> indicates processing errors with an impact on a taxpayer's refund or balance due were approximately 1%, meeting our 98% target for accuracy. From 1999 to 2006, the amounts involved were on average \$225-\$355 per error.

Commencing with the 2005 filing season (2004 tax year), we introduced two-dimensional (2D) bar code technology for computer-generated paper returns filed on behalf of individuals. In 2006-2007, this was expanded to all current-year and some prior-year computer-generated returns as well as introduced for Corporation Income Tax (T2) returns. Bar codes contain all of the taxpayer identification and financial data necessary for the assessment of the return and virtually assures the accurate capture of taxpayer data. In 2006-2007, we processed almost four million 2D bar-coded returns.

**Expected Result:** Reporting non-compliance is detected and addressed

**Our Assessment:** Met

## Our Measure: Identifying non-compliance

The need for effective processes to identify non-compliance is essential for ensuring that individuals pay their required taxes. We subject selected returns to further review under our post-assessment programs, devoting resources to areas where our assessments indicate that the risk and potential revenue consequences of non-compliance are higher. Our strategy is designed to make

15. Period of review was March 2, 2006, to June 29, 2006.

administration of the tax system more equitable, recover more revenue for the federal, provincial, and territorial governments, and impose less burden on compliant taxpayers. Our review programs also promote taxpayer education by identifying common areas of misunderstanding.

The success of our risk assessment approach is demonstrated when recoveries for targeted reviews exceed those for random reviews. In 2005 (the last year of available results),<sup>16</sup> we assessed additional tax on 24% of targeted reviews and 15% of random reviews, a ratio of 1.6 to 1. We do not regard the slight decline from the results achieved in prior years as a drop in our performance on targeted reviews. This decline is mainly due to additional tax being assessed in an increasing percentage of random reviews. The average additional amounts assessed per review were \$178 for targeted reviews and \$55 for random reviews, a ratio of 3.2 to 1. These results suggest we have effective criteria for selecting accounts for review.

## Our Measure: Addressing non-compliance

Pre-Assessment Tax Review Programs – Our Confidence Validity Program, under which we conduct pre-assessment reviews, identified an average amount of \$359 of additional tax assessed per review, for a total of almost \$107.4 million in additional tax assessed in 2006-2007.

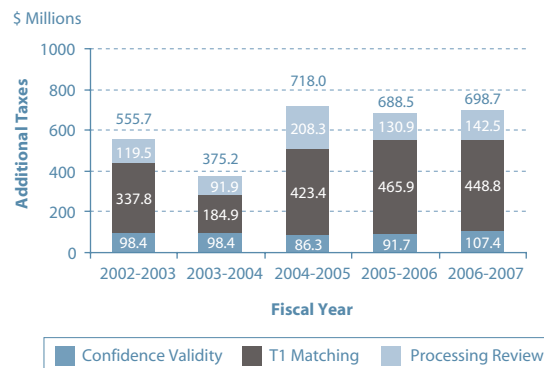
Post-Assessment Tax Review Programs – Our T1 Matching program, compares information on an individual's tax return with information provided by third-party sources, such as employers or financial institutions. In 2006-2007, almost 820,000 corrective actions generated additional tax assessments of \$448.8 million.

16. Due to data availability, information is always from the prior fiscal year.

A second post-assessment program—our Processing Review Program—promotes compliance and helps maintain confidence in the fairness of our programs through increased education, effective risk-scoring systems, and a balanced approach to our file selection process. In 2006-2007, this program recovered over \$142.5 million in additional taxes.

Figure 11 shows that almost \$699 million of additional tax was assessed through the three T1 review programs in 2006-2007.

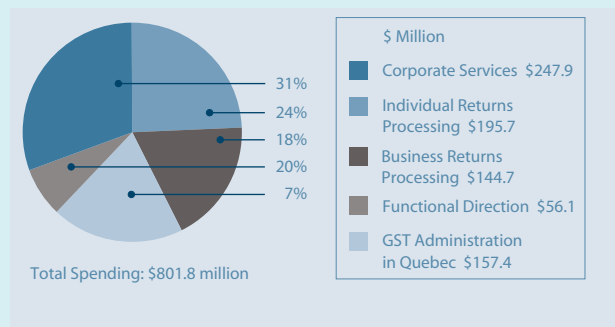
**Figure 11** Additional Taxes Assessed through T1 Reviews



Data quality: Good

## A Snapshot of Assessment of Returns and Payment Processing (PA2)

**Figure 12** Resource Spending



In 2006-2007, spending for this program activity totalled \$801.8 million (8,428 FTEs) or 23.5% of the CRA's overall expenditures (Figure 12).<sup>1</sup> Of this \$801.8 million, \$553.9 million was for net program expenditures and \$247.9 million was allocated to this program activity for Corporate Services.

### Key Volumetrics by Sub-Activity:

- **Individual Returns Processing** – We processed more than 25 million individual returns, over 12 million of which were paper; refunded \$21.2 billion to more than 16 million individual taxpayers and processed over 202,000 trust returns. There were more than 500,000 users and over 2.6 million visits to My Account.
- **Business Returns Processing** – We administered about 1.5 million employer accounts and over 2.6 million GST/HST registrants (excluding Quebec). We also processed more than 1.6 million corporate returns, over 488,000 visitor rebates, and almost 6.3 million GST/HST returns.
- We handled more than 34.8 million payments, totalling just over \$346 billion.

<sup>1</sup> Spending and FTE figures for sub-activities may not add up to this total due to rounding.

## Performance Report Card

| Expected Result | Year  | Performance Rating | Data Quality |
|-----------------|---|--------------------|--------------|
|                 | Assessment and payment processing are timely and accurate | 2006-2007          | Met          |
| 2005-2006       |   | Met                | Good         |

### Timely Processing

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006          | 2006-2007          | Rating |
|---|----------------|-----------|-----------|-----------|--------------------|--------------------|--------|
| <b>External Service Standards</b>   |                |           |           |           |                    |                    |        |
| Timeliness of T1 paper return processing (weeks)                                      | 4-6            | 3.1       | 3.6       | 3.6       | 3.6                | 3.9                | ✓      |
| Timeliness of T1 electronic return processing (via EFILE, TELEFILE, NETFILE) (weeks)  | 2              | 1.7       | 1.7       | 1.9       | 1.9                | 1.6                | ✓      |
| Percentage of GST/HST returns processed within 21 days                                | 95%            | 96%       | 95.6%     | 96.5%     | 98.3%              | 98.5%              | ✓      |
| Percentage of T2 paper returns processed within 50 days                               | 75%            | 75.2%     | 76.5%     | 82.4%     | 88.2%              | 90.3%              | ✓      |
| Percentage of T2 paper returns processed within 90 days                               | 90%            | 91.2%     | 93.4%     | 95.9%     | 96.3%              | 97%                | ✓      |
| Statements of interim payments mailed out on time                                     | 95%            | 70%       | 60.7%     | 49.3%     | 99.4%              | 100%               | ✓      |
| <b>Internal Performance Standards</b>   |                |           |           |           |                    |                    |        |
| Percentage of funds from non-electronic payments deposited within 24 hours of receipt | 100%/95%       | 93.5%     | 94.5%     | 88.6%     | 99.4%              | 95.8% <sup>1</sup> | ✓      |
| Percentage of Business Number registrations processed within 10 working days          | 95%            | n/a       | n/a       | n/a       | n/a                | 98.2%              | ✓      |
| T1 returns received on time processed by mid-June                                     | 98%            | n/a       | n/a       | n/a       | 99.7%              | 99.7%              | ✓      |
| Percentage of T4 information returns processed by April 30                            | 90%            | 91%       | 93.9%     | 100%      | 94.6%              | 86.6%              | ☑      |
| Percentage of T5 returns processed by May 31  | 90%            | 93%       | 100%      | 100%      | 97%                | 46%                | ✗      |
| <b>Electronic Processing Take-up</b>  |                |           |           |           |                    |                    |        |
| Trend in percentage of individual filers who file electronically                      | Upward         | 43.4%     | 48%       | 49.4%     | 49.4% <sup>2</sup> | 50.6%              | ✓      |
| Trend in percentage of eligible corporations that file electronically                 | Upward         | n/a       | 1.6%      | 5.9%      | 9.8%               | 15.5%              | ✓      |
| Trend in electronic filing take-up rates of other types of returns (T4 and GST/HST)   | Upward         | n/a       | n/a       | n/a       | ✓                  | ✓                  | ✓      |

<sup>1</sup> Information is not available to differentiate performance between peak (begins in April and ends in May) and non-peak (remainder of year) periods.

<sup>2</sup> Beginning with 2006-2007, we report results in the percentage of filers who file electronically for the fiscal year. In 2005-2006 and prior years, we reported results for the T1 filing season programs which began in one fiscal year and ended in the following fiscal year. To accommodate this change, the result for 2004-2005 is identical to the result reported for 2005-2006.



## Accurate Processing

| Our Indicators   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Percentage of T1 returns assessed accurately             | 98%            | 98.2%     | 98.6%     | 99%       | 99%       | 98.9%     | ✓      |
| Taxpayer-requested adjustments are reassessed accurately | 96%            | n/a       | n/a       | n/a       | n/a       | 97.4%     | ✓      |

### Expected Result

| Reporting non-compliance is identified and addressed | Year      | Performance Rating | Data Quality |
|--|-----------|--------------------|--------------|
|  | 2006-2007 | Met                | Good         |
|  | 2005-2006 | Met                | Good         |

## Identifying Non-Compliance

| Our Indicators   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Trend in ratio of dollar value of targeted versus random reviews | Upward         | 1.81      | 1.83      | 1.72      | 1.51      | 1.64      | ✓      |

## Addressing Non-Compliance

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Tax assessed through pre-assessment reviews (millions)                    | N/A            | \$98.4    | \$98.4    | \$86.3    | \$91.7    | \$107.4   | N/A    |
| Tax assessed through T1 Matching post-assessment reviews (millions)       | N/A            | \$337.8   | \$184.9   | \$423.4   | \$465.9   | \$448.8   | N/A    |
| Tax assessed through Processing Review post-assessment reviews (millions) | N/A            | \$119.5   | \$91.9    | \$208.3   | \$130.9   | \$142.5   | N/A    |

|       |  |           |
|-------|--|-----------|
| ✓ Met | <input checked="" type="checkbox"/> Mostly Met | ✗ Not Met |
|-------|--|-----------|

## Filing and Remittance Compliance (PA3)

Compliance with Canada's tax laws brings with it the obligations to file returns on time and pay all amounts owing when due. As noted in the section on Achieving Our Tax Services Strategic Outcome, we believe that, overall, we have succeeded in mostly meeting our goals for filing and remittance compliance by helping to ensure that taxpayers have honoured their obligations for filing returns on time and withholding and/or remitting tax owing.

We carry out our Filing and Remittance Compliance program activity to achieve two expected results: tax and non-tax debt are resolved on a timely basis and are within targeted levels; and reporting non-compliance is detected and addressed. As discussed earlier, we face significant challenges as we work to stem the growth in total tax debt. Within this context, we annually establish targets that reflect what we feel we can achieve. On balance, it is our assessment that we mostly met our expected result related to tax debt.

As demonstrated in our Performance Report Card, in 2006-2007, we met several key performance targets; we did not, however, reduce the proportion of accounts over five years of age as we had expected.

**Expected Result:** Tax debt and non-tax debt are resolved on a timely basis and are within targeted levels

**Our Assessment:** Mostly Met

### Our Measure: Timely resolution of tax debt

We aim to resolve new receivables on a timely basis. We surpassed our target for the percentage of intake resolved in the year of intake, achieving a result of almost 67%. This was accomplished through our continued efforts on addressing new debt, which increased significantly in 2006-2007.

### Our Measure: Tax debt and non-tax debt are within targeted levels

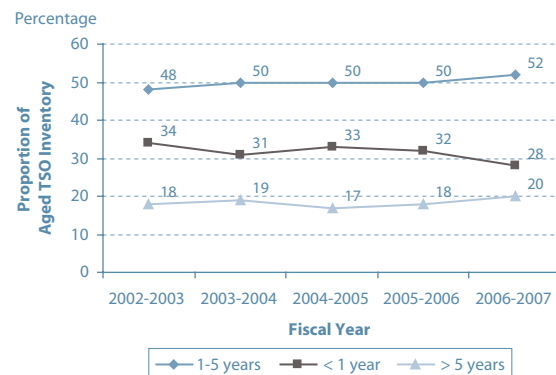
We have in place a target that relates the dollar value of the overall TSO production to the dollar value of

TSO intake of new accounts receivable. During 2006-2007, we resolved just under 90% of the value of new intake as a result of collections activities in our TSOs, bringing us just short of meeting our target of greater than 90%. This was the result of two extraordinary items. If not for these two items, we would have significantly exceeded our performance target, resolving 96%.

We also have in place targeted levels for the tax debt and non-tax debt we manage. At the end of 2006-2007, the proportion of tax debt between one and five years of age was approximately 52% of the total TSO inventory. With some resources being reallocated to other CRA priorities, there was a shift in our focus from aged accounts to cash and write-off production and the proportion of tax debt under one year old fell to 28%.

Our target was to reduce to less than 16% the proportion of tax debt older than five years of age. In 2006-2007, we did not achieve this target, as the proportion rose to 20% of the total accounts receivable inventory (see Figure 13). We collected almost \$9.7 billion, thus surpassing our target for cash collections by our TSOs by over \$1 billion.

**Figure 13** TSOs—Aging of Tax Debt



**Data quality:** Good

Our non-tax collections initiative began with the transfer of the Human Resources and Social Development Canada (HRSDC) collection program to the CRA in 2005. This initiative was started to standardize and streamline collection processes and consolidate and specialize collection activities. In addition, it will position the CRA to further develop the Collections Canada concept and move towards an integrated debt management approach. In 2006-2007,

the non-tax debt collections program exceeded the established objectives for the workloads that were transferred, including the commitments to the Expenditure Review Committee (see our Performance Report Card).

**Expected Result:** Reporting non-compliance is detected and addressed

**Our Assessment:** Met

### Our Measure: Dollar value of non-compliance

Employing a range of enforcement activities, we continue to ensure that taxpayers meet their filing and remittance obligations. We exceeded our targets for the dollar value of identifying non-compliance for our two key areas within the Filing and Remittance Compliance program activity: our non-filer/non-registrant program and Employer/Payroll and GST/HST non-compliance.

In 2006-2007, the T1/T2 non-filer program continued to address non-compliance by obtaining more than 800,000 returns for taxpayers who had failed to file,

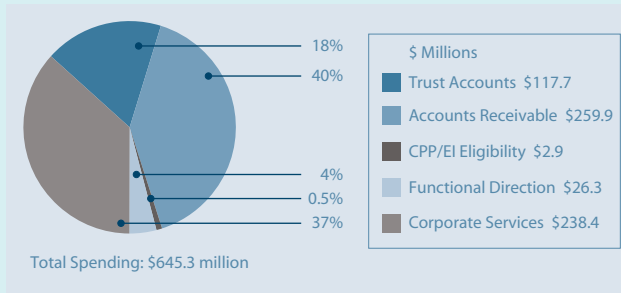
resulting in over \$2 billion in taxes assessed, exceeding our target. The non-filer and non-registrant work initiated legal action that resulted in the conviction of 1,266 taxpayers; over \$1.4 million in fines being levied; and 42 prison sentences.

Our Employer/Payroll and GST/HST non-compliance area also exceeded its established target. In 2006-2007, our payroll compliance programs addressed over 500,000 instances of non-compliance. The total dollar value resulting from our employer payroll compliance activities was \$1.2 billion in taxes assessed.

Our principal focus involving GST/HST is to ensure filing compliance with legislative requirements under the *Excise Tax Act*. Of the businesses registered for the GST/HST, only a relatively small portion failed to meet their filing obligations. In 2006-2007, our programs addressed over 600,000 GST/HST non-compliance occurrences, which resulted in taxes assessed of \$1.1 billion. These programs continue their balanced approach to address non-compliance through the use of education, assisted compliance activities, and, where warranted, more rigorous actions, such as prosecutions.

## A Snapshot of Filing and Remittance Compliance (PA3)

**Figure 14** Resource Spending



In 2006-2007, spending for this program activity totalled \$645.3 million (9,497 FTEs) or 18.9% of the CRA's overall expenditures (Figure 14).<sup>1</sup> Of this \$645.3 million, \$406.9 million was for net program expenditures and \$238.4 million was allocated to this program activity for corporate services.

Note: The results for CPP/EI Eligibility are reported in the Client Assistance (PA1) section. CPP/EI Eligibility gross expenditures total \$24.7 million. Of this total, \$21.7 million is funded through revenues credited to Vote 1.

### Key Volumetrics by Sub-Activity:

- **Accounts Receivable** – TSO cash collections totalled \$9.7 billion. We resolved almost 90% of the dollar value of new debt intake. The National Collections Call Centre actions resulted in total payment arrangements of more than \$1.8 billion. National Pools actions resulted in cash collections of more than \$1.4 billion.
- **Trust Accounts** – More than 800,000 returns from individuals and corporate taxpayers who had not filed their returns were obtained, over 7,400 GST/HST non-registrants were identified, and over 600,000 GST/HST and 500,000 payroll non-compliance occurrences were completed. Our Contract Payment Reporting Initiative secured a total of 42,058 additional individual and corporate tax returns.

<sup>1</sup> Spending and FTE figures for sub-activities may not add up to this total due to rounding.

## Performance Report Card

| Expected Result | Year   | Performance Rating | Data Quality |
|-----------------|--|--------------------|--------------|
|                 | Tax and non-tax debt are resolved on a timely basis and are within targeted levels | 2006-2007          | Mostly Met   |
| 2005-2006       |  | Met                | Good         |

### Timely Resolution of Tax Debt

| Our Indicator                                       | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Percentage of intake resolved in the year of intake | 60-65%         | N/A       | N/A       | N/A       | 62.0%     | 66.7%     | ✓      |

### Tax Debt and Non-Tax Debt Are Within Targeted Levels

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Dollar value of TSO production as a percentage of dollar value of TSO intake of new accounts receivable | >90%           | 93.7%     | 92.4%     | 100%      | 99.8%     | 90%       | ☑      |
| Accounts receivable over five years old as a percentage of total  | <16%           | 18%       | 19%       | 17%       | 18%       | 20%       | ✗      |
| TSO cash collections (billions)   | \$8.6          | \$8.7     | \$9.4     | \$8.8     | \$9.5     | \$9.7     | ✓      |
| Non-tax debt – Dollars collected (millions):  |                |           |           |           |           |           |        |
| • El overpayments   | \$273.3        | N/A       | N/A       | N/A       | N/A       | \$295.7   | ✓      |
| • Defaulted Canada Student Loans  | \$190.8        | N/A       | N/A       | N/A       | N/A       | \$196.4   | ✓      |
| • CPP overpayments  | \$7.8          | N/A       | N/A       | N/A       | N/A       | \$9.8     | ✓      |
| • Other, including Grants and Contributions, TAGS, and TAPS.  | \$91.1         | N/A       | N/A       | N/A       | N/A       | \$90.1    | ☑      |

| Expected Result | Year   | Performance Rating | Data Quality |
|-----------------|--|--------------------|--------------|
|                 | Reporting non-compliance is detected and addressed | 2006-2007          | Met          |
| 2005-2006       |  | Met                | Good         |

### Dollar Value of Non-Compliance

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Employer/Payroll/GST/HST non-compliance (billions)                | \$1.8          | \$2.0     | \$2.2     | \$2.1     | \$2.2     | \$2.3     | ✓      |
| T1/T2 Non-filers/GST/HST Non-registrant non-compliance (billions) | \$2.2          | \$1.7     | \$2.0     | \$2.2     | \$2.4     | \$2.4     | ✓      |

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

## Reporting Compliance (PA4)

As discussed beginning on page 22, it is our strategy to detect non-compliance, take appropriate action, and deter future cases of reporting non-compliance through our audit and enforcement activities. We have in place the expected result below for our Reporting Compliance program activity.

As illustrated in the Performance Report Card on page 62, the results we achieved within this program activity in 2006-2007 demonstrate that we met the expected result. Achieving this expected result contributes to the protection of Canada's revenue base by detecting, addressing, and deterring taxpayer non-compliance. Our measures were discussed in the *Corporate Business Plan 2007-2008 to 2009-2010* and are described below. This is then followed by a discussion of key related compliance activities that were discussed in the plan but are not presented in the Performance Report Card.

**Expected Result:** Detect and address reporting non-compliance

**Our Assessment:** Met

### Our Measure: Meet our service standards and internal performance targets

Annually, the Scientific Research and Experimental Development (SR&ED) tax incentive program provides more than \$3.0 billion in tax credits to over 18,000 claimants as an incentive to conduct qualifying industrial research and development activities in Canada. A prompt and thorough review of the applications for these tax credits demonstrates the CRA's commitment to effective administration of the related programs and fosters reporting compliance. In 2006-2007, we met all of our external service standards in the SR&ED and Film and Video tax credit programs. A complete list of these, with our performance compared to targets, is on page 75.

In 2006-2007, the number of audits we undertook exceeded our planned volumes across all audit types, notably in International and Large Business audit, which was nearly double the number planned. These

audits exceeded planned amounts primarily due to reassessments related to Tax Shelter Gifting Arrangements. These schemes use donations of art and other assets that would result in taxpayers claiming a charitable donation far in excess of the price originally paid for the asset. As well, a number of gifting tax shelter reassessments were carried forward from 2005-2006 pending a court decision. The CRA's aggressive international tax planning initiatives also increased audit volumes in International and Large Business audit.

Outreach activities raise the CRA's visibility and profile, help taxpayers meet their obligations through education and assistance, and inform businesses about their responsibilities and obligations. In 2006-2007, we contacted over 13,100 businesses during 63 community visits, exceeding the planned amounts for the period.

### Our Measure: Effective assessment of risk and detection of reporting non-compliance

The detection of non-compliance relies on effective risk management to identify emerging compliance risks and to assess them for their potential effect on the revenue base. We then work to mitigate the greatest risks. This may involve adjusting priorities using a mix of instruments and activities to address specific taxpayer segments or particular areas of non-compliance.

We are always working to improve and refine our risk assessments to better identify non-compliance. This year, we incorporated more provincial risk factors into our risk assessment systems. These factors related to provincial residency and income allocation.

To demonstrate the effectiveness of our risk assessment processes, our Core Audit Program (CAP) selects a random sample of tax files for auditing to estimate a reliable compliance rate among Small and Medium Enterprises (SMEs). In 2006-2007, we determined the rate of reporting non-compliance in randomly selected audits from the SME GST/HST population that revealed non-compliance of \$5,000 or more. We then compared that rate with the results of targeted audits from our SME audit program over the same period. The improvement ratio is the rate at

which targeted audits are more effective than random selection for identifying reporting non-compliance. In this case, targeted audits were four times as effective as random selection in identifying non-compliance.

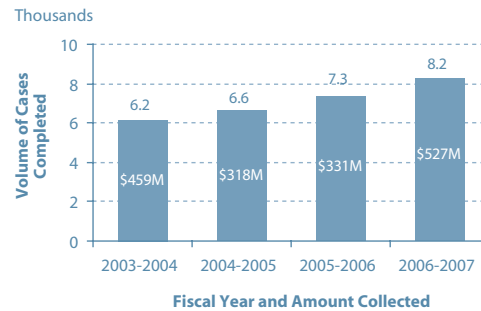
We also gauge the effectiveness of our risk assessment and other detection processes by measuring the percentage of targeted audits that resulted in detection of non-compliance, for comparison to the findings of the CAP. This allows us to gauge how our audit approach compares to random file selection. In 2006-2007, this approach to audit identified non-compliance in 36.8% of files audited, unchanged from 2000-2001, the last time the CAP studied the GST/HST registrant sector of the SME population. In our view, the lack of change would mean we mostly met this expected result for this indicator.

### Our Measure: The Voluntary Disclosures Program is administered in a consistent manner

The Voluntary Disclosures Program (VDP) encourages taxpayers to come forward and correct past errors or omissions and report their tax obligations without penalty. As illustrated in Figure 15, in 2006-2007, we processed 8,244 disclosures, resulting in \$527 million in assessed taxes. These results reflect an increase from 7,314 disclosures and \$331 million in taxes assessed in 2005-2006.

We are still working to redefine program objectives and performance measurement criteria and fully integrate the VDP with other compliance activities. As stated in the CRA *Corporate Business Plan 2006-2007 to 2008-2009*, this work is targeted for completion in March 2008.

**Figure 15** VDP Cases Completed with Identified Additional Revenue for Each Fiscal Year



**Data quality:** Good

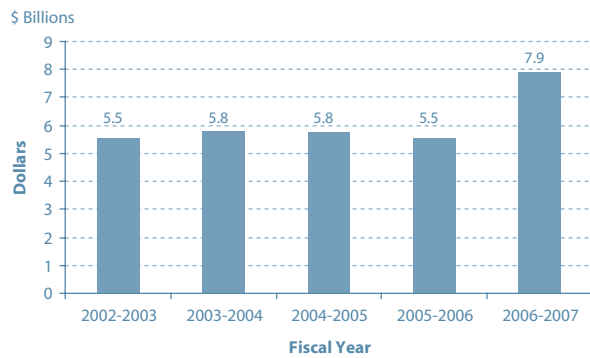
### Fiscal Impact

In 2006-2007, our Reporting Compliance program activity identified \$7.9 billion in fiscal impact. Fiscal impact fluctuates over time for a number of reasons, such as economic conditions and other factors that influence taxpayer behaviour.

As shown in Figure 16, fiscal impact from reporting compliance work increased by 42% in 2006-2007 over that of 2005-2006. In addition to the Aggressive International Tax Planning initiative, in which files generate high fiscal impact, we increased our focus on industries with high risk for reporting non-compliance that resulted in substantial fiscal impact. Our SME sub-activity processed files with an unexpected high fiscal impact that contributed to the increase in fiscal impact from 2005-2006. Our Enforcement and Disclosures sub-activity also increased fiscal impact from 2005-2006.

Since the tax assessments that make up this fiscal impact are subject to appeal, some assessments may be overturned. A portion of this fiscal impact also may be uncollectible.

**Figure 16** Fiscal impact of reporting compliance activities



**Data quality:** Good

## Reporting Compliance Results and Activities

The CRA carries out a number of activities to achieve its expected result of identifying and addressing non-compliance. Our Compliance Review, completed in 2004-2005, confirmed that our priority risk areas include aggressive tax planning, the underground economy, and GST/HST compliance. This was reflected in the *Corporate Business Plan 2006-2007 to 2008-2009*. Other priorities for PA4 include international partnerships, the Special Enforcement Program, and Investigations.

### Aggressive Tax Planning

We continue to focus on aggressive tax planning, including the abusive use of tax havens. The 2005 Federal Budget allocated an additional \$30 million annually to the CRA for audit and enforcement activities to address aggressive international tax planning. While this investment contributed to the spike in fiscal impact for 2006-2007, illustrated in Figure 16, it is uncertain if similar results will occur in future years. In addition, it is the CRA's view that this investment also has significant value in deterring reporting non-compliance.

During 2006-2007, the CRA issued about 14,600 reassessments related to \$1.4 billion in additional identified taxes, due in part to our focus on the early analysis and identification of tax shelter planning schemes.

Some of the activities undertaken as a result of the budget announcement include strengthening existing

specialized audit groups to focus on aggressive international tax schemes, and enhancing our ability to target entities and individuals who are promoting or participating in abusive tax schemes. In addition, eleven Centres of Expertise in local tax services offices bring together audit professionals and specialists in international tax and tax avoidance. Working in teams, they are defining the scope and nature of abusive international transactions and other aggressive tax planning schemes. They are also determining who participates in and promotes such schemes, and how to identify them.

There are approximately 50 projects underway, with significant tax consequences. Among other things, research is being conducted on residency issues, tax shelters, financial arrangements, employment compensation, and tax treaty abuses. In addition, we are using communications initiatives such as "tax alerts" to advise taxpayers and tax planners about tax arrangements that may contravene the *Income Tax Act*.

### Underground Economy

The underground economy is commercial activity that is unreported for tax purposes. It may take different forms, such as:

- failure to report a business activity (e.g., moonlighting);
- failure to report part of a business activity (skimming);
- failure to report employment income (e.g., tips);
- mischaracterization of employment income as income from self-employment; and
- failure to file or register.

During 2006-2007, over 1,000 CRA employees worked full-time on identification, audit, or enforcement activities to address the underground economy. We also work on an ongoing basis with Canada's provinces, territories, and other federal agencies and departments to better identify those participating in the underground economy.

This past year, we conducted 20,635 underground economy audits resulting in over \$284 million of additional identified taxes. These included over

6,400 books and records reviews to help and inform businesses regarding their responsibility for maintaining proper books and records.

### **GST/HST Compliance**

We promote GST/HST compliance by creating a legislative and administrative environment that reduces the opportunity for making improper or fraudulent refund claims. Our GST/HST compliance strategy focuses on improving our enforcement activities and ability to identify high-risk registrants and refund claims before credit returns are paid.

In 2006-2007, we conducted approximately 63,000 GST/HST audits which resulted in over \$600 million in additional identified taxes.

Further to the *Corporate Business Plan 2006-2007 to 2008-2009*, we continued improving our methods for combating reporting non-compliance by estimating the value of overpayments through a detailed review of GST/HST credit returns. We also began upgrading the technology used by our High Risk Analysis Team which will provide timelier access to data to better detect suspicious GST/HST refund claims.

### **International Partnerships**

Our approach to compliance is supported through co-operation with other tax administrations and international organizations.

The CRA is a member of the Joint International Tax Shelter Information Centre (JITSIC), which promotes collaboration to counter international aggressive tax planning. The other members are Australia, the United Kingdom, the United States, and most recently Japan. The inclusion of Japan is part of the JITSIC's plans for a measured expansion to cover North America, Europe, and Asia.

In 2006-2007, one result of the CRA and Internal Revenue Service's involvement in JITSIC was the unravelling of an abusive cross-border tax scheme involving hundreds of taxpayers and tens of millions of dollars in unreported income.

We also collaborated with tax treaty partners by playing an active role in international forums. These

include the OECD's Working Party 8 on Tax Avoidance and Evasion, the Forum on Tax Administration's study of the role of intermediaries, and the Seven Country Working Group on Tax Havens. Each provides an opportunity to share knowledge on issues of common concern.

In January 2007, Canada hosted the Leeds Castle Group in Victoria, BC. Established in January 2006, this group is comprised of 10 tax commissioners who work together to combat global compliance risks. The theme for this meeting was Aggressive Tax Planning.

### **The Special Enforcement Program**

The mandate of the Special Enforcement Program is to conduct audits and undertake other civil enforcement actions on individuals who are known to derive or are suspected of deriving income from illegal activities. In 2006-2007, we conducted 1,342 audits of taxpayers suspected of earning income from the illegal economy. The audits identified more than \$88 million in additional tax owing.

### **Investigations**

For those involved in tax evasion or tax fraud, the CRA enforces criminal sanctions that are intended to ensure compliance. This also helps deter fraudulent behaviour. Prosecutions are a fundamental part of our enforcement presence and are essential to ensure a level-playing field for all taxpayers and businesses.

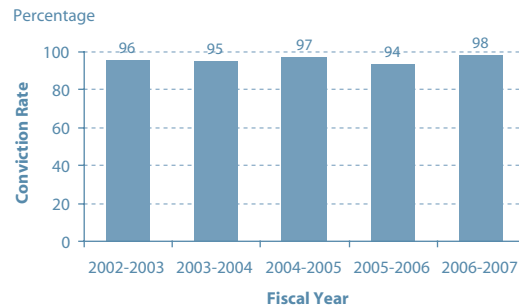
In 2006-2007, 259 income tax and GST/HST investigations (including 45 GST cases by the ministère du Revenu du Québec) were referred to the Department of Justice for prosecution. These and referrals from previous years resulted in convictions for tax evasion or fraud in 245 cases in 2006-2007 (including 32 cases in Quebec courts). Courts across Canada imposed close to \$13.4 million in fines and sentenced offenders to more than 37 years in prison. We obtained convictions in 98% of the cases prosecuted.

As illustrated in Figure 17, the consistently high rate of convictions for cases referred to the Public Prosecution Service of Canada (PPSC) demonstrates the quality of the investigative and prosecuting work



done by the CRA and the PPSC, and this in turn contributes to an effective use of resources in the justice system.

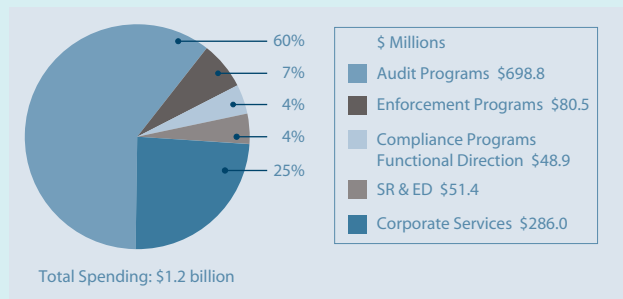
**Figure 17** Conviction Rate for Cases Referred to the Public Prosecution Service of Canada by the CRA



Data quality: Good

## A Snapshot of Reporting Compliance (PA4)

**Figure 18** Resource Spending



In 2006-2007, spending for this program activity totalled \$1.2 billion (equating to 12,814 FTEs) or 34.2% of the CRA's overall expenditures (Figure 18).<sup>1</sup> Of this \$1.2 billion, \$879.7 million was for net program expenditures and \$286.0 million was allocated to this program activity for corporate services.

### Key Volumetrics by Sub-Activity:

- **International and Large Businesses** – We conducted 18,233 audits, resulting in a fiscal impact of \$4.9 billion.
- **Small and Medium Enterprises** – We conducted 366,260 audits and examinations, resulting in a fiscal impact of \$2.5 billion.
- **Enforcements and disclosures** – We conducted 1,342 audits under the Special Enforcement Program, identifying \$88 million in additional tax owing. We also conducted 259 income tax and GST/HST investigations under the Criminal Investigations Program.
- **Scientific Research and Experimental Development Program** – This program annually provides more than \$3.0 billion in tax credits to over 18,000 claimants.

<sup>1</sup> Spending and FTE figures for sub-activities may not add up to this total due to rounding.

## Performance Report Card

| Expected Result | Year  | Performance Rating | Data Quality |
|-----------------|---|--------------------|--------------|
|                 | Detect and address reporting non-compliance | 2006-2007          | Met          |
| 2005-2006       |   | Met                | Good         |

### Meet our Service Standards and internal performance targets

| Our Indicators  | Current Target  | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007         | Rating |
|---|-----------------|-----------|-----------|-----------|-----------|-------------------|--------|
| <b>External Service Standards</b>                             |                 |           |           |           |           |                   |        |
| SR&ED Refundable claims                                       | 90% in 120 days | 93%       | 95%       | 93%       | 92%       | 96%               | ✓      |
| SR&ED Non-refundable claims                                   | 90% in 365 days | 89%       | 92%       | 94%       | 95%       | 96%               | ✓      |
| SR&ED Claimant-requested adjustments to refundable claims     | 90% in 240 days | 93%       | 95%       | 95%       | 94%       | 97%               | ✓      |
| SR&ED Claimant-requested adjustments to non-refundable claims | 90% in 365 days | 88%       | 94%       | 94%       | 94%       | 93%               | ✓      |
| Video and film tax credits – Refundable claims – unaudited    | 90% in 60 days  | 93%       | 96%       | 94%       | 90%       | 97%               | ✓      |
| Video and film tax credits – Refundable claims – audited      | 90% in 120 days | 87%       | 93%       | 95%       | 92%       | 96%               | ✓      |
| <b>Internal performance estimates<sup>1</sup></b>             |                 |           |           |           |           |                   |        |
| Number of files audited as a percentage of estimates:         |                 |           |           |           |           |                   |        |
| • International and Large Businesses                          | 100%            | n/a       | n/a       | n/a       | n/a       | 197%              | ✓      |
| • Small & Medium Enterprises                                  | 100%            | n/a       | n/a       | n/a       | n/a       | 153%              | ✓      |
| Number of outreach activities completed                       | 100%            | n/a       | n/a       | n/a       | n/a       | 128% <sup>2</sup> | ✓      |

<sup>1</sup> The 2006-2007 fiscal year is the first year that estimates have been introduced as a performance measure.

<sup>2</sup> The planned result was calculated based on a three-year average of past results.

### Effective assessment of risk and detection of reporting non-compliance

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Results of targeted vs. random reviews (CAP) <sup>1</sup>                           | Exceeds        | n/a       | n/a       | n/a       | 3.8       | 4.0       | ✓      |
| Percentage of risk-based reviews resulting in detection of reporting non-compliance | Upward trend   | n/a       | n/a       | n/a       | n/a       | ☑         | ☑      |

<sup>1</sup> While we do not review all audit sectors each year, results to date indicate that targeted audits are significantly better at detecting reporting non-compliance than are random audits in all sectors.

### The VDP is administered in a consistent manner

In our Corporate Business Plan, we made a commitment to validate VDP cases through Quality Assurance (monitoring) review. Since the functional authority for the VDP was recently transferred from PA5 to PA4, the data to support this indicator were not available in 2006-2007.

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

## Appeals (PA5)

Access to fair and impartial redress is integral to Canada's tax system. As noted in the section on Achieving Our Tax Services Strategic Outcome, we believe we were mostly successful in maintaining an impartial and timely dispute resolution process that respects taxpayers' fundamental right to redress in their dealings with the CRA.

We carry out our Appeals program activity to achieve the following expected result.

**Expected Result:** Taxpayers receive an impartial and timely review of contested decisions

**Our Assessment:** Mostly Met

### Our Measure: Impartiality

In 2006-2007, we continued to show positive results with respect to the transparency and consistency of our dispute resolution process. Our Quality Assurance program measures the consistency and transparency of specific appeals activities against established benchmarks. The 2006-2007 Quality Assurance program results showed that we exceeded our targets for the review of consistency measures, although our 100% benchmark for transparency was not met. Our transparency criteria requires, for example, that for income tax and commodity taxes, appeals officers make an offer to provide to taxpayers or their representatives documentation relating to the issues in dispute. The results attained for income tax and commodity taxes (99.3% and 98.8% respectively) indicate that we came very close to meeting our 100% target. Even though we did not meet our transparency target, we are confident that there was almost no impact on impartiality because of this.

We continue to maintain a high rate of resolution at the administrative review stage, which we believe is an additional reflection of our consistent and impartial treatment of taxpayers who have filed disputes. In 2006-2007, we achieved administrative resolution rates of 97% for income tax, 90% for commodity tax, and 80% for CPP/EI disputes. Ultimately, when our administrative review is not able to resolve a dispute,

both the CRA and taxpayers can rely on the independence of the courts for the final decision.

### Our Measure: Timeliness

Our appeals resources are focused on making an initial contact with taxpayers to advise them of the receipt of their dispute as well as informing them in a timely manner regarding the complete review of their submitted dispute. At the same time, we recognize that the need for a quality decision is critically important and must not be sacrificed for the sake of timeliness. To ensure that an appropriate balance between timeliness and quality is respected, we annually review our performance objectives for case completion.

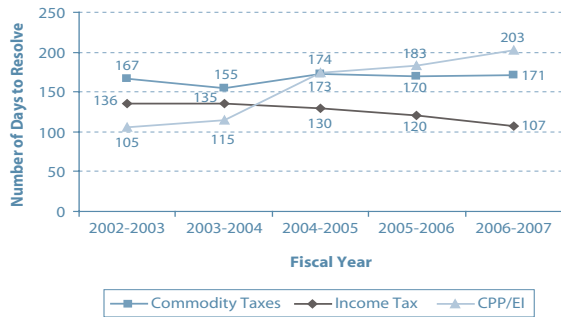
We begin measuring our timelines when a taxpayer files a notice of dispute to an assessment, determination, or ruling.

We exceeded our service standard target in 2006-2007 for initial contact (see page 75).

During 2006-2007, the average processing time of our workable income tax files decreased, primarily because approximately 18,000 files relating to a resolved dispute involving pay equity were taken out of non-workable status and processed relatively quickly. The resolution of the multitude of pay equity cases had a positive effect on inventory levels. Handling of these cases on a priority basis, however, resulted in other income tax workable files not being addressed as quickly, resulting in an increase in the average age of workable inventory during the period. Meanwhile, the timeliness results for the processing of commodity tax files remained constant from the previous year and within the targeted levels (see Figure 19).

On the other hand, the average processing time for CPP/EI files increased to 203 days in 2006-2007 from 183 days in 2005-2006. It should be noted, however, that the increase is a direct result of our emphasis on closing the older files in inventory in 2006-2007. This past year saw a significant decrease in the average age and number of CPP/EI files in our inventory, attributable to these efforts as well as the decline in the intake of disputes.

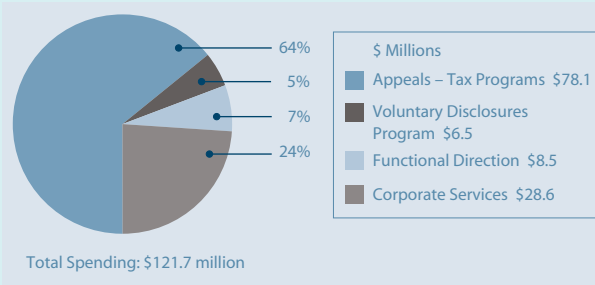
**Figure 19** Average Time to Resolve Disputes



Data quality: Good

## A Snapshot of Appeals (PA5)

**Figure 20** Resource Spending



All processes related to CPP/EI case management have been completed and fully implemented. The pilot project, aimed at improving procedures used in processing CPP/EI files, was successful. We expect progress in our timeliness in 2007-2008, based on the improved state of the CPP/EI inventory.

In 2006-2007, spending for this program activity totalled \$121.7 million (1,492 FTEs) or 3.6% of the CRA’s overall expenditures (Figure 20).<sup>1</sup> Of this \$121.7 million, \$93.1 million was for net program expenditures and \$28.6 million was allocated to this program activity for corporate services.

Note: The results for the Voluntary Disclosures Program are reported in the Reporting Compliance (PA4) section.

### Key Volumetrics by Sub-Activity:

- **Appeals** – We resolved more than 85,000 disputes. The total taxes in dispute amount to more than \$11.3 billion (the value of workable files is \$2.3 billion, and the value of non-workable files is \$9.0 billion).
- **Taxpayer Relief Provisions** – A total of 75,361 requests for relief from interest and penalties were processed by the CRA; 39,131 of these requests were allowed in favour of the taxpayer. The total value of all cancellations and waivers was more than \$466 million for over 580,000 taxpayers.

<sup>1</sup> Spending and FTE figures for sub-activities may not add up to this total due to rounding.

## Performance Report Card

| Expected Result | Year  | Performance Rating | Data Quality |
|-----------------|---|--------------------|--------------|
|                 | Taxpayers receive an impartial and timely review of contested decisions | 2006-2007          | Mostly Met   |
| 2005-2006       |   | Mostly Met         | Good         |

### Impartiality

| Our Indicators   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| <b>Appeals activities that met internal standards for consistency</b>  |                |           |           |           |           |           |        |
| Income Tax   | 97%            | n/a       | n/a       | 98.5%     | 99.5%     | 99.6%     | ✓      |
| Commodity Taxes  | 97%            | n/a       | n/a       | 94.8%     | 98.0%     | 97.0%     | ✓      |
| CPP/EI   | 95%            | n/a       | n/a       | 99.4%     | 99.6%     | 99.6%     | ✓      |
| <b>Appeals activities that met internal standards for transparency</b> |                |           |           |           |           |           |        |
| Income Tax   | 100%           | n/a       | n/a       | 95.7%     | 98.1%     | 99.3%     | ☑      |
| Commodity Taxes  | 100%           | n/a       | n/a       | 98.1%     | 99.4%     | 98.8%     | ☑      |

### Timeliness

| Our Indicators                                       | Current Target            | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|---------------------------|-----------|-----------|-----------|-----------|-----------|--------|
| Service Standard for initial contact                 | 85%                       | 87%       | 89%       | 90%       | 89%       | 89%       | ✓      |
| <b>Workable days to complete a case <sup>1</sup></b> |                           |           |           |           |           |           |        |
| Income Tax   | various                   | 136       | 135       | 130       | 120       | 107       | ✓      |
| Commodity Taxes                                      | various                   | 167       | 155       | 173       | 170       | 171       | ✓      |
| CPP/EI   | various                   | 105       | 115       | 174       | 183       | 203       | ✗      |
| <b>Average age of workable inventory</b>             |                           |           |           |           |           |           |        |
| Income Tax   | Neutral or downward trend | N/A       | N/A       | 162 days  | 159 days  | 175 days  | ✗      |
| Commodity Taxes                                      | Neutral or downward trend | N/A       | N/A       | 176 days  | 175 days  | 181 days  | ☑      |
| CPP/EI   | Neutral or downward trend | N/A       | N/A       | 148 days  | 178 days  | 80 days   | ✓      |

<sup>1</sup> The overall rating is based on whether results were achieved against established targets for the combined workloads.

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

## Benefit Programs (PA6)

We believe that if Canadians are provided with the right tools, information, and assistance, they will provide us with the information we need to register them on the appropriate benefit rolls and ensure that they receive timely and accurate benefit payments. When our efforts are successful, eligible recipients receive the right benefit at the right time, know where the benefit came from and why, are able to count on it arriving on the expected date, and can trust in our commitment to ensure the accuracy of the benefit and the information we provide. For this reason, our Benefit Programs activity has two expected results: benefit recipients receive timely, accurate, and accessible information; and eligibility determination and payment processing are timely and accurate.

We believe we have positively affected benefits compliance, and can validate that the eligibility of those receiving benefits and credits, and the amounts we paid, are correct in accordance with the legislation governing the benefit and credit programs that we administer.

**Expected Result:** Benefit recipients receive timely, accurate, and accessible information

**Our Assessment:** Met

### Our Measure: Timely Information

The level of service we provided continued to meet our expectations for timeliness. We handled almost 7.7 million calls related to benefits in 2006-2007, as benefit recipients continue to view the telephone as their preferred method of contacting us. Our telephone enquiries service met the 75% target for answering CCTB calls in a timely manner (within two minutes of entering the call queue). Our GST/HST credit telephone service was similarly successful, with 73% of calls answered in a timely manner. We are continuing to work on setting a new target for this service in light of the experience gained with our national network.

### Our Measure: Accurate Information

The range of our efforts to convey accurate information to existing and potential benefit recipients continued to meet our expectations.<sup>17</sup> In 2006-2007, these efforts included the following:

- three million information inserts sent to all CCTB recipients with their July 2006 payment and notice;
- almost 1.4 million information inserts sent to all UCCB recipients with their August 2006 payment;
- 80,000 pamphlets and applications placed in the Welcome to Canada kits by Citizenship and Immigration Canada, to inform newcomers about potential benefits;
- almost 4.9 calendars sent with packages containing individual income tax returns, which promoted the My Account service and highlighted benefit payment issuance dates;
- 340,000 kits sent to benefit recipients who use the T1 NETFILE service, which contained fridge magnets and flyers promoting the Benefits My Account service;
- 250,000 flyers for participants in the Community Volunteer Income Tax Program to promote the use of the Benefits My Account service; and
- presented and exhibited Disability Tax Credit information at 16 medical conferences and included information inserts in various publications reaching almost 420,000 people, at no cost to the CRA.

### Our Measure: Accessible Information

Recipients need to be able to access information and transactional services to ensure that they continue to meet program requirements. In our judgment, we met our accessibility expectations: during 2006-2007, 80% of CCTB callers were successful in reaching our telephone service, as were 77% of GST/HST credit callers. The use of our Web site by benefit recipients is discussed in “Achieving Our Benefit Programs Strategic Outcome” on page 40.

17. We assess our results for this measure using qualitative methods rather than quantitative indicators.

**Expected Result:** Eligibility determination and payment processing are timely and accurate

**Our Assessment:** Met

## Our Measure: Timely Eligibility Determination and Payment Processing

Our monitoring studies show that we met our service standards for timely processing of benefit-related transactions, processing 99% of benefit applications and elections<sup>18</sup> and 97.8% of account maintenance adjustments requiring a notice to be issued on time.<sup>19</sup>

As discussed in “Achieving Our Benefit Programs Strategic Outcome” on page 38, we also issued 99.99% of payments on time.

## Our Measure: Accurate Eligibility Determination and Payment Processing

Accurate processing for benefits encompasses a number of distinct aspects:

- accurately process payments in light of the information that recipients have provided us;
- accurately calculate payments in accordance with both federal and provincial/territorial legislation;
- minimize overpayments; and
- protect the integrity of benefit programs through our validation and controls activity to ensure that recipients get only the amount to which they are entitled.

Based on our records at the time of processing, monitoring studies show we met our targets by accurately issuing over 99.7% of benefit payments and notices when processing applications<sup>20</sup> and 98.5% when processing account maintenance adjustments<sup>21</sup>. These results confirm the accurate processing of account-specific enquiries and reflect the successful

18. Internal CRA Quality Assurance Studies, Monitoring CCTB Application Processing Timeframes, Final Reports for May 2006, August 2006, November 2006 and February 2007.

19. Internal CRA Quality Assurance Study, Activity Types 307/308 Processing Timeframes, Final Report, April 2006.

20. Internal CRA Quality Assurance Study, Activity Types 395/397 (Accuracy), Final Report, January 2007.

21. Internal CRA Quality Assurance Study, Activity Types 307/308 (Accuracy), Final Report, September 2006.

implementation of legislative changes in July 2006 to the benefit amounts and income thresholds for each of the federal payment programs, and for seven of the ongoing programs we administer for provinces and territories.

Accuracy is also demonstrated by the minimal value of benefit overpayments that are issued. Detection of overpayments primarily occurs through validation reviews which result in a debit adjustment. Net Canada Child Tax Benefit overpayments were \$19.3 million in 2006-2007, representing 0.2% of the more than \$9.5 billion issued. This result compares favourably with overpayments of 0.26% experienced since the program's inception in 1993 and is half the target ceiling of 0.4%.

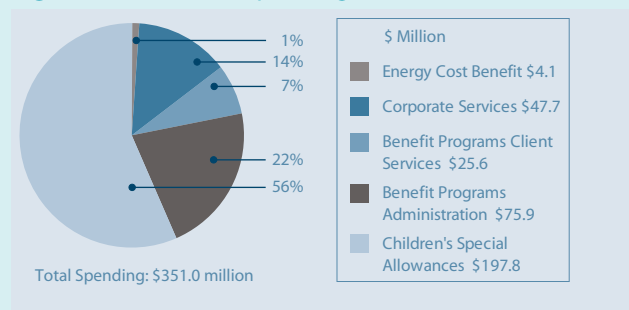
To ensure that benefits are paid only to those who qualify, we have a validation and controls program to target accounts identified as high-risk for potential overpayments or underpayments and, by the scope of its activities, to demonstrate that we have a credible enforcement presence among recipients. We reviewed over 310,000 benefits accounts in 2006-2007, with a special emphasis on the CCTB program, where we reviewed 207,000 (5.77%) accounts, exceeding our 5% target. Overall, we adjusted 190,000 accounts: this represents 61.4% of accounts selected for review, exceeding our target of 50%. These results suggest we have effective criteria for selecting accounts for review, as, by comparison, 95.5% of CCTB recipients were shown by our random sample estimate to have provided us with complete and accurate information (as discussed on page 38).

When accounts are adjusted through our validation and controls program, they involve cases where either we need to recoup benefits or insufficient benefits were paid. The total dollar value of identified overpayments was almost \$186 million. Where recipients are overpaid, we recoup amounts from payments or other refunds and credits to which the recipient may be entitled, and apply them to the outstanding balance. If necessary, we take collection action.

At the same time, adjustments favouring benefit recipients amounted to \$76 million.

## A Snapshot of Benefit Programs (PA6)

**Figure 21** Resource Spending



In 2006-2007, spending for this program activity totalled \$351.0 million (1,886 FTEs) or 10.3% of the CRA's overall expenditures (Figure 21).<sup>1</sup> Of this \$351.0 million, \$303.4 million was for net program expenditures and \$47.7 million was allocated to this program activity for corporate services.

### Key Volumetrics by Sub-Activity:

- **Benefit Programs Client Services** – We handled almost 7.7 million telephone enquiries.
- **Benefit Programs Administration** – We issued almost 86 million benefit payments totalling over \$15.2<sup>2</sup> billion to over 11.3 million recipients. We determined \$653 million in Disability Tax Credit (DTC) for almost 500,000 individuals. We processed 785,000 applications and elections, 725,000 account maintenance adjustments, and almost 1,370,000 in-year GST/HST credit account redeterminations.
- **Direct transfer payments under statutory programs** – We issued almost \$198 million under the Children's Special Allowances (CSA) program and just over \$4 million under the Energy Cost Benefit program.

<sup>1</sup> Spending and FTE figures for sub-activities may not add up to this total, due to rounding.

<sup>2</sup> Including the \$653 million in entitlements to the DTC program, which are delivered through the T1 assessing process rather than as direct cash payments, the total amount of benefits and credits issued is almost \$15.9 billion.

## Performance Report Card

| Expected Result | Year             | Performance Rating | Data Quality |
|-----------------|------------------|--------------------|--------------|
|                 | <b>2006-2007</b> | Met                | Good         |
|                 | <b>2005-2006</b> | N/A <sup>1</sup>   | Good         |

<sup>1</sup> In 2005-2006, the first expected result included only the indicators for our Benefit Enquiries service, with a rating of mostly met. In 2005-2006, the second expected result included the remaining indicators listed here. The performance rating was judged to be met.

### Timely Information

| Our Indicators   | Current Target   | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|------------------|-----------|-----------|-----------|-----------|-----------|--------|
| CCTB calls answered within two minutes of entering the queue           | 75% <sup>1</sup> | 64%       | 74%       | 79%       | 76%       | 75%       | ✓      |
| GST/HST credit calls answered within two minutes of entering the queue | N/A              | 68%       | 74%       | 74%       | 76%       | 73%       | N/A    |

<sup>1</sup> The change in the target to 75% for 2006-2007 from the 80% target in place in prior years is consistent with our strategy to offer increased online services and reflects resources available for this workload.



## Accurate Information

| Our Indicators                                | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Range and accuracy of communications products | N/A            | N/A       | N/A       | N/A       | N/A       | ✓         | ✓      |

## Accessible Information

| Our Indicators   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|--|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| CCTB callers that reach our telephone service                              | 80%            | 84%       | 88%       | 84%       | 77%       | 80%       | ✓      |
| GST/HST credit callers that reach our telephone service                    | N/A            | 65%       | 67%       | 75%       | 74%       | 77%       | N/A    |
| Trend in take-up of Change My Address service (thousands of users)         | Upward         | 95        | 94        | 107       | 61        | 89        | ☑      |
| Trend in take-up of Child and Family Benefits Web page (millions of views) | Upward         | 1.14      | 1.6       | 1.94      | 2.43      | 3.67      | ✓      |
| Trend in take-up of CSA on the Web service (use by agencies)               | Upward         | 18.7%     | 22.5%     | 25.9%     | 27.8%     | 31.5%     | ✓      |

## Expected Result

| Eligibility determination and payment processing are timely and accurate | Year      | Performance rating | Data quality |
|--|-----------|--------------------|--------------|
|  | 2006-2007 | Met                | Good         |
| 2005-2006  | Met       | Good               |              |

## Timely Eligibility Determination and Payment Processing

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Percentage of benefit applications/elections processed on time  | 98%            | 97.9%     | 99.1%     | 99.3%     | 99.4%     | 99%       | ✓      |
| Level of satisfaction with application processing time          | 75%            | 81%       | 76%       | 77%       | 77%       | 81%       | ✓      |
| Percentage of account maintenance adjustments processed on time | 98%            | 96.9%     | 98.0%     | 98.9%     | 97.2%     | 97.8%     | ✓      |

## Accurate Eligibility Determination and Payment Processing

| Our Indicators  | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| Percentage of accurate payments when processing benefit applications/elections  | 98%            | 99.2%     | 99.9%     | 99.8%     | 99.5%     | 99.7%     | ✓      |
| Percentage of accurate payments when processing account maintenance adjustments | 98%            | 99.4%     | 98.1%     | 99.5%     | 99.7%     | 98.5%     | ✓      |
| CCTB overpayment debt as a percentage of payments issued                        | <0.4%          | 0.37%     | 0.28%     | 0.09%     | 0.27%     | 0.2%      | ✓      |
| Percentage of CCTB accounts reviewed  | 5%             | N/A       | 4.79%     | 4.88%     | 5.42%     | 5.77%     | ✓      |
| Percentage of CCTB accounts reviewed that were adjusted                         | 50%            | 34.1%     | 51.4%     | 57.2%     | 62.2%     | 61.4%     | ✓      |
| Dollar value of validation adjustments (identified overpayments)                | N/A            | N/A       | N/A       | N/A       | \$184M    | \$186M    | N/A    |
| Dollar value of validation adjustments (identified underpayments)               | N/A            | N/A       | N/A       | N/A       | \$72M     | \$76M     | N/A    |

|       |              |           |
|-------|--------------|-----------|
| ✓ Met | ☑ Mostly Met | ✗ Not Met |
|-------|--------------|-----------|

## Corporate Services

Our corporate services provide the infrastructure and strategic direction that guide the delivery of CRA operations. These internal services include human resources, finance and administration, information technology, public affairs, corporate audit and program evaluation, and policy and intergovernmental affairs. By integrating these services across the CRA, we ensure that our tax and benefits programs have the guidance, infrastructure, and resources needed for successful program delivery.

The annual Management Accountability Framework (MAF) assessment conducted by the TBS is a good indicator of our performance in managing the functions that make up our corporate services activity. The MAF assessment of the CRA for Round IV was very positive; for the 10 indicators against which we were assessed, the CRA received three “strong” ratings, seven “acceptable” ratings and no “attention required” ratings. Four indicators have improved ratings compared with the 2005 assessment, and none are worse. The CRA was found to be at or above the federal public sector norm for all of the indicators against which it was assessed.

TBS did not assess six indicators in the MAF assessment that relate to the legislated authorities that fall under the purview of our Board of Management. To complement the MAF process and, at the direction of the Board, we have been developing a Board of Management Oversight Framework to support the Board in the exercise of its particular legislated responsibilities.

## Human Resources

We continued to enhance our human resource programs to ensure that our workforce is knowledgeable, representative, and committed to our success in program delivery.

Across the CRA, nearly 44,000 employees contribute to the delivery of our mandated programs and services. Competency-Based Human Resources Management (CBHRM) continues to be the basis of the human resource services provided to recruit and develop our employees. In the past year, the CBHRM

regime has advanced along several fronts. We accelerated the use of pre-qualification processes and increased the percentage of employees with validated competencies. We completed staffing processes more efficiently, and continued to ensure that candidates have—and will have—the necessary competencies. Pursuing our objective of having a knowledgeable and skilled workforce, we enhanced the individual learning plan process to include improved planning and monitoring of investments in learning. This improves our ability to link individual learning plans to our business objectives. Our new Human Resources Service Delivery Model will standardize human resource activities across our regions through the implementation of three regional centres of expertise in each region (resourcing, workplace relations and human resource planning and development).

We enhanced our individual learning plan process to better support employee learning and to strengthen the link between our learning activities and our business objectives. We invested about 5% of our payroll on learning.

In 2006-2007, the relationship between management and unions was further strengthened. The Union-Management initiative was implemented across the CRA and national and regional steering committees were established.

In 2006-2007, we continued streamlining compensation delivery services. The number of compensation client service centres within the CRA has been reduced, as all offices—with the exception of Shawinigan—have been consolidated into the Ottawa and Winnipeg Compensation Client Service centres.

## Information Technology

Our IT strategy is well aligned with our mission and business needs. The IT Asset Management Plan is a subset of CRA’s global Asset Management Plan and serves to synchronize the development of our internal services infrastructure with our business direction.

We enhanced the IT infrastructure with updates to the CRA network, host, electronic commerce, and

distributed computing environments, while also meeting the challenges of safeguarding our IT assets from accidental or deliberate system security threats.

We received five Government Technology Exhibition and Conference awards (two gold, two silver, and one bronze) as commendation for our work.

TBS and the Privy Council Office awarded the CRA Government On-Line Teams with an Award of Excellence.

Critical to the delivery of services to Canadians is the availability, recoverability, and security of our IT systems and infrastructure. With one exception noted below, we achieved high levels of availability for the many national systems critical to program delivery. From March 5 to 13, we had an electronic tax filing outage incident during which our databases related to individual tax files were not available for update. Our response to the incident was immediate. All necessary resources were deployed to address the issue. A transparent and comprehensive communications strategy was employed. It included daily updates to keep the media, employees, unions, client governments, and internal and external stakeholders well informed on an ongoing basis. In the end, the integrity and confidentiality of information was not compromised, and negative impact on taxpayers was kept to a minimum.

We continued the development of our electronic Business Computing Infrastructure/UNIX platform to ultimately provide the same level of service using Web-based applications for Canadians as we have provided in the past with our mainframes.

With the introduction of the My Business Account portal in 2006, Canadian businesses now have access to an array of our online service offerings as part of the Government On-Line suite of offerings.

The CRA continues to provide IT infrastructure and corporate administrative systems services to the Canada Border Services Agency (CBSA). This service

includes support for up to 13,500 CBSA employees at 250 sites across Canada, includes about 10,000 personal computers, 2,100 laptops, and about 100 mainframe terminals.

We strive to anticipate our future needs, researching and piloting new technology and building Agency-wide solutions to meet business objectives. This year, we began the implementation of encryption technology for all laptops and removable storage media, and the implementation of intrusion defence technology on our network and servers, which enables proactive identification and prevention of potential threats to our infrastructure.

The Managed Distributed Environment initiative is improving IT services across the CRA through the implementation of standardized policies and procedures, enhanced asset management, automated IT support and the development of a centralized National Computing Platform in the Data Centre.

We advanced the building of our data warehouse, enhancing our ability to evaluate, execute, and report on new and existing programs, as well as delivering business intelligence solutions in support of programs requiring tactical and strategic decision-making.

We are introducing Business Rules Engine technology to provide more control and flexibility in our management of tax debt.

We completed the reengineering of the GST/HST system delivering a sustainable application that lays the foundation for improved compliance monitoring. We also provided a timely response to legislative priorities delivering Universal Child Care Benefits and Softwood Lumber applications in very short timeframes.

Through our Data Centre Recovery Project, we implemented recovery technology, processes, and plans for our mainframe and network, ensuring our ability to recover all critical data, applications, and services in the event of a disaster in one of our two data centres.

We implemented major Tax, Benefits, Customs, Appeals, and Charities systems releases, while also maintaining more than 250 applications covering about 390 CRA and CBSA locations across Canada.

Our two data centres processed up to 3 million transactions per hour.

We supported some 57,000 employees (including CBSA employees), who use six mainframe computers and approximately 1,800 servers.

We maintained trust and integrity by keeping Canadians' personal information secure. In 2006-2007, we met the challenges of safeguarding IT assets from increased accidental or deliberate threats to system security.

## Finance and Administration

We strengthened financial planning systems, and increased the accuracy of projections by reinforcing management's commitment to sound stewardship of resources. Managers continued to be held accountable for projecting a variance of no greater than plus or minus five per cent between the forecasted Annual Expenditure Plan at the second quarter and year-end actual expenditures. This focus on financial management strengthens the link between program performance and the use of limited resources. We continued our focus on resource review and reallocation, which involved a mix of expenditure reviews for major initiatives, identification of program efficiencies, and reallocation of funding to higher CRA priorities. We used our In-Year Performance Reports to link resources to results, and Resource and Investment Management Committee (RIMC) reallocated resources to priority areas.

We continued streamlining our finance and administration function. New financial and administrative service delivery models were introduced in the regions that feature centres of expertise, or centralized service delivery. Our streamlining plans included a reduction in the number of financial transaction centres; the introduction of the National Centre of Professional Services for Regional Contracting in Laval, Quebec, and a Centre of Professional Services for E-Business in each region.

We also rationalized our mail processing operations, and we established centres of expertise for real property in each region.

To guide our business decisions, we introduced a new Enterprise Risk Management Strategy. We completed the development and testing of risk management processes that will enable the assessment and management of risks across all programs.

Sustainable development is a priority of the CRA. Compared with 2005-2006, we lowered our internal paper consumption by about 10%, increased our purchases of greener products by about 30%, and significantly exceeded our solid waste diversion target.

We maintained high standards in the protection of employees, information, facilities, and systems, through compliance and monitoring reviews that ensured an adequate policy framework and implemented strategies to protect taxpayer information. We issued security training and awareness communications to all employees.

Initiatives to ensure continued security in the CRA in 2006-2007 include the following:

- the completion of physical security inspections, threat and risk assessments, technical security reviews for all CRA sites, and a range of systems, applications, and platforms;
- continuation of the Agency Personnel Security Program, in which we completed 12,800 security screening requests; and
- strengthening our emergency management capacity with the creation of an alternate site for our Emergency Operations Co-ordination Centre, should an emergency incapacitate Ottawa's downtown core.

This year, we continued to build our capacity for assessing and reporting on internal controls over financial reporting, as part of the process for Chief Financial Officer (CFO) certification. The process will be aligned with new deputy head and CFO responsibilities that will be set by TBS's internal controls policy, once completed. Additionally, we

prepared for what will be the first Auditor General's Report on Controls at a Service Organization ever issued for a public sector organization. This report will provide the provinces and territories with greater assurance regarding the reliability of the financial information we provide pertaining to corporate income tax.

In March 2007, the TBS approved the joint CRA/PWGSC submission enabling us to assume management responsibilities for CRA's real property portfolio. Also, in March 2007, a real property services agreement was signed with PWGSC, which will allow us to fully exercise the real property authority that we were given under the CRA Act.

## Public Affairs

We continued to develop the multi-year brand strategy to help maintain Canadians' confidence in the CRA and their tax system. This year, we developed the Brand Strategy, the Brand Implementation Plan, and the Brand Measurement Framework. A new brand architecture and a new corporate look was also approved.

We continued the modernization of the publishing function in 2006-2007 to achieve greater value for money and improve security. In particular, cost savings were derived from changing the kit cover to clear polyethylene wrap. The security of tax kits was enhanced by ensuring that the taxpayer's social insurance number was hidden from view.

In 2006-2007, we also continued with the implementation of the multi-year Intranet Renewal Plan. Specifically, we developed the Intranet Strategic Plan, a governance framework and high-level business requirements. Intranet renewal will enhance employee productivity and knowledge sharing.

## Corporate Audit and Evaluation

Sound governance also means ensuring that tax dollars are spent effectively. In 2006-2007, we conducted internal audits and program evaluations that provided objective information, advice, and assurance on the soundness of our activities. We reported the results of the audits and evaluations to the Board of Management's Audit Committee.

## Legal Services

Our Legal Services group continues to provide legal advice with respect to our operations and policies. It also co-ordinates the larger Department of Justice service in collections, international tax, investigations, and appeals advisory work. Legal Services provided training to our employees in areas such as Access to Information and Privacy, confidentiality of tax information, ethics and conflict of interest, and several areas of public law.

## Relations with Provinces and Territories

In 2006, the governments of Canada and Ontario signed a memorandum of agreement that will transfer the administration of Ontario corporate income tax from the Ontario Ministry of Revenue to the CRA. The governments of Canada and Ontario have agreed to expand the current Tax Collection Agreement for the administration of Ontario's personal income tax to include corporate taxes. We will also administer other taxes on corporations—the capital tax and special additional tax on life insurers—on a cost-recovery basis. This initiative will increase the harmonization of the tax systems in Canada, reduce compliance costs for businesses, and reduce administration costs for governments.

The single administration of Ontario's corporate tax will more than triple the amount of corporate income tax that the CRA collects on behalf of the provinces and territories. The governments of Canada and Ontario anticipate that the transition to full implementation, including the filing of a single corporate income tax return, should be complete by January 2009 for tax years ending after December 31, 2008. Considerable progress was achieved in 2006-2007 by both governments in anticipation of the transition.

To strengthen relationships with existing and new clients, we have followed a course of transparent financial management and reporting of our planning, decision-making, and accountability processes. This policy has further strengthened our clients' trust in our ability to provide effective business solutions.

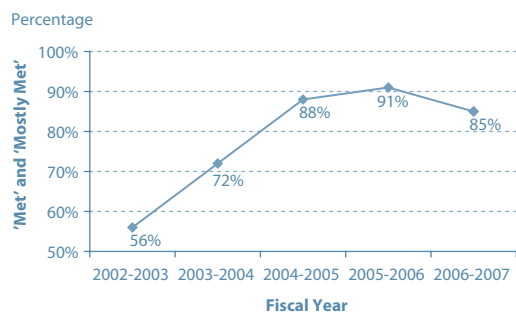


## External Service Standards in the CRA – Overall Results

Service standards publicly state the level of performance that Canadians can reasonably expect to encounter from the CRA under normal circumstances. Service standards that are reasonable and that the CRA meets contribute to our efforts to promote compliance. It is our belief that, by facilitating compliance, we enhance it.

We publish external service standards to highlight our commitment to transparent management, accountability for results, and citizen-centred service delivery. Service standards that are consistently met also contribute to increasing the level of confidence that Canadians place in government.

**Figure 22** Service Standards with Targets that are Met and Mostly Met



**Data quality: Good**

Overall, we met or mostly met 34 of the 40 targets that were measured in 2006-2007. Most importantly, we met our service standards for activities that are high-volume and that affect the greatest number of taxpayers and benefits recipients. For example, we met all service standards related to processing information returns and CCTB applications.

From 2002-2003 to 2005-2006, there was a steady increase in the percentage of service standards targets that we met or mostly met. In 2006-2007, however, we experienced a decline of six percentage points, with six service standards not meeting targets, an increase of two over last year. In addition, three service standards that did not meet targets last year showed results that deteriorated further in 2006-2007: advance

income tax rulings to taxpayers, deferred income plans—response to written enquiries, and Taxpayer Representative Identification System (TRIS) non-peak periods, which are discussed below.

As noted on page 45, we did not meet our targets for advance income tax rulings and income tax technical interpretations. In regard to advance income tax rulings, our performance during the year has improved and, with the hiring of additional personnel, we expect continued improvements next year. With respect to income tax technical interpretations, our focus on resolving aged files this year resulted in an increase in average service delivery times. Since these efforts are now complete, we expect improved results next year.

Additionally, we did not meet two service standards related to registered plans: actuarial validation reports, and deferred income plans – response to written enquiries. Further to our discussion on page 31, we are realigning our registered plans resources to focus on compliance. Multiple transformation activities are having an adverse impact on our ability to meet some of the targets associated with the service standards for our registered plans. Once this work is complete, we expect to be in a position to meet the targets for these service standards in the future.

In 2006-2007, we did not meet our two service standards for the TRIS, since we received a significant increase in applications—in large part due to the interest by third parties in using the new on-line “Represent a client” service. We have undertaken a wide range of measures to deal with this increase, so we expect to see improved results next year.

Although there was an overall decline of six percentage points in the proportion of service standards targets met and mostly met between 2005-2006 and 2006-2007, we believe these results pose a very low risk that taxpayers are not meeting their tax obligations.

### Performance Rating Legend

|                          |                                    |                  |                                  |
|--------------------------|------------------------------------|------------------|----------------------------------|
| ✓ Met or exceeded target | ☑ Target mostly met (at least 95%) | ✗ Target not met | New or modified service standard |
|--------------------------|------------------------------------|------------------|----------------------------------|

### Client Assistance (PA1)

| Service  | Service standard                                 | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007      | Rating |
|--|--|----------------|-----------|-----------|-----------|-----------|----------------|--------|
| 1. Problem Resolution Program  | Acknowledged within two working days.            | 100%           | 83%       | 94%       | 98%       | 98%       | 97% (see note) | ☑      |
| 2. Problem Resolution Program  | Resolution/client contact within 15 working days | 100%           | 100%      | 94%       | 97%       | 97%       | 97% (see note) | ☑      |
| 3. General telephone enquiries – respond to calls in queue                   | Within two minutes                               | 80%            | N/A       | N/A       | 81%       | 80%       | 82%            | ✓      |
| 4. Business telephone enquiries – respond to calls in queue                  | Within two minutes                               | 80%            | N/A       | N/A       | 81%       | 85%       | 81%            | ✓      |
| 5. Charities – respond to telephone enquiries in queue                       | Within 60 seconds                                | 85%            | N/A       | N/A       | 90%       | 86%       | 89%            | ✓      |
| 6. Advance income tax rulings to taxpayers                                   | Within an average of 60 days                     | 100%           | 60.3 days | 57 days   | 62 days   | 84 days   | 94 days        | ✗      |
| 7. Income tax technical interpretations                                      | Within an average of 90 days                     | 100%           | 78 days   | 82 days   | 75 days   | 87 days   | 105 days       | ✗      |
| 8. GST/HST Rulings and Interpretations – Written enquiries                   | Within 45 working days                           | 75%            | N/A       | N/A       | N/A       | N/A       | 87% (see note) | ✓      |
| 9. Applications to register pension plans                                    | Complete review in 180 days                      | 85%            | 89%       | 91%       | 89%       | 96%       | 97% (see note) | ✓      |
| 10. Amendments to registered pension plans                                   | 9 months   | 80%            | 79%       | 78%       | 84%       | 89%       | 82% (see note) | ✓      |
| 11. Termination of registered pension plans                                  | One year   | 85%            | 89%       | 77%       | 88%       | 90%       | 88%            | ✓      |
| 12. Retirement savings plans (applications to register, amend, or terminate) | Within 60 days                                   | 80%            | 64%       | 89%       | 97%       | 84%       | 85%            | ✓      |
| 13. Retirement income funds (applications to register, amend, or terminate)  | Within 60 days                                   | 80%            | 66%       | 90%       | 95%       | 84%       | 91%            | ✓      |
| 14. Education savings plans (applications to register, amend, or terminate)  | 60 days  | 85%            | 71%       | 92%       | 93%       | 88%       | 85%            | ✓      |
| 15. Actuarial valuation reports  | 9 months   | 80%            | 73%       | 72%       | 81%       | 80%       | 36%            | ✗      |
| 16. Deferred income plans – Response to written enquiries                    | Within 60 days                                   | 80%            | 60%       | 64%       | 69%       | 75%       | 60%            | ✗      |
| 17. Deferred Profit Sharing Plans – registration                             | 180 days   | 80%            | N/A       | N/A       | 85%       | 79%       | 99%            | ✓      |
| 18. Deferred Profit Sharing Plans –amendments or termination                 | 270 days (9 months)                              | 80%            | N/A       | N/A       | 82%       | 68%       | 89%            | ✓      |



## Assessment of Returns and Payment Processing (PA2)

| Service   | Service standard                | Current Target | 2002-2003     | 2003-2004     | 2004-2005     | 2005-2006     | 2006-2007          | Rating |
|---|---------------------------------|----------------|---------------|---------------|---------------|---------------|--------------------|--------|
| 19. Processing visitor GST/HST rebate applications  | 4-6 weeks                       | 95%            | 95%           | 98%           | 99%           | 99.7%         | 96%                | ✓      |
| 20. Responding to taxpayer requested adjustments (T1)   | 8 weeks                         | 100%           | 9 weeks       | 5 weeks       | 6 weeks       | 6 weeks       | 7 weeks (see note) | ✓      |
| 21. Providing Statements of Interim Payments (SIP) to corporations and other levies on a monthly basis. | Mailed by the 18th of the month | 95%            | 70%           | 61%           | 49%           | 99%           | 100%               | ✓      |
| 22. Processing T1 individual income tax returns (paper)   | 4-6 weeks                       | four weeks     | Under 4 weeks | Under 4 weeks | Under 4 weeks | Under 4 weeks | Under 4 weeks      | ✓      |
| 23. Processing T1 individual income tax returns (EFILE, TELEFILE, NETFILE)                              | 2 weeks                         | two weeks      | Under 2 weeks | Under 2 weeks | Under 2 weeks | Under 2 weeks | Under 2 weeks      | ✓      |
| 24. Processing T3 trust returns   | Within 4 months                 | 95%            | 77%           | 72%           | 97%           | 96%           | 96%                | ✓      |
| 25. Processing Excise Tax, Excise Duty and Air Travellers Security Charge returns                       | Within 90 days                  | 95%            | N/A           | N/A           | N/A           | N/A           | 98% (see note)     | ✓      |
| 26. Processing GST/HST returns  | 21 days                         | 95%            | 96%           | 96%           | 97%           | 98%           | 98% (see note)     | ✓      |
| 27. Processing T2 corporation income tax returns  | 75% in 50 days                  | 75%            | 75%           | 76%           | 82%           | 88%           | 90%                | ✓      |
|   | 90% in 90 days                  | 90%            | 91%           | 93%           | 96%           | 96%           | 97%                | ✓      |

## Filing and Remittance Compliance (PA3)

| Service  | Service standard | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007                | Rating |
|--|------------------|----------------|-----------|-----------|-----------|-----------|--------------------------|--------|
| 28. Processing taxpayer relief requests related to accounts receivable and trust accounts programs | 4-6 weeks        | 90%            | 92%       | 90%       | 90%       | 90%       | Not available (see note) | n/a    |

## Reporting Compliance (PA4)

| Service   | Service standard | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|------------------|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| 29. SR&ED Refundable claims   | 120 days         | 90%            | 93%       | 95%       | 93%       | 92%       | 96%       | ✓      |
| 30. SR&ED Non-refundable claims                                     | 365 days         | 90%            | 89%       | 92%       | 94%       | 95%       | 96%       | ✓      |
| 31. SR&ED Claimant-requested adjustments to refundable claims       | 240 days         | 90%            | 93%       | 95%       | 95%       | 94%       | 97%       | ✓      |
| 32. SR&ED Claimant – requested adjustments to non-refundable claims | 365 days         | 90%            | 88%       | 94%       | 94%       | 94%       | 93%       | ✓      |
| 33. Video and film tax credits – Refundable claims – unaudited      | 60 days          | 90%            | 93%       | 96%       | 94%       | 90%       | 97%       | ✓      |
| 34. Video and film tax credits – Refundable claims – audited        | 120 days         | 90%            | 87%       | 93%       | 95%       | 92%       | 96%       | ✓      |

## Appeals (PA5)

| Service   | Service standard | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007      | Rating |
|---|------------------|----------------|-----------|-----------|-----------|-----------|----------------|--------|
| 35. 30-day first contact letter for objections, disputes, and appeals | 30 days          | 85%            | 87%       | 89%       | 90%       | 89%       | 89% (see note) | ✓      |

## Benefit Programs (PA6)

| Service   | Service standard   | Current Target | 2002-2003 | 2003-2004 | 2004-2005     | 2005-2006 | 2006-2007                | Rating |
|---|--|----------------|-----------|-----------|---------------|-----------|--------------------------|--------|
| 36. Processing CCTB applications                          | End of second month after month in which application is received                 | 98%            | 98%       | 99%       | 99%           | 99%       | 99% (see note)           | ✓      |
| 37. Account maintenance – Responding to written enquiries | End of second month after month in which enquiry is received                     | 98%            | N/A       | 98%       | 99%           | 97%       | 98% (see note)           | ✓      |
| 38. Validation and control – Results of review            | 60 days  | 90%            | N/A       | 92%       | 98%           | 93%       | Not available (see note) | n/a    |
| 39. Taxpayer Representative Identification System         | Processing of T1013s within five working days of receipt during non-peak periods | 90%            | N/A       | N/A       | 50%           | 71%       | 33% (see note)           | ✗      |
| 40. Taxpayer Representative Identification System         | Processing of T1013s within 20 working days during peak periods                  | 90%            | N/A       | N/A       | Not available | 96%       | 77% (see note)           | ✗      |

## Corporate Services

| Service   | Service standard   | Current Target | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 | 2006-2007 | Rating |
|---|--|----------------|-----------|-----------|-----------|-----------|-----------|--------|
| 41. Statistical Services to External Stakeholders | Respond to client or taxpayer requests for statistical data within an average of 30 days | 100%           | N/A       | N/A       | N/A       | 28 days   | 28 days   | ✓      |

### Explanatory notes with respect to Data Quality (DQ) or significant Variance (V) in performance:

Where service standards are expressed in terms of a number of days, they refer to working days.

Results are rounded to the nearest decimal point.

Standards 1 and 2: **DQ:** The results reflect TSO data only (i.e., Tax Centres are not included).

Standard 8: **DQ:** This is a new service standard and, therefore, historical data is not available.

Standard 9: **DQ:** We applied a risk-based streamlined approach to registration activities, resulting in an increased percentage of applications reviewed within specified timeframes and more resources devoted to post-registration compliance activities.

Standard 10: **DQ:** Standard was not met due to aging inventory resulting from reassignment of staff to other priorities, training, workflow changes, and systems modifications.

Standard 20: **DQ:** The standard applies to straightforward client-requested adjustments, that is, those that pertain to workflows that do not involve waiting for substantive information in order to be resolved.

Standard 25: **DQ:** This is a new service standard and therefore historical data is not available.

Standard 26: **DQ:** The systems used to determine timeliness of processing of GST/HST returns also include a small volume (about 10%) of other GST workload.

Standard 28: **DQ:** Unable to substantiate a result for this service standard. Formerly called "Processing fairness requests".

Standard 35: **DQ:** This standard excludes, for example, those resolved within 30 days, invalid objections, and group objections dealing with a common issue such as pay equity disputes.

Standard 38: **DQ:** A sample was scheduled for March 2007 but delayed until April due to the system outage. Therefore, results are not available.

Standards 36, 37, 39, and 40: **DQ:** In 2006-2007 information was based on a sampling. Service standards 39 and 40 will be renamed to Processing a Request to Authorize or Cancel a Representative, as it includes all requests, not just T1013s.

**Note:** As per approval through our Corporate Business Plans, re-engineering of registered plans processes resulted in the deletion of two service standards, i.e., deemed registration and telephone service.

The following tables provide an update on new standards and targets, deletions, adjustments, and service standards under development in 2007-2008.

## New Service Standards and Targets for 2007-2008

| Program Activity  | Service Standard  | Target |
|---|---|--------|
| <b>Assessment of Returns and Payment Processing (PA2)</b> | Respond to taxpayer-requested adjustments (T1) received via the Internet within two weeks   | 100%   |
| <b>Reporting Compliance (PA4)</b>                         | Processing Regulation 105 waivers within 30 days upon receipt of complete documentation   | 85%    |
| <b>Benefit Programs (PA6)</b>                             | Respond to recipient enquiries with the correct information and process new recipient information, including issuing a payment, notice, or letter, accurately | 98%    |
|   | Processing personal information for benefit applications accurately   | 98%    |
|   | Respond to CCTB telephone enquiries within two minutes  | 75%    |

## Deletions and Adjustments of Existing Service Standards for 2007-2008<sup>1</sup>

| Program Activity  | Service Standard   | Target       |
|---|--|--------------|
| <b>Taxpayer and Business Assistance (PA1)</b>             | T1 publications—developmental work has been discontinued   | For deletion |
|   | Developmental work on a new telephone standard for registered plans (respond within six rings), will be discontinued   | For deletion |
|   | Respond to charities telephone enquiries within two minutes  | 80%          |
| <b>Assessment of Returns and Payment Processing (PA2)</b> | Providing Statements of Interim Payments (SIP) to T2 Corporate Income Tax/GST/HST taxpayers on a monthly basis   | 95%          |
|   | Processing visitor (GST/HST) rebate applications within four weeks   | 95%          |
|   | Processing T1 individual income tax returns (paper in four to six weeks and electronic in two weeks)   | 100%         |
|   | Processing T2 corporate income tax returns within 60 days  | 90%          |
| <b>Benefit Programs (PA6)</b>                             | Revised user-friendly wording will replace “at the end of the second month after month in which application/enquiry is received” processing CCTB applications, and account maintenance/responding to written enquiries). The names have been changed to Processing Benefit Applications and Elections and Responding to Benefit and Credit Enquiries, respectively, to be more meaningful to the public and better reflect the service provided. | 98%          |

<sup>1</sup> References to deletions and adjustments are found in the 2007-2008 Report on Plans and Priorities – Appendix D, and in the 2006-2007 Compendium of External Service Standards for the CRA 2006-2007.

## Service Standards under Development in 2007-2008

| Program Activity                              | Service Standard   | Target |
|---|--|--------|
| <b>Taxpayer and Business Assistance (PA1)</b> | Charities – Review and respond to applications for charitable registration within four months of receipt of complete application | 80%    |
|   | Registered plans (applications, amendments, and terminations) and actuarial reports  | tbd    |
|   | Respond to telephone enquiries related to GST/HST rulings and interpretations within two minutes of entering the queue           | tbd    |



## Conclusion by the Commissioner



As Commissioner, I am accountable to the Minister of National Revenue for all program matters, and to our Board of Management for administrative matters. In tabling this report to Parliament, I am pleased to report that once again, the Canada Revenue Agency has achieved its strategic outcomes: the vast majority of Canadian taxpayers continue to comply with Canada's tax laws, and we continue in our effective delivery of benefit and credit programs.

During 2006-2007, we collected just over \$346 billion in tax revenue and distributed over \$15.2 billion in timely, correct benefit and credit payments to over 11 million entitled Canadians. In addition to demonstrating these tangible results, we significantly increased our efforts to strengthen the management of tax debt and to address areas such as the underground economy, aggressive tax planning, and the emerging risks related to the registered plans sector.

This past year has also had its unique opportunities and challenges. In October 2006, an agreement was signed to transfer the administration of Ontario corporate income tax to the CRA. Capitalizing on our business expertise, this initiative, once implemented, will reduce the compliance burden for Ontario corporations, enable us to streamline our services, and reduce administrative costs.

In early March 2007, we faced a serious challenge when, as a result of system difficulties, we shut down our databases relating to individual tax files. I congratulate our employees for their dedication in working to resolve this issue. As a result of their efforts, the integrity and confidentiality of information was not compromised, and the negative impact on taxpayers was kept to a minimum. In fact, there was an increase in the number of returns that were electronically filed. I am convinced that the professionalism, integrity, knowledge, and dedication of our employees will continue to be the foundation of the CRA's ability to deliver results that matter to Canadians.

As we move forward, we will continue to further strengthen our core business, to reduce the compliance burden by leveraging our business and systems expertise, and to provide quality service to Canadians.

A handwritten signature in dark ink, appearing to read 'William V. Baker', written in a cursive style.

William V. Baker

Commissioner and Chief Executive Officer  
Canada Revenue Agency





# Agency Governance and the Board of Management

The Board of Management is responsible for overseeing the organization and administration of the Agency and the management of its resources, services, property, personnel, and contracts. This includes development of the CRA's Corporate Business Plan.

The Board replaces many of the oversight and control functions hitherto performed by the Treasury Board Secretariat, the Public Service Commission, and Public Works and Government Services Canada. The Board brings private sector rigour and expertise to the CRA. It also presents a diversity of perspectives as the provinces and territories nominate eleven of its fifteen members—members who come from a variety of professional backgrounds.

Information about Board and committee membership, as well as Directors' participation rates, is presented in Schedule A.

## Fiduciary Oversight Activities of the Board in 2006-2007

Each year, the Board of Management fulfils its fiduciary oversight responsibility by ensuring that the Canada Revenue Agency is well-managed. In 2006-2007, the key areas of focus included the following.

### Risk Management

Part of the Board's role in the governance of the CRA and the stewardship of its resources is ensuring that strategies and systems are in place for the identification, assessment, and management of risks on an Agency-wide basis. In 2006-2007, the Board monitored progress on the development of the Enterprise Risk Management (ERM) Program, including the development of pilot projects and a corporate risk inventory.

### Information Technology

The Board also played an increased role in ensuring that information technology resources were properly

managed, and that risks to the systems that support the CRA's core business were sufficiently identified and mitigated. The Board monitored progress against, and risks to, information technology (IT) projects such as initiation of the upgrading of CRA's data centre, and Secure Channel, a government-wide initiative to support delivery of services online.

### Corporate Policies, Plans, and Reports

In 2006-2007, the Board approved both new and revised versions of several corporate policies, including policies on internal audit and program evaluation, health and safety, workplace committees, employee travel, and sustainable development and the environment.

One of the major policies the Board approved was the CRA project management policy. The purpose of the policy is to ensure that all projects undertaken by the CRA shall have appropriate accountability structures and be well managed in accordance with project management principles and best practices to provide a maximum benefit to the CRA. One of the requirements of the policy is that the Board will approve and monitor all project plans for projects with lifecycle costs that are expected to exceed \$20 million. As a result, three project plans were brought to the Board for approval in 2006-2007.

The Board also reviewed the audit plans and reports of the CRA's Internal Auditor and the Office of the Auditor General. In addition, the CRA's spending against its budget was monitored on a quarterly basis. And in keeping with governance best practices, the Chair of the Audit Committee reviewed and reported back to the Board on the expense reports of the Commissioner-CEO.

As it does each year, the Board provided input to and approved the *Corporate Business Plan 2007-2008 to 2009-2010*, the *CRA Annual Report to Parliament 2005-2006*, and the CRA's financial statements.

## Human Resources

The Board reviewed several activities and initiatives related to its oversight responsibilities for human resources.

The largest of these was the Agency Classification Standard – Services and Programs initiative (ACS-SP). ACS-SP is a large, multi-year project designed to streamline the Services and Programs job categories in the CRA. The Board received regular updates on the progress of the initiative throughout the year.

The Board provided input to the performance assessment of the Commissioner-CEO and Deputy Commissioner, and reviewed the performance assessments of the Chief Financial Officer and Internal Auditor of the CRA. Performance objectives were also developed for the Commissioner-CEO.

Other significant human resources items and initiatives that the Board reviewed were a national job hazard analysis, employee performance management, compensation of executives, and succession planning for key CRA positions.

## Strategic Oversight Activities of the Board in 2006-2007

A key accountability of the Board is to ensure that management has a sound strategy for the future of the corporation and to ensure that management successfully implements this strategy.

### Agency 2010

In 2005-2006, the Board worked closely with management on the development of the CRA's major corporate strategy, Agency 2010. In 2006-2007, it shifted its focus to monitoring management's implementation of the strategy. As part of this overall strategy, the Board reviewed and approved the CRA's Business Development Strategy objectives.

The Board also provided input to the initiative to provide Corporate Tax Administration for Ontario, the largest new business undertaking ever for the CRA. Specifically, the Board reviewed the project management of the initiative, and its human resources dimensions.

## Board Governance

The Board of Management continually seeks to improve its governance policies and practices. In 2006-2007, its focus was on Board evaluation and Director orientation and development.

### Board Evaluation

In 2006-2007, the Board conducted a formal evaluation of its performance and processes. Issues and suggestions raised are being addressed to further enhance the Board's effectiveness. The Board also clarified and improved its procedures with respect to the conduct of meetings, and revised its committee charters to reflect the changing roles and responsibilities of its committees.

### Director Orientation and Development

Key factors in the strengthening of the Board's performance are the orientation and ongoing development of Board members to enhance their knowledge of the CRA and their core competencies as Directors.

In the past year, there were four new members appointed to the Board. In February 2007, these new members attended a comprehensive, two-day orientation session. In addition, in the fall of 2006, the Board agreed to support continuing education opportunities for Directors, including self-study and onsite presentations, in order to keep them abreast of corporate governance best practices and developments in substantive areas, such as audit practices.



## Schedule A – The CRA Governance Structure

### Board Membership

The Board is composed of 15 members, including the Chair, the Commissioner and Chief Executive Officer, a director nominated by each province, one director nominated by the territories, and two directors nominated by the federal government. Members of the Board bring a private sector perspective and business-like approach to management and, in this regard, have been championing a significant agenda for change within the CRA.

The following table shows Board membership as of March 31, 2007.

**Connie I. Roveto, B.A., B. Ed., ICD.D**

Chair, Board of Management  
President  
Cirenity Management  
Toronto, Ontario

**Camille Belliveau, FCGA, CFP**

Executive Director  
Groupe EPR Canada Group Inc.  
Shediac, New Brunswick

**Myles Bourke, B. Comm., FCA**

Corporate Director  
Chartered Accountant  
Lethbridge, Alberta

**L. Bernice Buckle**

Corporate Director  
Corner Brook, Newfoundland and Labrador

**Raymond Desrochers, B. Comm., CA, CFE**

Partner  
BDO Dunwoody LLP Chartered Accountants  
Winnipeg, Manitoba

**Gordon Gillis, B.A., LL.B.**

Lawyer/Consultant  
Dartmouth, Nova Scotia

**André Gingras**

Founder and Director  
André Gingras et Associés inc.  
Montréal, Quebec

**James J. Hewitt, FCMA**

Corporate Director  
Penticton, British Columbia

**Howard A. Leeson, Ph.D.**

Senior Policy Fellow  
Saskatchewan Institute of Public Policy  
Regina, Saskatchewan

**Rod Malcolm, CA**

Corporate Director  
Iqaluit, Nunavut

**Patricia J. Mella, B.A., B.Ed., M.A.**

Corporate Director  
Stratford, Prince Edward Island

**James R. Nininger, B. Comm., M.B.A., Ph.D.**

Corporate Director  
Ottawa, Ontario

**Stephen E. Rudin, MSPH, M. Ed., CHE**

Health Care Consultant  
Toronto, Ontario

**Sylvie Tessier, B. Sc., P.Eng., M.B.A.**

Consulting Director  
Sierra Systems  
Toronto, Ontario

**Michel Dorais, ICD.D**

Commissioner and Chief Executive Officer  
Canada Revenue Agency  
Ottawa, Ontario

## Committee Membership and Director Participation

The Board of Management is supported by four committees that undertake a detailed review of many items before they are brought to the full Board.

The following table shows each committee's membership as of March 31, 2007, as well as each Director's participation rates:

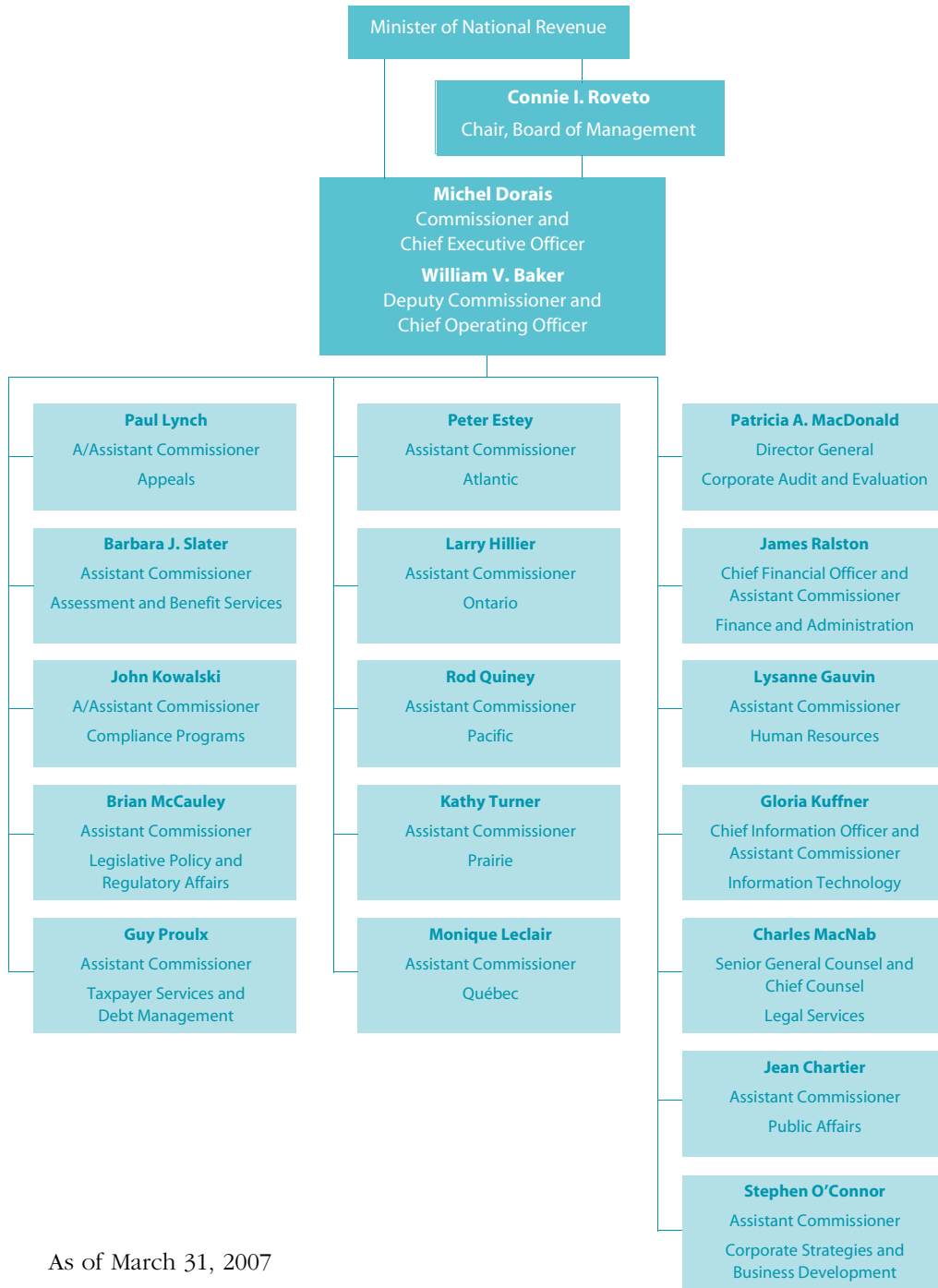
| Board Members             | Board of Management<br>(5 meetings and 6 teleconference) | Audit Committee<br>(4 meetings and 4 teleconference) | Resources Committee<br>(4 meetings and 1 teleconference) | Human Resources Committee<br>(4 meetings and 1 teleconference) | Governance Committee<br>(3 meetings and 3 teleconference) |
|---------------------------|--|--|--|--|---|
| Camille Belliveau         | 9/11   |  | 5/5 <sup>3</sup>   |  |   |
| Myles Bourke              | 10/10 <sup>1</sup>                                       | 4/4 <sup>1</sup>                                     |  |  |   |
| Bernice Buckle            | 11/11  |  |  | 5/5  |   |
| Raymond Desrochers        | 11/11  | 8/8 <sup>2</sup>                                     |  |  |   |
| Michel Dorais             | 11/11  |  | 5/5  | 5/5  | 5/6   |
| Gordon Gillis             | 4/4 <sup>1</sup>   |  |  | 1/1 <sup>1</sup>   |   |
| André Gingras             | 9/11   |  | 4/5  |  |   |
| Jim Hewitt                | 10/11  | 8/8 <sup>3</sup>                                     |  |  | 1/1   |
| Howard Leeson             | 10/11  |  |  | 5/5 <sup>2</sup>   | 5/6 <sup>2</sup>  |
| Rod Malcolm               | 11/11  |  | 5/5 <sup>3</sup>   |  |   |
| Patricia Mella            | 6/6 <sup>1</sup>   |  | 1/1 <sup>1</sup>   |  |   |
| Jim Nininger              | 10/11  |  |  | 5/5 <sup>3</sup>   | 5/5   |
| Connie Roveto             | 11/11  | 8/8  | 4/5  | 3/5  | 6/6 <sup>3</sup>  |
| Stephen Rudin             | 10/11  |  |  | 3/5  |   |
| Sylvie Tessier            | 3/3 <sup>1</sup>   |  | 1/1 <sup>1</sup>   |  |   |
| <b>Average Attendance</b> | <b>94%</b>   | <b>100%</b>  | <b>92%</b>   | <b>87%</b>   | <b>92%</b>  |

<sup>1</sup> Denotes members' terms that started during the 2006-2007 fiscal year.

<sup>2</sup> Denotes committee vice-chair.

<sup>3</sup> Denotes committee chair or co-chair.

# Organizational Structure



As of March 31, 2007

## Schedule B – Other Items of Interest

### Detailed Tax Debt Management Action Plans

Tracking of actions to address the recommendations of the Public Accounts Committee and the Office of the Auditor General of Canada (OAG) regarding the collection of tax debts by the CRA

#### Risk Management

The CRA's strategy to improve the risk management of its collections program will address the **OAG's recommendation (8.52)** that:

**"The Canada Revenue Agency should establish a more comprehensive automated risk-scoring system for tax debts, update the risk scores on an ongoing basis, and use the risk scores to prioritize workload throughout the collections process."**

**PAC Reference #2**

| Specific Commitment(s) and Deliverables  | Target Date                                     | Progress  |
|--|---|---|
| <p>1. Establish processes to use new <b>Risk Assessment Tools</b>, build <b>Risk Models and Scores</b>, and implement.</p> <ul style="list-style-type: none"> <li>– Risk models will be built in 2006-2007 and are currently scheduled for release over 2007-2008 for testing.</li> <li>– Fully operational risk scores will be available for individual income tax accounts by March 2009.</li> </ul> | New target date is April 2009 (From March 2009) | <p>In progress and on track:</p> <p>Due to a high complexity in the automation of risk scores we anticipate a one-month delay in implementation. The Taxpayer Services and Debt Management Branch (TSDM) current focus is on</p> <ul style="list-style-type: none"> <li>• Developing the data infrastructure to support the research for the development of various risk models.</li> <li>• Developing a taxpayer profile that will include debtor history and various risk scores to assist in determining the next appropriate taxpayer treatment action.</li> <li>• Analyzing the value of using Equifax (credit bureau) risk scores that will be incorporated in the taxpayer profile.</li> <li>• Piloting a model that predicts the collections yield of a non-filer population. Initial results are encouraging.</li> <li>• Field-testing a collections model that anticipates the probability of case resolution in response to specific agency actions, thereby permitting CRA to more effectively allocate resources.</li> </ul> |
| <p>2. Fully operational risk scores are scheduled for business programs by 2011.</p>   | 2011  | <p>Deferred until funding source is secured</p> <p>Current funding and activities exclusively dedicated to T1 individuals</p>   |

#### File Management

The CRA's strategy to improve the file management of its collections program will address the **OAG's recommendation (8.65)** that:

**"The Canada Revenue Agency should minimize the number of collectors who work on each account, record their actions in a more systematic way, and improve the case management tools they have at their disposal."**

| Specific Commitment(s) and Deliverables  | Target Date                                     | Progress   |
|--|---|--|
| <p>1. Improved file management capacity is currently scheduled for March 2009 for individual income tax collections and compliance.</p> <p>Components:</p> <ul style="list-style-type: none"> <li>– Integrated Taxpayer View Workbench</li> <li>– Integrated Compliance Platform</li> <li>– Workload Management Component</li> </ul> | New target date is April 2010 (From March 2009) | <p>In progress and on track:</p> <p>The CRA is committed to an enterprise wide case management system that will not be ready for 2009. Instead, it was decided to minimize investment in legacy systems and invest in an integrated Taxpayer view workbench mainframe application, nevertheless maximizing the achievement of the stated objectives. As a result the Branch shifted its focus on risk management for 2009.</p> <ul style="list-style-type: none"> <li>• A prototype of the "Integrated Taxpayer View Workbench" has been developed and is currently being progressively deployed to pilot sites for validation as originally planned. The workbench prototype will assist field officers in collecting debt.</li> <li>• Functionality that will record the results of collections actions will be done by improving the current case system to ensure employees record their enforcement actions.</li> </ul> |

| Specific Commitment(s) and Deliverables   | Target Date | Progress   |
|---|-------------|--|
| 2. Business programs are currently scheduled to use the same components for improvements to file and workload management in 2011. | 2011        | Deferred until funding source is secured<br>Current funding and activities exclusively dedicated to T1 individuals |

## Performance Reporting

The CRA's strategy to improve the performance reporting of its collections program will address the **OAG's recommendation (8.41)** that:

**"The Canada Revenue Agency should significantly improve its management information to make it complete and comprehensive. It should develop reliable techniques and information sources to determine on a regular basis the results of its collection efforts and use that information to guide its decision-making for each of its major collection modes and actions."**

| Specific Commitment(s) and Deliverables  | Target Date                                     | Progress   |
|--|---|--|
| 1. Improved performance reporting tools for individual income tax programs will be available beginning late in 2007, with fully operational reporting at the national, regional, local office, and individual officer levels scheduled for individual income tax programs by March 2009. | New target date of April 2009 (From March 2009) | In progress and on track: <ul style="list-style-type: none"> <li>Enhanced data accessibility provided through an updated version of All Revenues Table in late 2007. This will provide greater understanding of the impact of automated processes, such as letters, call centre, and bring forward (no action).</li> </ul> The implementation of full operational reporting for T1 (individuals) will be delivered in April 2009.  |
| 2. Performance reporting tools are currently scheduled to be progressively implemented throughout all major business revenue lines by 2011.  | 2011  | In progress and on track: <ul style="list-style-type: none"> <li>Reporting for Individuals will progressively incorporate other business lines.</li> </ul>   |
| 3. The CRA will collect information on collector actions through continued enhancement of its performance measurement systems by way of the Integrated Revenue Collections (IRC) project, which is scheduled to have its first major phase implemented by March 2009.                    | New target date of April 2010 (From March 2009) | In progress and on track: <p>The CRA is committed to an enterprise wide case management system that will not be ready for 2009. Instead, it was decided to minimize investment in legacy systems and invest in an integrated Taxpayer view workbench mainframe application, nevertheless maximizing the achievement of the stated objectives.</p> <p>Progress continues to be made on improving performance information on the results of actions of individual collectors. Activities have been completed or are underway in the following areas:</p> <ul style="list-style-type: none"> <li>Three different data marts have been built to support the development of various risk models, as well as data analysis and performance reporting capabilities.</li> <li>Functionality that will record the results of collections actions will be done by improving the current case system to ensure employees record their enforcement actions.</li> <li>The measure is the development of a "taxpayer folder" through which individual debtor history, including risk, will be gathered and made available for improved decision-making. This will assist in meeting the commitments made over the 2009-2010 period.</li> </ul> |

## Debt Management Research

The CRA's strategy to improve its debt management research will address the **OAG's recommendation (8.28)** that:

**"The Canada Revenue Agency should identify and collect the data it needs to analyze the makeup of its tax debt and to develop better collection strategies."**

**(considering a variety of factors including fluctuations in the economic cycle).**

**PAC Reference #4**

| Specific Commitment(s) and Deliverables  | Target Date | Progress   |
|--|-------------|--|
| <p><b>1. T1</b></p> <p>Initial research model (to better understand the makeup of tax debt and the profile of debtors) is currently scheduled to be developed over 2006-2007 for individual income tax programs.</p> | March 2007  | <p>Completed:</p> <ul style="list-style-type: none"> <li>An Individual Tax Debtor Research Model has been completed and a number of related research initiatives have been completed or are In progress.</li> </ul>  |
| <p><b>2. Business</b></p> <p>Business program research model is currently scheduled to be developed in 2007, for implementation early in 2008.</p>   | March 2008  | <p>In progress and on track:</p> <ul style="list-style-type: none"> <li>Detailed articulation of a Business Tax Debtor research model is somewhat behind schedule due to delays in obtaining detailed data needed to validate our proposed approach to this area of research. We expect to recover from the delay and meet the stated goal of starting related research by early 2008.</li> </ul>      |
| <p><b>3. T1-Enhanced</b></p> <p>Build enhanced analytical capacity using IRC data-analysis enhancements, currently scheduled for 2009 for individual income tax accounts.</p>  | March 2009  | <p>In progress and on track:</p> <ul style="list-style-type: none"> <li>The data infrastructure in being developed to support the research and analysis to increase the capacity for debt management research using data already available in CRA.</li> <li>Privacy Impact Assessment was prepared to address privacy issues relative to access to data for analytic and research purposes.</li> </ul> |
| <p><b>4. Business-Enhanced</b></p> <p>Build enhanced analytical capacity using IRC data-analysis enhancements by 2011 for business programs.</p>   | 2011        | Deferred until funding source is secured. Current funding and activities exclusively dedicated to T1 individuals.  |
| <p><b>5. Research Into Economic Indicators</b></p> <p>Develop research approach and conduct study.</p>   | Ongoing     | <p>In progress and on track:</p> <ul style="list-style-type: none"> <li>A research initiative has been launched with the objective of determining the timing and nature of any observable impact that reported economic variables may have on debt management, and whether the impacts operate in a consistent, measurable manner.</li> </ul>  |

## Outstanding 1994 OAG Recommendations

PAC Recommendation #1:

**“That the Canada Revenue Agency develop a detailed action plan that includes timelines and performance indicators for the implementation of the outstanding recommendations contained in chapter 29 of the Auditor General’s 1994 Report and submit that action plan to the Standing Committee on Public Accounts no later than 31 December 2006.”**

NOTE:

- Two items involving risk-scoring and performance information have been included under Item 1.
- No further submissions to PAC will be made as our September 2006 report met with PAC requests.

| Specific Commitment(s) and Deliverables  | Target Date    | Progress  |
|--|----------------|---|
| 1. An analysis of danger-of-loss scenarios is being conducted, and a final report will be produced by June 2007.   | June 2007      | In progress and on track.   |
| 2. Performance standards will be established at the collector level through a tailored addendum to the existing performance management products to be implemented for all collectors beginning September 1, 2007. These standards will include the nature and frequency of debtor contacts, timeframes for resolving accounts, and use of legal action and other methods to collect amounts outstanding. | September 2007 | In progress and on track: <ul style="list-style-type: none"> <li>• Work Assessment Checklist and tools have been developed. The initiative will complement performance management products rather than form specific addendum. Documents have been finalized and orientation sessions are underway with field. Union consultation ongoing.</li> </ul> |
| 3. In response to the OAG's recommendation to monitor time spent by collection officers in both cash-generating and non-cash-generating activities, the CRA has already introduced more detailed time reporting on newly established speciality workflows.   | Complete       | Complete (implemented April 2006) <ul style="list-style-type: none"> <li>• An internal order process has been developed and implemented to capture time spent on activities. The process is very detailed and includes all work activities handled by the field.</li> </ul>   |
| 4. The OAG reported that satisfactory progress had been made in respect of four additional items recommended in 1994: <ul style="list-style-type: none"> <li>– Large Debt Collections</li> <li>– Ability To Pay Guidelines</li> <li>– Tracking Results By Officer</li> <li>– Annual Review Of Accounts</li> </ul>  | Complete       | Complete  |

## Remaining PAC Recommendation

PAC Recommendation #5:

**“That the Canada Revenue Agency report on progress on the implementation of this plan in its annual performance report, beginning with the year ending March 31, 2007.”**

| Specific Commitment(s) and Deliverables  | Target Date | Progress   |
|--|-------------|--|
| 5. The Annual Report to Parliament will be modified to include this information. | March 2007  | A progress update will be included in the <i>CRA Annual Report to Parliament 2006-2007</i> . The update focuses on the plan of action for implementing the Agency 2010 strategic vision through branch business transformation to strengthen core debt management business operations. |

## Remaining OAG Recommendations

OAG Recommendation 8.65:

**“The Canada Revenue Agency should minimize the number of collectors who work on each account, record their collection actions in a more systematic way, and improve the case management tools they have at their disposal.”**

The Agency will undertake an initiative to identify file management inefficiencies and improve the effectiveness of collector actions on case inventories.

The Agency will build on process improvements it has made, such as the national collections call centre and national pools, to further improve its file management. More specifically, the Integrated Revenue Collections project will improve the case management tools available to perform all Agency collection activities.

| Specific Commitment(s) and Deliverables  | Target Date    | Progress   |
|--|----------------|--|
| 1. A study of files managed by collectors will be conducted to validate the OAG observations and identify improvements to practices. | September 2007 | <p>Completed:</p> <p>The file reviews have been completed and initial findings on lower value and complexity accounts demonstrated that additional measures are needed to assure quality of work. This item has now been completed insofar as delivering on the management response to this 2006 observation.</p> <p><b>For information:</b> An on-site quality assurance process has been developed for implementation in all offices by April 2008. The appropriate adjustments are being made to processes and budgets.</p> |

## Response to Parliamentary Committees, Audits, and Evaluations for 2006-2007

The following tables outline the CRA's responses to reports by Parliamentary committees and the Auditor General in 2006-2007. They also list the internal audits and evaluations of the CRA that were published in the past year.

| Responses to Parliamentary committee reports   |
|--|
| <p>Report 7 – Chapter 8, Canada Revenue Agency: Collection of Tax Debts of the May 2006 Report of the Auditor General of Canada (Adopted by the Committee on June 13, 2006; Presented to the House on June 21, 2006)</p> <p><a href="http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10466&amp;Lang=1&amp;SourceId=149913">http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10466&amp;Lang=1&amp;SourceId=149913</a></p>                    |
| <p>Government Response: Seventh Report of the Committee on Public Accounts, “Chapter 8, Revenue Canada: Collection of Tax Debts of the May 2006 Report of the Auditor General of Canada” (Presented to the House on September 29, 2006)</p> <p><a href="http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10466&amp;Lang=1&amp;SourceId=172896">http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10466&amp;Lang=1&amp;SourceId=172896</a></p> |
| <p>Report 9 – Parliamentary Review of the Canada Customs and Revenue Agency Act: A Value Proposition or a Failed Experiment? (Adopted by the Committee on December 12, 2006; Presented to the House on December 13, 2006)</p> <p><a href="http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10479&amp;Lang=1&amp;SourceId=195916">http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10479&amp;Lang=1&amp;SourceId=195916</a></p>               |
| <p>Government Response: Ninth Report of the Standing Committee on Finance, “Parliamentary Review of the Canada Customs and Revenue Agency Act: A Value Proposition or a Failed Experiment” (Presented to the House on April 4, 2007)</p> <p><a href="http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10479&amp;Lang=1&amp;SourceId=200519">http://cmte.parl.gc.ca/cmte/CommitteePublication.aspx?COM=10479&amp;Lang=1&amp;SourceId=200519</a></p>    |



The links included below are to the Auditor General reports, which include the CRA's response.

| <b>Responses to Auditor General reports</b>  |  |
|--|--|
| Canada Revenue Agency – Collection of Tax Debts<br><a href="http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20060508ce.html">http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20060508ce.html</a> |  |
| International Taxation – Canada Revenue Agency<br><a href="http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20070207ce.html">http://www.oag-bvg.gc.ca/domino/reports.nsf/html/20070207ce.html</a>  |  |

| <b>Internal audits and evaluations</b>   |   |
|--|---|
| 2005-2006 Selected Fiscal Year-End Procedures Audit  | Information Received under Memorandum of Understanding with respect to Joint Registration of Business – Province of British Columbia                              |
| Benefit Programs Audit   | Information Received under Memorandum of Understanding with respect to the New Brunswick Business Registration Service System                                     |
| Cyclical Audits – T1 Transaction – Flow-through Audit  |   |
| Cyclical Audits – T2 / T4 Transaction – Flow-through Audits  | Information Received under Memorandum of Understanding with the Workplace Health, Safety and Compensation Commission of the Province of Newfoundland and Labrador |
| Follow-up Audit of CRA Contracting Processes   | Information Received under Memorandum of Understanding with the Workplace Safety and Insurance Board of Ontario   |
| Follow-up of 2003-2004 Internal Audit Reports  | Internal Staffing Audit   |
| Governance of the Values and Ethics Environment  |   |
| Impacts of the Government's Secure Channel on CRA Program Delivery   | Large Business Audit Program Audit  |
| Information Received under Memorandum of Understanding with respect to Integrated Business Registration and Change of Business Information – Province of Ontario | Use of Legislated Enforcement Provisions Audit  |

For further information on audits and evaluations please visit: [www.cra-arc.gc.ca/agency/internal/menu-e.html](http://www.cra-arc.gc.ca/agency/internal/menu-e.html).

## Schedule C – Web Links for Additional Information

| Subject   | CRA Web Sites  |
|---|--|
| Annual Report 2005-2006                                   | <a href="http://www.cra-arc.gc.ca/agency/annual/2005-2006/menu-e.html">www.cra-arc.gc.ca/agency/annual/2005-2006/menu-e.html</a>           |
| Board of Management biographies                           | <a href="http://www.cra.gc.ca/agency/board/biographies-e.html">www.cra.gc.ca/agency/board/biographies-e.html</a>                           |
| Canada Child Tax Benefit                                  | <a href="http://www.cra.gc.ca/benefits/cctb/menu-e.html">www.cra.gc.ca/benefits/cctb/menu-e.html</a>                                       |
| CRA Commissioner's biography                              | <a href="http://www.cra.gc.ca/agency/commissioner/menu-e.html">www.cra.gc.ca/agency/commissioner/menu-e.html</a>                           |
| CRA E-services (Government On-Line)                       | <a href="http://www.cra.gc.ca/eservices/gol/menu-e.html">www.cra.gc.ca/eservices/gol/menu-e.html</a>                                       |
| CRA: The First Five Years                                 | <a href="http://www.cra.gc.ca/agency/review/2005/menu-e.html">www.cra.gc.ca/agency/review/2005/menu-e.html</a>                             |
| External (User) Charging Revenues                         | <a href="http://www.cra.gc.ca/users">www.cra.gc.ca/users</a>   |
| GST/HST credit  | <a href="http://www.cra.gc.ca/benefits/gsthst/menu-e.html">www.cra.gc.ca/benefits/gsthst/menu-e.html</a>                                   |
| Information for Newcomers to Canada                       | <a href="http://www.cra.gc.ca/tax/nonresidents/individuals/newcomer-e.html">www.cra.gc.ca/tax/nonresidents/individuals/newcomer-e.html</a> |
| Interactive Information Service                           | <a href="http://www.cra.gc.ca/tax/individuals/topics-index/menu-e.html">www.cra.gc.ca/tax/individuals/topics-index/menu-e.html</a>         |
| Making a Difference                                       | <a href="http://www.cra-arc.gc.ca/agency/difference/menu-e.html">http://www.cra-arc.gc.ca/agency/difference/menu-e.html</a>                |
| Minister of National Revenue                              | <a href="http://www.cra.gc.ca/agency/minister/menu-e.html">www.cra.gc.ca/agency/minister/menu-e.html</a>                                   |
| National Child Benefit                                    | <a href="http://www.cra.gc.ca/benefits/ncb-e.html">www.cra.gc.ca/benefits/ncb-e.html</a>   |
| Summary of Corporate Business Plan 2006-2007 to 2008-2009 | <a href="http://www.cra-arc.gc.ca/agency/business_plans/2006/menu-e.html">www.cra-arc.gc.ca/agency/business_plans/2006/menu-e.html</a>     |
| Service Improvement in CRA                                | <a href="http://www.cra.gc.ca/servicestandards">www.cra.gc.ca/servicestandards</a>   |
| Sustainable Development                                   | <a href="http://www.cra.gc.ca/agency/sustainable/menu-e.html">www.cra.gc.ca/agency/sustainable/menu-e.html</a>                             |
| Taxpayer Bill of Rights                                   | <a href="http://www.cra-arc.gc.ca/agency/fairness/menu-e.html">www.cra-arc.gc.ca/agency/fairness/menu-e.html</a>                           |
| Taxpayer Relief Provisions                                | <a href="http://www.cra.gc.ca/agency/fairness/fair-prov-e.html">www.cra.gc.ca/agency/fairness/fair-prov-e.html</a>                         |
| Taxpayers' Ombudsman                                      | <a href="http://www.cra-arc.gc.ca/agency/ombudsman/menu-e.html">www.cra-arc.gc.ca/agency/ombudsman/menu-e.html</a>                         |
| Voluntary Disclosures Program                             | <a href="http://www.cra.gc.ca/agency/fairness/vdp-e.html">www.cra.gc.ca/agency/fairness/vdp-e.html</a>                                     |

| Subject  | Additional Web Sites   |
|--|--|
| Accenture Report, Leadership in Customer Service | <a href="http://www.accenture.com/Global/Services/By_Industry/Government/R_and_I/BuildingtheTrustES.htm">www.accenture.com/Global/Services/By_Industry/Government/R_and_I/BuildingtheTrustES.htm</a> |
| Access to Information Act                        | <a href="http://laws.justice.gc.ca/en/A-1/">http://laws.justice.gc.ca/en/A-1/</a>  |
| Canada Border Services Agency                    | <a href="http://www.cbsa.gc.ca">www.cbsa.gc.ca</a>   |
| Citizenship and Immigration Canada               | <a href="http://www.cic.gc.ca">www.cic.gc.ca</a>   |
| Department of Finance Canada                     | <a href="http://www.fin.gc.ca">www.fin.gc.ca</a>   |
| Department of Justice Canada                     | <a href="http://www.justice.gc.ca">www.justice.gc.ca</a>   |
| Family Orders and Agreement Enforcement Act      | <a href="http://laws.justice.gc.ca/en/F-1.4/index.html">http://laws.justice.gc.ca/en/F-1.4/index.html</a>  |
| Government of Canada                             | <a href="http://www.canada.gc.ca">www.canada.gc.ca</a>   |
| Government On-Line initiative                    | <a href="http://www.ged-gol.gc.ca/index_e.asp">www.ged-gol.gc.ca/index_e.asp</a>   |
| House of Commons                                 | <a href="http://www.parl.gc.ca">www.parl.gc.ca</a>   |
| Human Resources and Social Development Canada    | <a href="http://www.hrsdc.gc.ca">www.hrsdc.gc.ca</a>   |
| Income Tax Act                                   | <a href="http://laws.justice.gc.ca/en/I-3.3/index.html">http://laws.justice.gc.ca/en/I-3.3/index.html</a>  |
| Management, Resources and Results Structure      | <a href="http://www.tbs.gc.ca/rma/mrrs-sqrr_e.asp">www.tbs.gc.ca/rma/mrrs-sqrr_e.asp</a>   |
| Privacy Act                                      | <a href="http://laws.justice.gc.ca/en/P-21/index.html">http://laws.justice.gc.ca/en/P-21/index.html</a>  |
| The Senate of Canada                             | <a href="http://www.sen.parl.gc.ca/">http://www.sen.parl.gc.ca/</a>  |
| Treasury Board of Canada Secretariat             | <a href="http://www.tbs.gc.ca">www.tbs.gc.ca</a>   |

## Schedule D – Glossary

| Term                              | Description   |
|-----------------------------------|---|
| <b>Accrual accounting</b>         | A method in which revenues and expense transactions are recorded for the period in which they are considered to have been earned and incurred.  |
| <b>Caller accessibility</b>       | A measure of the percentage of callers who succeed in reaching our telephone service.   |
| <b>Cancellation</b>               | The reversal of a penalty or interest that has already been assessed.   |
| <b>Cash receipts</b>              | Money received by the CRA or its agents during the fiscal year ended March 31, the majority of which is deposited to the federal government's Consolidated Revenue Fund. Any money not yet deposited is referred to as 'cash on hand'.  |
| <b>Commodity taxes</b>            | Federal tax collected on the purchase of goods or services by the final consumer.   |
| <b>Compliance</b>                 | Adherence to the law. Total compliance with tax laws includes filing, registration, remittance, and reporting for taxes and benefits in a voluntary, accurate, and timely manner.   |
| <b>Contract Payment Reporting</b> | An initiative that is aimed at deterring underground economic activity by requiring all construction businesses to record payments that are made to subcontractors who provide construction services.   |
| <b>Corporate Business Plan</b>    | Outlines the CRA's major challenges, directions, and objectives for a three-year period; the strategies to achieve those objectives; and the performance measures to be used to measure progress.   |
| <b>Dispute</b>                    | General term to designate a dispute, objection, or appeal to the Minister made by or on behalf of a taxpayer or benefit recipient, related to a CRA decision.   |
| <b>Eligible/entitled</b>          | Meets the requirements to qualify to receive a specific service or payment/credit.  |
| <b>Enforcement</b>                | Actions taken by the CRA to identify and address cases of non-compliance.   |
| <b>Entitlement</b>                | The amount due to an entitled person for a specific period.   |
| <b>Expected results</b>           | Clear and measurable statements of what the CRA expects to achieve over the planning period, against which our performance will be assessed and reported.   |
| <b>Fiscal impact</b>              | Additional tax identified through our compliance activities and includes federal and provincial tax (excluding Quebec), federal tax refund offset, or reduced interest and penalties, and present value of future tax assessable.   |
| <b>Full-time equivalent</b>       | A unit measuring a length of time for employment cost purposes in an operating budget. It includes incidental time necessarily used for annual leave, training, etc.  |
| <b>Governance</b>                 | A comprehensive term that denotes the institutions and processes by which an organization is directed or controlled.  |
| <b>Indicator</b>                  | The qualification or quantification of a characteristic that is measured to assess the extent to which an expected result is achieved. In other words, it is a means of knowing whether or not we have achieved a desired result.   |
| <b>Modified cash accounting</b>   | A method of recording expenses and revenues, that includes payables or receivables at year-end, even though cash may not have been exchanged.   |
| <b>Non-workable file</b>          | A file that is awaiting a court decision, a related file that is pending, a file that is awaiting an opinion from a headquarters appeals office, or (with respect to CPP/EI and tax issues), a file that has been referred to a specialized CPP/EI group for an opinion.  |
| <b>Performance</b>                | A term used to define how well an organization, program, etc., is achieving its planned results, measured against expected results.   |
| <b>Risk</b>                       | The expression of the likelihood of an event to occur that has the potential to impact the achievement of an organization's objectives. Risk is managed by using a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating risk issues. |
| <b>Service level</b>              | The percentage of telephone calls answered within two minutes of when a caller enters the queue.  |

| <b>Term</b>                          | <b>Description</b>  |
|--------------------------------------|---|
| <b>Service standard</b>              | A public statement of the level of performance the CRA is committed to, and that Canadians can reasonably expect to encounter.  |
| <b>Set-off</b>                       | A service provided by the CRA that allows tax refunds and GST/HST credits for individuals to be transferred (set off) to pay debts owed to other federal, provincial, or territorial governments programs.  |
| <b>Small and medium enterprises</b>  | Small Enterprises: Individuals who are in business, trusts, and private corporations with less than \$1 million annual revenues;<br>Medium Enterprises: Individuals with annual revenues greater than \$1 million and corporations with annual revenues between \$1 million and \$50 million. |
| <b>Strategic outcome</b>             | A description of the difference an organization is mandated to make that provides long-term benefits to Canadians.  |
| <b>TAGS</b>                          | The Atlantic Groundfish Strategy – an HRSDC program to provide income support and help displaced fishers and fish plant workers adjust from the groundfish industry to sustainable employment.  |
| <b>TAPS</b>                          | Training Allowance Payment System – an HRSDC program to assist unemployed individuals to acquire skills through training as opposed to receiving Employment Insurance payments.   |
| <b>Tax debt</b>                      | Taxes and other revenues assessed or estimated by the CRA but not yet collected   |
| <b>Taxpayer Relief Provisions</b>    | Legislation introduced in the early 1990s that provides relief (e.g., forgiveness of interest and penalties) to taxpayers in specific circumstances beyond their control.   |
| <b>Underground economy</b>           | Economic activity that is neither reported nor recorded. Thus, payment of due taxes is avoided.   |
| <b>Voluntary Disclosures Program</b> | A program that provides taxpayers with the opportunity to correct past errors or omissions, and to report, without penalty, their tax obligations to the CRA.   |
| <b>Waiver</b>                        | When penalties or interest have not yet been charged, the decision not to charge the amount, either at the taxpayer's request or at the CRA's own initiative.   |
| <b>Write-offs</b>                    | Uncollectible taxes that are deleted from active inventory of accounts receivable, after the CRA has taken all reasonable collection action, and exhausted all possible means of collection.  |

## Schedule E – Acronyms and Abbreviations

| Acronym     | Description                         |
|-------------|-------------------------------------|
| <b>CAP</b>  | Core Audit Program                  |
| <b>CBSA</b> | Canada Border Services Agency       |
| <b>CCTB</b> | Canada Child Tax Benefit            |
| <b>CEO</b>  | Chief Executive Officer             |
| <b>CPP</b>  | Canada Pension Plan                 |
| <b>CRA</b>  | Canada Revenue Agency               |
| <b>CSA</b>  | Children's Special Allowances       |
| <b>DTC</b>  | Disability Tax Credit               |
| <b>EI</b>   | Employment Insurance                |
| <b>FTE</b>  | Full-Time Equivalent                |
| <b>GST</b>  | Goods and Services Tax              |
| <b>HST</b>  | Harmonized Sales Tax                |
| <b>IT</b>   | Information Technology              |
| <b>MAF</b>  | Management Accountability Framework |

| Acronym          | Description                                      |
|------------------|--|
| <b>N/A</b>       | Not applicable                                   |
| <b>n/a</b>       | Not available                                    |
| <b>NCB</b>       | National Child Benefit                           |
| <b>PA</b>        | Program Activity                                 |
| <b>SME</b>       | Small and Medium Enterprise                      |
| <b>SR&amp;ED</b> | Scientific Research and Experimental Development |
| <b>T1</b>        | Income Tax and Benefit Return for individuals    |
| <b>T2</b>        | Corporation Income Tax Return                    |
| <b>T4</b>        | Statement of earnings and employer deductions    |
| <b>TBS</b>       | Treasury Board of Canada Secretariat             |
| <b>TSO</b>       | Tax Services Office                              |
| <b>UCCB</b>      | Universal Child Care Benefit                     |
| <b>VDP</b>       | Voluntary Disclosures Program                    |



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# Financial Statements





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## Statement of Management Responsibility


We have prepared the accompanying financial statements of the Canada Revenue Agency according to the accounting principles consistent with those applied in preparing the financial statements of the Government of Canada. Significant accounting policies are set out in Note 2 to the financial statements. Some of the information included in the financial statements, such as accruals, and the allowance for doubtful accounts, is based on management's best estimates and judgments with due consideration to materiality. The Agency's management is responsible for the integrity and objectivity of data in these financial statements. Financial information submitted to the *Public Accounts of Canada* and included in the Agency's *Annual Report* is consistent with these financial statements.

To fulfill its accounting and reporting responsibilities, management maintains sets of accounts, which provide a record of the Agency's financial transactions. Management also maintains financial management and internal control systems that take into account costs, benefits, and risks. They are designed to provide reasonable assurance that transactions are within the authorities provided by Parliament and by others such as the provinces and territories, and are executed in accordance with prescribed regulations and the *Financial Administration Act* and properly recorded to maintain the accountability of funds and safeguarding of assets. Financial management and internal control systems are reinforced by the maintenance of internal audit programs. The Agency also seeks to assure the objectivity and integrity of data in its financial statements by the careful selection, training, and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that its regulations, policies, standards, and managerial authorities are understood throughout the organization.

The Board of Management is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board of Management. To assure objectivity and freedom from bias, these financial statements have been reviewed by the Audit Committee and approved by the Board of Management. The Audit Committee is independent of management and meets with management, the internal auditors, and the Auditor General of Canada on a regular basis. The auditors have full and free access to the Audit Committee.

The Auditor General of Canada conducts an independent audit and expresses opinions on the accompanying financial statements.

Approved by:



William V. Baker  
Commissioner and Chief Executive Officer



James Ralston  
Chief Financial Officer and Assistant  
Commissioner, Finance and Administration

Ottawa, Ontario  
August 22, 2007



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## **Audited Financial Statements – Agency Activities**





## AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency  
and the Minister of National Revenue

I have audited the statement of financial position – Agency Activities of the Canada Revenue Agency as at March 31, 2007 and the statements of operations, net liabilities and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency Activities of the Canada Revenue Agency as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
August 22, 2007





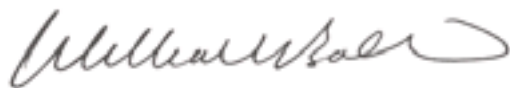
## Canada Revenue Agency Statement of Financial Position – Agency Activities

As at March 31  
(in thousands of dollars)

|   | <b>2007</b>      | <b>2006</b>      |
|---|------------------|------------------|
| <b>ASSETS</b>                                 |                  |                  |
| <b>Financial assets</b>                       |                  |                  |
| Cash  | 133              | 134              |
| Due from the Consolidated Revenue Fund        | 363,669          | 241,918          |
| Accounts receivable (Note 4)                  | 193,403          | 13,342           |
|   | <b>557,205</b>   | <b>255,394</b>   |
| <b>Non-financial assets</b>                   |                  |                  |
| Prepaid expenses                              | 15,531           | 13,549           |
| Capital assets (Note 5)                       | 389,753          | 332,225          |
|   | <b>405,284</b>   | <b>345,774</b>   |
| <b>TOTAL</b>                                  | <b>962,489</b>   | <b>601,168</b>   |
| <b>LIABILITIES</b>                            |                  |                  |
| Accrued salaries                              | 101,309          | 92,657           |
| Accounts payable and accrued liabilities      | 280,404          | 167,048          |
| Lease obligations for capital assets (Note 6) | 2,510            | 2,379            |
| Vacation pay and compensatory leave           | 152,301          | 145,911          |
| Employee severance benefits (Note 7)          | 495,031          | 460,998          |
| Other liabilities                             | 1,367            | 1,110            |
|   | <b>1,032,922</b> | <b>870,103</b>   |
| <b>NET LIABILITIES</b> (Note 8)               | <b>(70,433)</b>  | <b>(268,935)</b> |
| <b>TOTAL</b>                                  | <b>962,489</b>   | <b>601,168</b>   |

Contingent liabilities (Note 13) and contractual obligations (Note 14)  
*The accompanying notes are an integral part of these financial statements.*

Approved by:



\_\_\_\_\_  
William V. Baker  
Commissioner and Chief Executive Officer



\_\_\_\_\_  
Connie I. Roveto, ICD.D  
Chair, Board of Management

## Canada Revenue Agency Statement of Operations – Agency Activities

for the year ended March 31  
(in thousands of dollars)

|  | 2007             | 2006             |
|--|------------------|------------------|
| <b>EXPENSES</b> (Note 9)                     |                  |                  |
| Reporting compliance                         | 1,346,148        | 1,357,366        |
| Assessment of returns and payment processing | 916,301          | 915,044          |
| Filing and remittance compliance             | 871,132          | 882,871          |
| Client assistance                            | 395,574          | 382,185          |
| Benefit programs                             | 169,263          | 161,477          |
| Appeals                                      | 164,502          | 161,742          |
| <b>TOTAL EXPENSES</b>                        | <b>3,862,920</b> | <b>3,860,685</b> |
| <b>NON-TAX REVENUE</b> (Note 10)             |                  |                  |
| Reporting compliance                         | 51,345           | 40,457           |
| Assessment of returns and payment processing | 104,138          | 91,205           |
| Filing and remittance compliance             | 185,297          | 132,968          |
| Client assistance                            | 42,294           | 29,666           |
| Benefit programs                             | 14,008           | 12,437           |
| Appeals                                      | 17,291           | 11,996           |
| <b>TOTAL NON-TAX REVENUE</b>                 | <b>414,373</b>   | <b>318,729</b>   |
| <b>NET COST OF OPERATIONS</b>                | <b>3,448,547</b> | <b>3,541,956</b> |

*The accompanying notes are an integral part of these financial statements.*

## Canada Revenue Agency Statement of Net Liabilities – Agency Activities

for the year ended March 31  
(in thousands of dollars)

|  | 2007            | 2006             |
|--|-----------------|------------------|
| Net liabilities, beginning of year   | (268,935)       | (112,635)        |
| Net cost of operations   | (3,448,547)     | (3,541,956)      |
| Current year Parliamentary appropriations used (Note 3(a))                                   | 3,201,564       | 3,177,265        |
| Non-tax revenue not credited to Vote 1 (Note 3(c))   | (184,451)       | (165,355)        |
| Net cash provided not affecting appropriations in the current year (Note 3(c))               | 71,889          | (59,596)         |
| Services received without charge from other government agencies<br>and departments (Note 11) | 436,296         | 475,458          |
| Change in Due from the Consolidated Revenue Fund   | 121,751         | (42,116)         |
| <b>Net liabilities, end of year</b>  | <b>(70,433)</b> | <b>(268,935)</b> |

*The accompanying notes are an integral part of these financial statements.*

## Canada Revenue Agency Statement of Cash Flow – Agency Activities

for the year ended March 31  
(in thousands of dollars)

|   | 2007             | 2006             |
|---|------------------|------------------|
| <b>Operating activities</b>   |                  |                  |
| Net cost of operations  | 3,448,547        | 3,541,956        |
| <b>Items not affecting cash</b>   |                  |                  |
| Amortization of capital assets  | (58,006)         | (53,603)         |
| Net loss on disposal/write-off of capital assets  | (484)            | (8,158)          |
| Services received without charge from other government agencies and departments (Note 11) | (436,296)        | (475,458)        |
| Change in financial assets other than Due from the Consolidated Revenue Fund              | 180,060          | (106,734)        |
| Change in prepaid expenses  | 1,982            | (156)            |
| Change in liabilities other than lease obligations for capital assets                     | (162,688)        | (46,987)         |
| <b>Cash used by operating activities</b>  | <b>2,973,115</b> | <b>2,850,860</b> |
| <b>Capital investing activities</b>   |                  |                  |
| Acquisition of capital assets funded by current year appropriations (Note 3 (b))          | 113,604          | 99,111           |
| Acquisition of capital assets not funded by current year appropriations                   | 2,464            | 4,375            |
| Change in lease obligations for capital assets  | (131)            | (1,904)          |
| Proceeds from disposal of capital assets  | (50)             | (128)            |
| <b>Cash used by capital investing activities</b>  | <b>115,887</b>   | <b>101,454</b>   |
| <b>Net cash provided by the Government of Canada</b>                                      | <b>3,089,002</b> | <b>2,952,314</b> |

*The accompanying notes are an integral part of these financial statements.*

# Notes to the Financial Statements – Agency Activities

## 1. Authority and objectives

The Canada Revenue Agency (the “Agency”) previously named the Canada Customs and Revenue Agency was established as an agent of Her Majesty of Canada on November 1, 1999, under the *Canada Customs and Revenue Agency Act (CCRA Act)*. The *CCRA Act* was amended, on December 12, 2005, and renamed the *Canada Revenue Agency Act (CRA Act)*. The Agency is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the Agency is to support the administration and enforcement of tax legislation as well as other related legislation. The Agency provides support, advice, and services by:

- (a) supporting the administration and enforcement of program legislation;
- (b) implementing agreements between the Government of Canada or the Agency and the government of a province or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the Agency and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The Agency collects revenues, including income and sales taxes, Canada Pension Plan contributions, Employment Insurance premiums, administers tax legislation, and delivers a number of social benefit programs to Canadians for the Federal government, as well as for provincial, territorial, and First Nations governments and collects amounts for other groups or organizations. It is responsible for the administration and enforcement of the following acts or parts of acts: *Air Travellers Security Charge Act*, the *CRA Act*, the *Children’s Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the Goods and Services Tax (GST) and the Harmonized Sale Tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others.

The Agency’s mandate regarding the administration of customs legislation is now limited to the collection functions under Part V.1 of the *Customs Act*. As well, effective August 1, 2005, the Agency provides to the Department of Human Resources and Social Development Canada (HRSDC) collection services for certain accounts receivable under various acts.

In delivering its mandate, the Agency operates under the following program activities:

- (a) Reporting compliance: Ensures complete and accurate disclosure by taxpayers of all required information to establish tax liabilities; increases taxpayers’ understanding of their tax obligations through outreach activities, client service and education; identifies and addresses non-compliance through risk assessment, audit and investigation; and establishes strategic partnerships with stakeholders to leverage compliance efforts.
- (b) Assessment of returns and payment processing: Provides assistance and information to clients; processes returns for tax programs; registers businesses in Canada; processes, assesses and validates information; establishes and maintains account status; manages excise programs; receives payments; and reviews and assesses business processes of the Agency.
- (c) Filing and remittance compliance: Identifies and addresses non-compliance with filing and remitting requirements.
- (d) Client assistance: Assists individuals, businesses, charities and registered plans in meeting their obligations under tax legislation by providing information, education and outreach services and by responding to enquiries.
- (e) Benefit programs: Delivers certain income-based benefits, credits and other services to low- and moderate-income Canadians on behalf of federal, provincial (except Quebec), and territorial governments.
- (f) Appeals: Provides a dispute resolution process for clients who disagree with decisions taken by the Agency.

## 2. Summary of significant accounting policies

For financial reporting purposes, the activities of the Agency have been divided into two sets of financial statements: Agency Activities and Administered Activities. The financial statements – Agency Activities include those operational revenues and expenses, which are managed by the Agency and utilized in running the organization. The financial statements – Administered Activities include those revenues and expenses that are administered for someone other than the Agency, such as the federal government, a province or territory, or another group or organization. The purpose of the distinction between Agency and Administered activities is to facilitate, among other things, the assessment of the administrative efficiency of the Agency in achieving its mandate.

As required by section 88(2)(a) of the *CRA Act*, the financial statements – Agency Activities have been prepared using accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The accounting principles used are consistent with Canadian generally accepted accounting principles for the public sector. A summary of significant accounting policies follows:

### (a) Parliamentary appropriations

The Agency is financed by the Government of Canada through Parliamentary appropriations. Accounting for appropriations provided to the Agency does not parallel financial reporting according to Canadian generally accepted accounting principles, as they are based in large part on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position may be different from those provided through appropriations from Parliament. Note 3(b) provides a high-level reconciliation between the two bases of reporting.

### (b) Net cash provided by the Government of Canada

The Agency operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash receipts are deposited to the CRF and all cash disbursements are paid from the CRF. The net cash provided by government is the difference between all cash receipts and all cash disbursements including transactions with departments and agencies.

### (c) Expense recognition

Expenses are recognized when goods are received and/or services are rendered.

### (d) Services received without charge from other government agencies and departments

Estimates of the cost for services received without charge from other government agencies and departments are included in expenses.

### (e) Revenue recognition

Non-tax revenue is recognized when the services are rendered by the Agency. Non-tax revenue reported in this statement excludes administered revenues such as interest and penalties collected under the authority of the *Income Tax Act*, the *Excise Act*, the *Excise Tax Act*, or other similar legislation.

### (f) Capital Assets

All costs of \$10,000 or more incurred by the Agency to acquire or develop capital assets are capitalized and amortized over the useful lives of the assets. Similar items under \$10,000 are expensed.

Amortization of capital assets is done on a straight-line basis over the estimated useful lives of assets as follows:

| Asset class                                | Useful life       |
|--|-------------------|
| Machinery, equipment, and furniture        | 10 years          |
| In-house developed software                | 7 years           |
| Vehicles and other means of transportation | 5 years           |
| Information technology equipment           | 5 years           |
| Purchased software                         | 3 years           |
| Leased capital assets                      | Term of the lease |

Assets under construction/development are not amortized until completed and put into operation.

### (g) Due from the Consolidated Revenue Fund (CRF)

Due from the CRF represents the amount of cash that the Agency is entitled to draw from the CRF without further appropriations to discharge its liabilities. These amounts have been charged to current or prior years' appropriations, but will be paid in the future and include items such as accrued employee salaries, accounts payable, and accrued liabilities.

**(h) Employee future benefits****(i) Pension benefits**

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Agency's contributions reflect the full cost as employer. These amounts are currently based on a multiple of an employee's required contributions and may change over time depending on the experience of the Plan. The Agency's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Agency. Current legislation does not require the Agency to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

**(ii) Severance benefits**

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The obligation resulting from the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

**(i) Vacation pay and compensatory leave**

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.

**(j) Employee benefit plan**

The Government of Canada sponsors an employee benefit plan (health and dental) in which the Agency participates. The Agency's contributions to the plan are recorded at cost and charged to personnel expenses in the year incurred. They represent the Agency's total obligation to the plan. Current legislation does not require the Agency to make contributions for any future unfunded liabilities of the plan.

**(k) Contingent liabilities**

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

**(l) Measurement uncertainty**

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported on the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance benefits, contingent liabilities, the useful life of capital assets and services received without charge are the most significant items where estimates are used. Actual results could differ significantly from the current estimates. The estimates are reviewed periodically and, as adjustments become necessary, they are reported in the financial statements in the period in which they become known.

### 3. Parliamentary appropriations

The Agency receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary appropriations in prior, current, or future years. Accordingly, the Agency has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled below.

(a) Reconciliation of Parliamentary appropriations provided and used:

|  | <b>2007</b>               | <b>2006</b>      |
|--|---------------------------|------------------|
|  | (in thousands of dollars) |                  |
| Parliamentary appropriations — provided:                               |                           |                  |
| Vote 1 – CRA operating expenditures                                    | 2,890,491                 | 2,598,979        |
| Vote 5 – CRA contributions <sup>1</sup>                                | –                         | 148,726          |
| Statutory contributions to employee benefits plans                     | 385,489                   | 406,182          |
| Amounts available for spending per section 60(2) of the <i>CRA Act</i> | 134,446                   | 129,357          |
| Spending of proceeds from disposal of surplus Crown assets             | 210                       | 407              |
| Statutory expenditures:  |                           |                  |
| Children’s Special Allowance Payments <sup>2</sup>                     | 197,768                   | 169,611          |
| Energy Cost Benefit <sup>2</sup>                                       | 4,073                     | 357,654          |
| Private collection agency fees <sup>3</sup>                            | 12,377                    | –                |
| Other  | 992                       | 903              |
|  | <b>3,625,846</b>          | <b>3,811,819</b> |
| Less:  |                           |                  |
| Appropriations available for future years <sup>4</sup> :               |                           |                  |
| Operating  | (167,724)                 | (83,399)         |
| Contributions <sup>1</sup>   | –                         | (17,323)         |
| Appropriation lapsed <sup>4</sup>                                      | (52,998)                  | (3,683)          |
| Expenditures related to Administered Activities <sup>2</sup>           | (203,560)                 | (530,149)        |
|  | <b>(424,282)</b>          | <b>(634,554)</b> |
| <b>Total Parliamentary appropriations used</b>                         | <b>3,201,564</b>          | <b>3,177,265</b> |

<sup>1</sup> Starting in 2006-2007, payments to the Province of Quebec in respect of the joint administration costs of Federal and Provincial sales taxes, previously displayed as Vote 5 – Contributions, are now included in Vote 1 – Program expenditures.

<sup>2</sup> In accordance with the division of activities for financial reporting purposes outlined in Note 2, the ex-gratia payments for Relief for Heating Expense, which were authorized through Vote 1 – CRA (Operating expenditures), as well as the payments for Children’s Special Allowance and Energy Cost Benefit, are reported as federal administered expenses on the Statement of Administered Expenses and Recoveries of the Agency’s Administered Activities financial statements.

<sup>3</sup> Payments to private collection agencies pursuant to Section 17.1 of the *Financial Administration Act* as a result of the transfer of the National Collection Services from HRSDC.

<sup>4</sup> Pursuant to section 60(1) of the *CRA Act*, the balance of money appropriated by Parliament for the use of the Agency that remains unexpended at the end of the fiscal year lapses at the end of the following fiscal year.



(b) Reconciliation of net cost of operations to total Parliamentary appropriations used:

|   | <b>2007</b>               | <b>2006</b>             |
|---|---------------------------|-------------------------|
|   | (in thousands of dollars) |                         |
| Net cost of operations  | 3,448,547                 | 3,541,956               |
| Expenses not requiring use of current year appropriations:                                |                           |                         |
| Amortization of capital assets  | (58,006)                  | (53,603)                |
| Adjustment to prior years' accruals   | 1,660                     | 4,894                   |
| Loss on disposal/write-off of capital assets  | (514)                     | (8,272)                 |
| Services received without charge from other government agencies and departments (Note 11) | (436,296)                 | (475,458)               |
| Other   | (13,441)                  | (11,877)                |
|   | <u>(506,597)</u>          | <u>(544,316)</u>        |
| Asset acquisitions funded by current year appropriations:                                 |                           |                         |
| Capital assets  | 113,604                   | 99,111                  |
| Prepaid expenses  | 1,982                     | 3,266                   |
|   | <u>115,586</u>            | <u>102,377</u>          |
| Net changes in future funding requirements:   |                           |                         |
| Employee severance benefits   | (34,033)                  | (88,526)                |
| Vacation pay and compensatory leave   | (6,390)                   | (20,965)                |
| Accrued salaries  | -                         | 21,384                  |
|   | <u>(40,423)</u>           | <u>(88,107)</u>         |
| Non-tax revenue (Note 10):  |                           |                         |
| Non-tax revenue available for spending  | 134,120                   | 127,858                 |
| Non-tax revenue not available for spending  | 50,331                    | 37,497                  |
|   | <u>184,451</u>            | <u>165,355</u>          |
| <b>Total Parliamentary appropriations used</b>  | <b><u>3,201,564</u></b>   | <b><u>3,177,265</u></b> |

(c) Reconciliation of net cash provided by the Government of Canada to Parliamentary appropriations used:

|  | <b>2007</b>               | <b>2006</b>             |
|--|---------------------------|-------------------------|
|  | (in thousands of dollars) |                         |
| Net cash provided by Government of Canada  | 3,089,002                 | 2,952,314               |
| Non-tax revenue (Note 10)  |                           |                         |
| Non-tax revenue available for spending   | 134,120                   | 127,858                 |
| Non-tax revenue not available for spending   | 50,331                    | 37,497                  |
|  | <u>184,451</u>            | <u>165,355</u>          |
| Net cash provided not affecting appropriations in the current year:                          |                           |                         |
| Net changes in accounts payable, accrued liabilities, accrued salaries and other liabilities | 122,265                   | (41,120)                |
| Net changes in cash and accounts receivable  | (180,060)                 | 106,734                 |
| Other adjustments  | (14,094)                  | (6,018)                 |
|  | <u>(71,889)</u>           | <u>59,596</u>           |
| <b>Total Parliamentary appropriations used</b>   | <b><u>3,201,564</u></b>   | <b><u>3,177,265</u></b> |

#### 4. Accounts receivable

|                                       | 2007                      | 2006          |
|---------------------------------------|---------------------------|---------------|
|                                       | (in thousands of dollars) |               |
| Accounts receivable – Related parties | 187,991                   | 8,044         |
| Accounts receivable – External        | 1,039                     | 924           |
| Advances to employees                 | 2,193                     | 2,093         |
| Salary overpayments                   | 2,548                     | 2,556         |
|                                       | 193,771                   | 13,617        |
| Less: Allowance for doubtful accounts | (368)                     | (275)         |
|                                       | <b>193,403</b>            | <b>13,342</b> |

Effective March 27, 2007, costs relating to Employment Insurance (EI) are recovered directly from the EI Account. Accounts receivable – Related parties includes \$152,354,000 receivable from the EI Account and consequently payments received from HRSDC during the year are being reimbursed and have been recorded in accounts payable.

#### 5. Capital assets

|   | (in thousands of dollars) |                           |                |                          |                     |                     |
|---|---------------------------|---------------------------|----------------|--------------------------|---------------------|---------------------|
| Asset Class   | Opening costs             | Net additions (disposals) | Closing costs  | Accumulated amortization | 2007 Net book value | 2006 Net book value |
| Machinery, equipment and furniture                                | 14,325                    | 745                       | 15,070         | 10,307                   | 4,763               | 4,437               |
| Software (purchased and in-house developed and/or in development) | 290,070                   | 88,054                    | 378,124        | 83,880                   | 294,244             | 234,145             |
| Vehicles and other means of transportation                        | 2,021                     | 406                       | 2,427          | 1,193                    | 1,234               | 1,118               |
| Information technology equipment including leased assets (Note 6) | 224,135                   | 19,507                    | 243,642        | 154,130                  | 89,512              | 92,525              |
| <b>Total</b>  | <b>530,551</b>            | <b>108,712</b>            | <b>639,263</b> | <b>249,510</b>           | <b>389,753</b>      | <b>332,225</b>      |

The costs of assets under construction or development, which are not amortized, are \$190,595,511 in software and \$741,797 in information technology equipment as at March 31, 2007 (\$110,191,903 and \$741,797 respectively as at March 31, 2006). The amortization expense for the year is \$58,005,644 (2006 – \$53,603,315).

#### 6. Lease obligations for capital assets

The Agency has entered into agreements to rent information technology equipment under capital leases with a cost of \$3,761,926 and accumulated amortization of \$1,142,820 as at March 31, 2007 (\$2,612,160 and \$163,260 respectively as at March 31, 2006). The obligations for the upcoming years include the following:

|  | 2007                      | 2006         |
|--|---------------------------|--------------|
|  | (in thousands of dollars) |              |
| 2006-2007  | –                         | 1,032        |
| 2007-2008  | 1,823                     | 1,032        |
| 2008-2009  | 761                       | 430          |
| Total future minimum lease payments                    | 2,584                     | 2,494        |
| Less: imputed interest (4%)                            | 74                        | 115          |
| <b>Balance of lease obligations for capital assets</b> | <b>2,510</b>              | <b>2,379</b> |

## 7. Employee future benefits

### (a) Pension benefits

The Agency and all eligible employees contribute to the Public Service Pension Plan, which is sponsored by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Quebec Pension Plans benefits and they are indexed to the increase in the Consumer Price Index.

The Agency's and employees' contributions to the Public Service Pension Plan for the year were as follows:

|                          | <b>2007</b>               | <b>2006</b> |
|--------------------------|---------------------------|-------------|
|                          | (in thousands of dollars) |             |
| Agency's contributions   | 284,105                   | 300,575     |
| Employees' contributions | 119,018                   | 109,087     |

The Agency's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

### (b) Severance benefits

The Agency provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

|   | <b>2007</b>               | <b>2006</b>    |
|---|---------------------------|----------------|
|   | (in thousands of dollars) |                |
| Employee severance benefits, beginning of year  | 460,998                   | 372,472        |
| Cost for the year                               | 67,084                    | 113,936        |
| Benefits paid during the year                   | (33,051)                  | (25,410)       |
| <b>Employee severance benefits, end of year</b> | <b>495,031</b>            | <b>460,998</b> |

## 8. Net liabilities

Net liabilities represents liabilities incurred by the Agency, net of non-financial assets, which have not yet been funded through appropriations. Significant components of these amounts are employee severance benefits, vacation pay and compensatory leave, and accrued employee salaries. These amounts are expected to be funded by appropriations in future years as they are paid.

## 9. Expenses by category

In the Statement of Operations, expenses are presented by program activity. The following presents expenses by category.

|   | 2007                      | 2006                    |
|---|---------------------------|-------------------------|
|   | (in thousands of dollars) |                         |
| Personnel   |                           |                         |
| Salaries  | 1,991,198                 | 1,943,012               |
| Other allowances and benefits (including employee benefits described in Note 7) | 848,281                   | 935,722                 |
|   | <u>2,839,479</u>          | <u>2,878,734</u>        |
| Accommodation   | 225,335                   | 214,928                 |
| Professional and special services   | 186,574                   | 167,535                 |
| Transportation and communications   | 180,124                   | 166,234                 |
| Federal sales tax administration costs by the Province of Quebec                | 157,369                   | 131,403                 |
| Repair and maintenance  | 84,048                    | 87,634                  |
| Equipment purchases   | 61,084                    | 72,043                  |
| Amortization of capital assets  | 58,006                    | 53,603                  |
| Materials and supplies  | 38,163                    | 45,392                  |
| Other services  | 17,763                    | 21,825                  |
| Equipment and other rentals   | 7,242                     | 6,794                   |
| Advertising, printing, and related services                                     | 5,210                     | 4,998                   |
| Other expenses  | 2,009                     | 1,290                   |
| Loss on disposal/write-off of capital assets                                    | 514                       | 8,272                   |
| <b>TOTAL EXPENSES</b>   | <b><u>3,862,920</u></b>   | <b><u>3,860,685</u></b> |

## 10. Non-tax revenue by category

In the Statement of Operations, non-tax revenues are presented by program activity. The following presents non-tax revenues by category. The nature of each category is defined by the treatment permitted from a Parliamentary appropriations perspective.

|  | 2007                      | 2006                  |
|--|---------------------------|-----------------------|
|  | (in thousands of dollars) |                       |
| <b>Non-tax revenue credited to Vote 1 – CRA (Operating expenditures)</b> |                           |                       |
| Fees for administering the <i>Employment Insurance Act</i>               | 124,347                   | 77,798                |
| Fees for administering the <i>Canada Pension Plan</i>                    | 105,575                   | 75,576                |
|  | <u>229,922</u>            | <u>153,374</u>        |
| <b>Non-tax revenue available for spending</b>                            |                           |                       |
| Administration fees – provinces and territories                          | 30,369                    | 29,827                |
| Services fees  | 100,493                   | 95,151                |
| Ruling fees  | 2,071                     | 1,888                 |
| Miscellaneous spendable revenue  | 1,187                     | 992                   |
|  | <u>134,120</u>            | <u>127,858</u>        |
| <b>Non-tax revenue not available for spending</b>                        |                           |                       |
| Recovery of employee benefit costs                                       | 41,617                    | 34,967                |
| Miscellaneous non-tax revenue  | 8,714                     | 2,530                 |
|  | <u>50,331</u>             | <u>37,497</u>         |
| <b>TOTAL NON-TAX REVENUE</b>   | <b><u>414,373</u></b>     | <b><u>318,729</u></b> |

## 11. Related party transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Agency also receives services, which are obtained without charge from other government departments as presented in part (a). All related party transactions entered into by the Agency are in the normal course of business and on normal trade terms applicable to all individuals and enterprises.

### (a) Services received without charge from other government agencies and departments:

During the year, the Agency received various services without charge from other government agencies and departments. These services include:

|  | 2007                      | 2006           |
|--|---------------------------|----------------|
|  | (in thousands of dollars) |                |
| Accommodation – Public Works and Government Services Canada (PWGSC)  | 225,335                   | 214,928        |
| Employer's contribution to the health insurance plan and employee benefit plans – Treasury Board Secretariat (TBS) | 158,610                   | 177,879        |
| Legal services – Justice Canada  | 46,800                    | 50,828         |
| Administration of National Collection Services – HRSDC <sup>1</sup>  | –                         | 25,951         |
| Audit services – Office of the Auditor General of Canada   | 2,110                     | 2,210          |
| Workers' compensation benefits – HRSDC   | 1,806                     | 2,120          |
| Payroll services – PWGSC   | 1,635                     | 1,542          |
|  | <b>436,296</b>            | <b>475,458</b> |

<sup>1</sup> Effective August 1, 2005, the control and supervision of the National Collection Services (NCS) were transferred from HRSDC to the Agency. The financial authorities of NCS were transferred to the Agency as of April 1, 2006, and consequently these expenses are no longer reported as services received without charge.

### (b) Payables and receivables outstanding at year-end with related parties:

|                     | 2007                      | 2006  |
|---------------------|---------------------------|-------|
|                     | (in thousands of dollars) |       |
| Accounts receivable | 187,991                   | 8,044 |
| Accounts payable    | 126,101                   | 8,749 |

## 12. Board of Management

Pursuant to the *CRA Act*, a Board of Management is appointed to oversee the organization and administration of the Agency and the management of its resources, services, property, personnel and contracts. Expenses relating to the Board's activities during the year total \$1,406,487 (2006 – \$1,185,094) and are included in the net cost of operations. This includes payments in respect of the Board of Management, secretariat staff personnel, travel, and other expenses.

## 13. Contingent liabilities

The Agency is a defendant in certain cases of pending and threatened litigation which arose in the normal course of operations. The current best estimate of the amount to be paid in respect of the cases identified as likely to be lost has been recorded in Accounts payable and accrued liabilities. All other cases, excluding those assessed as unlikely to be lost, are considered contingent liabilities and the related amounts are disclosed whenever the amount of the contingency can be reasonably estimated. As at March 31, 2007, contingent liabilities for claims and pending and threatened litigation have been estimated at \$61,571,000 (\$49,019,000 as at March 31, 2006).

#### 14. Contractual obligations

The nature of the Agency's activities can result in multiyear contracts and obligations whereby the Agency will be committed to make future payments when the goods are received and/or the services are rendered. Significant contractual obligations, other than lease obligations for capital assets (Note 6), that can be reasonably estimated are as follows:

|                  | 2008         | 2009       | 2010                      | 2011      | 2012<br>and thereafter | Total        |  |
|------------------|--------------|------------|---------------------------|-----------|------------------------|--------------|--|
|                  |              |            |                           |           |                        |              |  |
|                  |              |            | (in thousands of dollars) |           |                        |              |  |
| Operating leases | 1,151        | 337        | 114                       | 45        | 14                     | 1,661        |  |
| <b>Total</b>     | <b>1,151</b> | <b>337</b> | <b>114</b>                | <b>45</b> | <b>14</b>              | <b>1,661</b> |  |

#### 15. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

# Management Discussion and Analysis – Agency Activities

## Introduction

This section of the Financial Statements provides unaudited supplementary information on Agency Activities, as reported in the audited Statement of Operations – Agency Activities. The information is on an accrual basis.

## Agency Management

The moderate increase in Agency expenditures from 2005-2006 to 2006-2007 is the result of new initiatives announced in recent Federal Budgets as well as collective agreement increases for salaries offset by a decrease in the cost of employee allowances and benefits, as detailed in the analysis below.

The increase in non-tax revenue is primarily attributable to an increase in the fees charged for administering the *Canada Pension Plan* and the *Employment Insurance Act*.

## Analysis of Net Cost of Operations

The Agency's 2006-2007 net cost of operations decreased by \$93 million over 2005-2006. Agency expenses totalled \$3,863 million in 2006-2007 and \$3,861 million in 2005-2006 (see Note 9 of the Financial Statements – Agency Activities for the breakdown of personnel and other expenses). When adjusted for non-tax revenue of \$414 million (2005-2006 – \$319 million), the net cost of operations becomes:

| (in thousands of dollars)     | 2007             | 2006             |
|-------------------------------|------------------|------------------|
| Personnel expenses            | 2,839,479        | 2,878,734        |
| Other expenses                | 1,023,441        | 981,951          |
| <b>Total expenses</b>         | <b>3,862,920</b> | <b>3,860,685</b> |
| Less: non-tax revenue         | 414,373          | 318,729          |
| <b>Net cost of operations</b> | <b>3,448,547</b> | <b>3,541,956</b> |

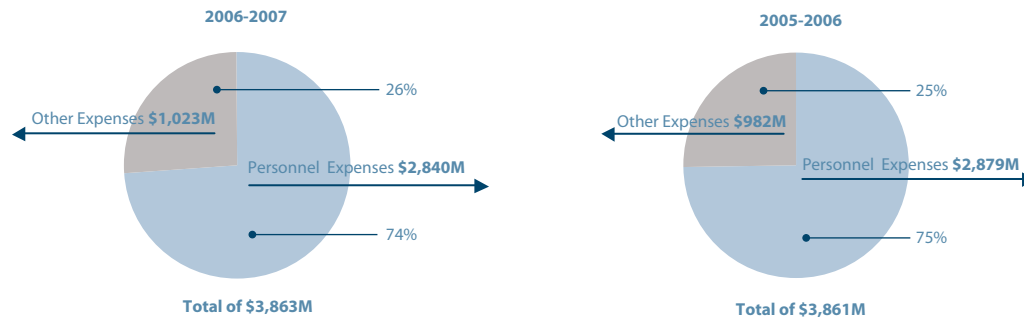
The Agency's expenses, as detailed in the Statement of Operations, are made up of approximately 74% in personnel expenses (salaries, other allowances and benefits) and 26% in other expenses, as illustrated in the exhibit below.

Personnel expenses are the primary drivers for the Agency. A number of factors had a significant impact on the net decrease of \$39 million in personnel expenses in 2006-2007 from 2005-2006. These include a decrease in the costs of employee benefits (such as superannuation and severance benefits), partly offset by increased salary costs to address initiatives from recent Federal Budgets and other initiatives such as interdepartmental services provision, Corporate Tax Administration for Ontario, the administration of the *Softwood Lumber Products Export Charge Act, 2006*, as well as collective agreement increases.

Other expenses increased by \$41 million. This is due mainly to federal sales tax administration costs by the Province of Quebec which increased by some \$26 million over 2005-2006 and to payments to private collection agencies in the amount of \$12.4 million for the collection of certain accounts receivable. The remaining portion of other expenses is linked to personnel expenses (e.g., travel for auditors, computers, accommodation, furniture replacement, etc.).

Non-tax revenue increased by some \$96 million in 2006-2007 over 2005-2006. The increase is primarily attributable to an increase in fees charged for administering the *Canada Pension Plan* and the *Employment Insurance Act*. The Agency received approval from Treasury Board to increase these fees to better reflect the true costs of administering these programs.

**Figure 23** Total Expenses





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## **Canada Revenue Agency Financial Statements – Administered Activities**





## AUDITOR'S REPORT

To the Board of Management of the Canada Revenue Agency  
and the Minister of National Revenue

I have audited the statement of administered assets and liabilities of the Canada Revenue Agency as at March 31, 2007 and the statements of administered revenues, administered expenses and recoveries and administered cash flows for the year then ended. This financial information is the responsibility of the Agency's management. My responsibility is to express an opinion on this financial information based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In my opinion, these statements present fairly, in all material respects, the administered assets and liabilities of the Canada Revenue Agency as at March 31, 2007 and the results of its administered operations and cash flows for the year then ended in accordance with the accounting policies set out in Note 2 to the statements.

Sheila Fraser, FCA  
Auditor General of Canada

Ottawa, Canada  
August 22, 2007



## Canada Revenue Agency Statement of Administered Assets and Liabilities

as at March 31  
(in thousands of dollars)

|  | <b>2007</b>       | <b>2006</b>       |
|--|-------------------|-------------------|
| <b>ADMINISTERED ASSETS</b>   |                   |                   |
| Cash on hand   | 3,449,847         | 4,874,315         |
| Amounts receivable from taxpayers (net of allowance for doubtful accounts of \$6,392,320 in 2007 and \$4,658,766 in 2006) (Note 3) | 65,197,183        | 57,941,979        |
| <b>TOTAL ASSETS</b>  | <b>68,647,030</b> | <b>62,816,294</b> |
| <b>ADMINISTERED LIABILITIES</b>  |                   |                   |
| Amounts payable to taxpayers (Note 4)  | 41,353,461        | 38,374,719        |
| Amounts payable to provinces (Note 5)  | 415,078           | 211,037           |
| Deposit accounts (Note 6)  | 56,927            | 49,646            |
|  | 41,825,466        | 38,635,402        |
| Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (Note 7)                          | 26,821,564        | 24,180,892        |
| <b>TOTAL LIABILITIES</b>   | <b>68,647,030</b> | <b>62,816,294</b> |
| Contingent liabilities (Note 8)  |                   |                   |
| <i>The accompanying notes are an integral part of these financial statements.</i>  |                   |                   |

Approved by:



William V. Baker  
Commissioner and Chief Executive Officer



Connie I. Roveto, ICD.D  
Chair, Board of Management

## Canada Revenue Agency Statement of Administered Revenues

for the year ended March 31  
(in thousands of dollars)

|  | 2007               | 2006               |
|--|--------------------|--------------------|
| <b>Federal administered revenues</b>   |                    |                    |
| Income Tax Revenues  |                    |                    |
| Personal and trust   | 110,574,565        | 103,808,232        |
| Corporate  | 37,745,403         | 31,724,042         |
| Non-resident   | 4,876,871          | 4,528,564          |
|  | <u>153,196,839</u> | <u>140,060,838</u> |
| Other Taxes, Duties and Charges  |                    |                    |
| Goods and Services Tax (Note 9)  | 11,108,769         | 10,987,350         |
| Energy taxes   | 5,070,665          | 5,023,167          |
| Other Excise taxes and duties  | 3,189,945          | 4,227,084          |
| Miscellaneous charges (Note 10)  | 1,080,083          | 353,006            |
|  | <u>20,449,462</u>  | <u>20,590,607</u>  |
| Total Tax Revenues   | 173,646,301        | 160,651,445        |
| Employment Insurance Premiums  | 17,109,170         | 16,916,659         |
| Interest, penalties and other revenues (Note 11)   | 4,150,639          | 3,089,077          |
| <b>Revenues Administered on behalf of the Government of Canada</b>                                 | <b>194,906,110</b> | <b>180,657,181</b> |
| Provision for doubtful accounts (Note 3)   | (3,478,000)        | (809,890)          |
| Interest expense   | (716,913)          | (576,087)          |
| <b>Net Revenues Administered on behalf of the Government of Canada</b>                             | <b>190,711,197</b> | <b>179,271,204</b> |
| <b>Provincial, Territorial Governments and First Nations administered revenues</b>                 |                    |                    |
| Income Tax Revenues  |                    |                    |
| Personal and trust   | 47,201,421         | 43,607,960         |
| Corporate  | 3,995,943          | 3,913,990          |
|  | <u>51,197,364</u>  | <u>47,521,950</u>  |
| Harmonized Sales Tax   | 942,514            | 848,554            |
| Other Revenues (Note 12)   | 216,323            | 213,758            |
| <b>Revenues Administered on behalf of Provincial and Territorial Governments and First Nations</b> | <b>52,356,201</b>  | <b>48,584,262</b>  |
| <b>Net Revenues Administered on behalf of the Canada Pension Plan (Note 13)</b>                    | <b>32,355,092</b>  | <b>30,115,983</b>  |
| <b>Total Net Administered Revenues</b>   | <b>275,422,490</b> | <b>257,971,449</b> |

*The accompanying notes are an integral part of these financial statements.*

## Canada Revenue Agency Statement of Administered Expenses and Recoveries

for the year ended March 31  
(in thousands of dollars)

|  | 2007              | 2006              |
|--|-------------------|-------------------|
| <b>Federal administered expenses</b>                                       |                   |                   |
| Child tax benefits   | 9,429,887         | 9,199,805         |
| Universal child care benefits  | 1,784,359         | -                 |
| Children's special allowances  | 197,768           | 169,611           |
| Energy cost benefits   | 4,073             | 357,654           |
| Relief for heating expenses  | 1,719             | 2,721             |
| Transfers to provinces for Softwood Lumber products export charge          | 206,529           | -                 |
| <b>Federal administered recoveries</b>                                     |                   |                   |
| Old Age Security benefits  | (1,087,335)       | (911,379)         |
| Employment Insurance benefits  | (160,953)         | (119,717)         |
| <b>Net Expenses and Recoveries Administered for the Federal Government</b> | <b>10,376,047</b> | <b>8,698,695</b>  |
| <b>Provincial and Territorial administered expenses</b>                    |                   |                   |
| Family benefit programs  | 179,720           | 217,149           |
| Ontario home electricity payments  | 102,603           | -                 |
| Alberta resource rebate  | 27,335            | 1,257,644         |
| Sales tax credits  | 47,407            | 47,387            |
| <b>Net Expenses Administered for Provinces and Territories</b>             | <b>357,065</b>    | <b>1,522,180</b>  |
| <b>Total Net Administered Expenses and Recoveries</b>                      | <b>10,733,112</b> | <b>10,220,875</b> |

*The accompanying notes are an integral part of these financial statements.*

## Canada Revenue Agency Statement of Administered Cash Flows

for the year ended March 31  
(in thousands of dollars)

|  | <b>2007</b>        | <b>2006</b>        |
|--|--------------------|--------------------|
| <b>Total Net Administered Revenues</b>   | 275,422,490        | 257,971,449        |
| Provincial revenues paid directly to provinces:  |                    |                    |
| Revenues administered for Nova Scotia workers' compensation (Note 12)                  | (205,449)          | (202,709)          |
| Total Net Administered Expenses and Recoveries   | (10,733,112)       | (10,220,875)       |
| Change in administered assets and liabilities:   |                    |                    |
| Change in cash on hand   | 1,424,468          | (653,384)          |
| Change in amounts receivable from taxpayers net of allowance for doubtful accounts     | (7,255,204)        | (5,412,415)        |
| Change in amounts payable to taxpayers   | 2,978,742          | 2,750,804          |
| Change in amounts payable to provinces   | 204,041            | 79,141             |
| Change in deposit accounts   | 7,281              | 9,449              |
| <b>Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada</b> | <b>261,843,257</b> | <b>244,321,460</b> |
| Consisting of:   |                    |                    |
| Cash deposits to the Consolidated Revenue Fund   | 346,302,126        | 327,669,504        |
| Cash refunds/payments from the Consolidated Revenue Fund                               | (84,458,869)       | (83,348,044)       |
| <b>Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada</b> | <b>261,843,257</b> | <b>244,321,460</b> |

*The accompanying notes are an integral part of these financial statements.*



# Canada Revenue Agency

## Notes to the Financial Statements – Administered Activities

### 1. Authority and objectives

The Canada Revenue Agency (the “Agency”), previously named the Canada Customs and Revenue Agency, was established as an agent of Her Majesty of Canada on November 1, 1999, under the *Canada Customs and Revenue Agency Act (CCRA Act)*. The *CCRA Act* was amended on December 12, 2005 and renamed the *Canada Revenue Agency Act (CRA Act)*. The Agency is a departmental corporation named in Schedule II of the *Financial Administration Act* and reports to Parliament through the Minister of National Revenue.

The mandate of the Agency is to support the administration and enforcement of tax legislation as well as other related legislation. The Agency provides support, advice and services by:

- (a) supporting the administration and enforcement of the program legislation;
- (b) implementing agreements between the Government of Canada or the Agency and the government of a province or other public body performing a function of government in Canada to carry out an activity or administer a tax or program;
- (c) implementing agreements or arrangements between the Agency and departments or agencies of the Government of Canada to carry out an activity or administer a program; and
- (d) implementing agreements between the Government of Canada and First Nations governments to administer a tax.

The Agency collects revenues, including income and sales taxes, Canada Pension Plan (CPP) contributions, and Employment Insurance (EI) premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal government, as well as for provincial, territorial, and First Nations governments and collects amounts for other groups or organizations. It is responsible for the administration and enforcement of the following acts or parts of acts: the *Air Travellers Security Charge Act*, the *CRA Act*, the *Children’s Special Allowances Act*, Part V.1 of the *Customs Act*, section 2 of the *Energy Costs Assistance Measures Act*, the *Excise Act*, the *Excise Tax Act* (including the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, the *Softwood Lumber Products Export Charge Act, 2006*, the *Universal Child Care Benefit Act*, and others.

In the province of Quebec, the Ministère du Revenu du Québec (MRQ) acts as an agent of the Agency for the administration and enforcement of the GST. The Agency monitors cash transfers made by the MRQ, reports the GST revenues administered on its behalf, authorizes refunds, and transfers funds out of the Consolidated Revenue Fund to the MRQ for the issuing of refunds.

The Agency’s mandate regarding the administration of customs legislation is limited to the collection functions under Part V.1 of the *Customs Act*. As well, effective August 1, 2005 the Agency provides to the Department of Human Resources and Social Development Canada (HRSDC) collection services for certain accounts receivable under various acts.

## 2. Summary of significant accounting policies

For financial reporting purposes, the activities of the Agency are reported as: Administered Activities and Agency Activities. The financial statements – Administered Activities include those revenues and expenses that are administered for someone other than the Agency, such as the federal government, a province or territory, or another organization and for which the related deposits and/or disbursements are processed by the Agency through the Consolidated Revenue Fund (CRF). Administered activities such as collection services to other organizations, where amounts collected are deposited directly to the credit of the responsible organization without being reflected in the Agency's books of account, are not recorded in the financial statements – Administered Activities. The financial statements – Agency Activities include those operational revenues and expenses, which are managed by the Agency and utilized in running the organization. The purpose of the distinction between Administered and Agency activities is to facilitate, among other things, the assessment of the administrative efficiency of the Agency in achieving its mandate.

As required by section 88(2)(a) of the *CRA Act*, the financial statements – Administered Activities are prepared using accounting principles consistent with those applied in the preparation of the financial statements of the Government of Canada. The purpose of these statements is to present the tax and tax-related revenues, expenses, assets, and liabilities that the Agency administers on behalf of the federal government, provincial governments, and other organizations. A summary of the significant accounting policies follows:

### (a) Revenue recognition

Revenues are recognized in the year in which the event that generates the revenue occurs. The following policies are applied for specific revenue streams:

(i) Income taxes, Canada Pension Plan contributions, and Employment Insurance premiums:

Income tax revenues are recognized when the taxpayer has earned the income subject to the tax. Income earned is determined net of tax deductions and credits allowed under the *Income Tax Act*, including refundable taxes resulting from current year activity. Canada Pension Plan (CPP) contributions are recognized as revenue when the employee or the self-employed person has earned pensionable income. Employment Insurance (EI) premiums are recognized as revenue when the employee has earned insurable earnings.

These revenues are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed/reassessed based on cash received that relates to the fiscal year ended March 31. Revenues for the fiscal year also include adjustments between the estimated revenues of previous years and actual amounts, as well as revenues from reassessments relating to prior years. No additional estimate of future reassessments is made except in cases where amounts for taxes previously assessed are under objection or are being appealed to various courts and where a reasonable estimate of the adjustment can be made.

Reassessments include changes made to previously assessed taxes payable at the request of the taxpayer, for example to claim a subsequent loss carry-back, or are initiated by the Agency as a result of applying reporting compliance procedures such as taxpayer audits.

(ii) Other taxes, duties and charges:

Goods and Services Tax (GST) and Harmonized Sales Tax (HST) revenues on domestic goods and services are recognized at the time of the sale of goods or the provision of services. Revenues are reported net of the Input Tax Credits (ITC), GST rebates, and the GST quarterly tax credit. ITC is the recovery of GST/HST paid or owed on purchases related to domestic and imported commercial activities of the taxpayer. The GST quarterly tax credit for lower-income families is recorded in the period to which it relates. It is intended to offset the cost of the tax for lower-income individuals and families.

For Excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Tax Act*. For Excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act* and the *Excise Act, 2001*.

These revenues are measured from amounts assessed, and from estimates of amounts not yet assessed based on cash received that relate to the fiscal year ended March 31.

Miscellaneous charges are recognized as revenue when they are earned.

(iii) Interest, penalties and other revenues:

Interest, penalties and other revenues are recorded when earned. All interest and penalty revenues are reported as revenues administered for the federal government as per the terms of the tax collection agreements with the provinces and territories. Interest and penalties are recorded net of amounts waived under the various tax acts.

(iv) Assessment definition:

An assessment (or reassessment) of tax is defined as all decisions and other steps made or taken by the Minister of National Revenue and officials of the Agency under the federal, provincial and territorial acts or sections of the acts administered by the Agency to determine tax payable by taxpayers. When verifying a taxpayer's return, the Agency uses applicable provisions of the various tax acts it administers as well as other internally developed criteria which are designed to substantially meet the provisions of these acts.

(v) Completeness of tax revenues:

The Canadian tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Agency has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records where determined necessary by the Agency. Such procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. The Agency does not estimate the amount of unreported tax.

## **(b) Expenses**

(i) Interest expense:

The Agency incurs interest expenses as a result of late refund payments. These are largely due to the resolution of long standing corporate tax files in favour of the taxpayer. Interest accrues from the date that the tax instalment was initially paid to the date that the case is resolved, at which time it is recorded by the Agency.

(ii) Administered expenses:

Expenses relating to the child tax benefits, the universal child care benefits, the energy cost benefits, the children's special allowances, and the provincial and territorial administered expenses are recorded in the year to which they relate based on the period in which the recipients were determined to be entitled to receive the benefit or the allowance. Transfers to provinces for Softwood Lumber products export charge are recorded as an expense in the same year as the related softwood lumber products export charge revenues are recognized.

(iii) Administered recoveries:

Recoveries of Old Age Security and Employment Insurance benefits are recognized when assessed, with an estimate for amounts not yet assessed. Only recoveries assessed through the personal income tax system are reported by the Agency. Recoveries determined by other federal government departments are not reported in these financial statements.

## **(c) Cash on hand**

Cash on hand represents amounts received in the Agency's offices or by agents of the Agency as at March 31 but not yet deposited to the credit of the Consolidated Revenue Fund of the Government of Canada.

## **(d) Amounts receivable from taxpayers**

Amounts receivable from taxpayers represent taxes and other revenues assessed or estimated by the Agency but not yet collected. A significant portion of the receivable balance is due to the recording of accrued receivables, which relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

## **(e) Allowance for doubtful accounts**

The allowance for doubtful accounts reflects management's best estimate of the collectibility of amounts assessed but not yet paid. The allowance for doubtful accounts has two components. A general allowance is calculated based on a periodic review of a sample of accounts receivable with a balance of less than \$10 million. A specific allowance is calculated based on an annual review of all accounts over \$10 million.

The allowance for doubtful accounts is increased by an annual provision for doubtful accounts and is reduced by amounts written off as uncollectible during the year. The annual provision is reported in the Statement of Administered Revenues because it is associated with the administration of tax and non-tax revenues and is not related to any program expenses. Except for the portion related to the CPP contributions, the provision is charged entirely to revenues administered for the federal government as it assumes all collection risks, as per the terms of the tax collection agreements with the provinces and territories.

**(f) Amounts payable to taxpayers**

Amounts payable to taxpayers represent refunds and related interest, or estimated by the Agency, not paid as at March 31. A significant portion of the payable is due to the recording of accrued payables, which relate to the current year but are not due for payment until the next fiscal year. They include refunds resulting from assessments completed after March 31, and estimates of refunds for personal and corporate income tax not yet assessed.

**(g) Contingent liabilities**

Contingent liabilities are potential liabilities resulting from, for example, previously assessed taxes recorded as revenue, which may become actual liabilities when one or more future events occur or fail to occur. If the future event is likely to occur or to fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

**(h) Measurement uncertainty**

The preparation of these statements requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses and recoveries reported. Estimates are used to record unassessed tax revenues and the related amounts receivable and payable, as well as the allowance for doubtful accounts. Actual results could differ from the estimates and any difference would be recorded in the year the actual amounts are determined. The effect of changes to such estimates and assumptions in future periods could be significant. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable.

### 3. Amounts receivable from taxpayers

The following table presents details of the amounts receivable from taxpayers as reported in the Statement of Administered Assets and Liabilities. These amounts include related interest and penalties receivable. Amounts receivable from individuals and employers include Canada Pension Plan contributions and Employment Insurance premiums as applicable.

|   | 2007                      |                                 |                   | 2006              |
|---|---------------------------|---------------------------------|-------------------|-------------------|
|   | Gross                     | Allowance for Doubtful Accounts | Net               | Net               |
|   | (in thousands of dollars) |                                 |                   |                   |
| Income Taxes                                      |                           |                                 |                   |                   |
| Individuals                                       | 34,920,455                | (3,490,428)                     | 31,430,027        | 28,926,720        |
| Employers   | 14,562,102                | (555,087)                       | 14,007,015        | 13,496,637        |
| Corporations                                      | 9,665,131                 | (1,054,676)                     | 8,610,455         | 5,870,790         |
| Non-Residents                                     | 1,080,277                 | (65,755)                        | 1,014,522         | 906,302           |
| GST   | 10,338,439                | (1,204,240)                     | 9,134,199         | 8,075,915         |
| Excise taxes and duties and miscellaneous charges | 1,023,099                 | (22,134)                        | 1,000,965         | 665,615           |
| <b>Total</b>                                      | <b>71,589,503</b>         | <b>(6,392,320)</b>              | <b>65,197,183</b> | <b>57,941,979</b> |

Changes in the allowance for doubtful accounts are as follows:

|   | Allowance for Doubtful Accounts | Provision for Doubtful Accounts | Write-Offs       | Allowance for Doubtful Accounts |
|---|---------------------------------|---------------------------------|------------------|---------------------------------|
|   | April 1, 2006                   |                                 |                  | March 31, 2007                  |
|   | (in thousands of dollars)       |                                 |                  |                                 |
| Income Taxes                                      |                                 |                                 |                  |                                 |
| Individuals                                       | (2,082,981)                     | (2,294,359)                     | 886,912          | (3,490,428)                     |
| Employers   | (375,527)                       | (381,280)                       | 201,720          | (555,087)                       |
| Corporations                                      | (1,209,116)                     | (182,261)                       | 336,701          | (1,054,676)                     |
| Non-Residents                                     | (60,068)                        | (10,868)                        | 5,181            | (65,755)                        |
| GST   | (907,343)                       | (710,087)                       | 413,190          | (1,204,240)                     |
| Excise taxes and duties and miscellaneous charges | (23,731)                        | 608                             | 989              | (22,134)                        |
| <b>Total</b>                                      | <b>(4,658,766)</b>              | <b>(3,578,247)</b>              | <b>1,844,693</b> | <b>(6,392,320)</b>              |

The provision of \$3,578 million (\$840 million in 2006) reported above includes an amount of \$3,478 million (\$810 million in 2006) charged against revenues administered on behalf of the federal government (see Note 2 (e)) and \$100 million (\$30 million in 2006) charged against revenues administered on behalf of the Canada Pension Plan (see Note 13).

#### 4. Amounts payable to taxpayers

The following table presents details of the amounts payable to taxpayers as reported in the Statement of Administered Assets and Liabilities:

|   | 2007                      | 2006              |
|---|---------------------------|-------------------|
|   | (in thousands of dollars) |                   |
| Individuals, Employers, and Non-Residents         | 24,757,375                | 23,191,878        |
| Corporations                                      | 10,328,521                | 7,922,380         |
| GST   | 6,192,111                 | 7,203,655         |
| Excise taxes and duties and miscellaneous charges | 75,454                    | 56,806            |
| <b>Total</b>                                      | <b>41,353,461</b>         | <b>38,374,719</b> |

#### 5. Amounts payable to provinces

The following table presents details of amounts payable to provinces as reported in the Statement of Administered Assets and Liabilities:

|  | 2007                      | 2006           |
|--|---------------------------|----------------|
|  | (in thousands of dollars) |                |
| Softwood Lumber Products Export Charge net of costs incurred by the Federal Government | 206,529                   | -              |
| Amounts payable to Quebec:   |                           |                |
| Personal income tax withholdings   | 140,272                   | 136,514        |
| GST refunds issued by Quebec   | 66,663                    | 73,886         |
| Nova Scotia workers' compensation  | 1,575                     | 755            |
| Ontario Opportunities Fund   | 39                        | (118)          |
| <b>Total</b>   | <b>415,078</b>            | <b>211,037</b> |

Amounts payable to provinces, territories and other organizations, which are settled by other departments such as the Department of Finance for Provincial, Territorial, and First Nations taxes, are not recorded in these financial statements because these amounts are outside of the Agency's responsibility.

#### 6. Deposit accounts

Deposit accounts are established to record cash and securities required to guarantee payment of GST as it relates to non-resident registrants and certain licensees as it relates to excise taxes, which are both payable pursuant to the *Excise Tax Act*. The following table presents activity on the deposit accounts as reported in the Statement of Administered Assets and Liabilities:

|                                 | 2007                      | 2006          |
|---------------------------------|---------------------------|---------------|
|                                 | (in thousands of dollars) |               |
| Balance, beginning of year      | 51,279                    | 41,888        |
| Receipts and other credits      | 16,957                    | 21,163        |
| Payments and other charges      | (9,584)                   | (11,772)      |
| <b>Balance, end of the year</b> | <b>58,652</b>             | <b>51,279</b> |
| Securities held in trust        | (1,725)                   | (1,633)       |
| <b>Net deposit accounts</b>     | <b>56,927</b>             | <b>49,646</b> |

## 7. Net amount due to the Consolidated Revenue Fund

The net amount due to the Consolidated Revenue Fund (CRF) on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet received and/or deposited in the CRF) and other administered liabilities payable by the Agency out of the CRF.

The net cash deposited in the CRF of the Government of Canada includes amounts received on behalf of the federal government, provinces, territories, and other organizations by the Agency and deposited in the CRF, less refunds and payments issued from the CRF during the year.

The change in the net amount due to the CRF during the fiscal year is presented in the table below:

|  | 2007                      | 2006              |
|--|---------------------------|-------------------|
|  | (in thousands of dollars) |                   |
| Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the beginning of the year  | 24,180,892                | 20,954,487        |
| Total net administered revenues  | 275,422,490               | 257,971,449       |
| Provincial revenues paid directly to provinces:  |                           |                   |
| Revenue administered for Nova Scotia workers' compensation (Note 12)   | (205,449)                 | (202,709)         |
| Total net administered expenses and recoveries   | (10,733,112)              | (10,220,875)      |
| Net cash deposited in the Consolidated Revenue Fund of the Government of Canada  | (261,843,257)             | (244,321,460)     |
| <b>Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year</b> | <b>26,821,564</b>         | <b>24,180,892</b> |

## 8. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are under objection or are being appealed to the Tax Court of Canada, the Federal Court of Canada or the Supreme Court of Canada. As at March 31, 2007, an amount of \$10,027 million was under objection at the Agency level (\$9,694 million for 2006) and an amount of \$2,164 million was being appealed to the courts (\$1,742 million for 2006). The Agency has recorded, in the amounts payable to taxpayers, the estimated amount of objections or appeals that are considered likely to be lost and that can be reasonably estimated.

## 9. Good and Services Tax (GST) revenues

The GST reported on the Statement of Administered Revenues is net of Input Tax Credits (ITC), rebates and the GST quarterly tax credit for low income individuals and families administered by the Agency. It does not include GST revenues on imported goods of \$21,368 million in 2007 (\$23,253 million in 2006), which are administered and reported by the Canada Border Services Agency (CBSA). The Canada Revenue Agency has sole responsibility for the administration of all ITCs including those claimed on imported goods. ITCs relating to GST on imports are not accounted for separately from ITCs relating to GST on domestic transactions.

The following table presents details of the GST revenues administered by the Agency for the Government of Canada as reported in the Statement of Administered Revenues:

|   | 2007                      | 2006              |
|---|---------------------------|-------------------|
|   | (in thousands of dollars) |                   |
| GST revenues net of ITCs  | 19,348,704                | 19,393,254        |
| GST rebates   | (4,776,014)               | (5,004,412)       |
| GST quarterly tax credits for low income individuals and families | (3,463,921)               | (3,401,492)       |
| <b>GST net revenues</b>   | <b>11,108,769</b>         | <b>10,987,350</b> |

## 10. Miscellaneous charges

The following table presents details of miscellaneous charges administered by the Agency for the federal government as reported in the Statement of Administered Revenues:

|   | 2007                      | 2006           |
|---|---------------------------|----------------|
|   | (in thousands of dollars) |                |
| Charge on Refund of Duty Deposits for Softwood Lumber | 494,306                   | –              |
| Air Travellers Security Charge                        | 357,096                   | 353,006        |
| Softwood Lumber Products Export Charge                | 228,681                   | –              |
| <b>Total</b>  | <b>1,080,083</b>          | <b>353,006</b> |

The Agency, pursuant to the *Softwood Lumber Products Export Charge Act, 2006*, assessed \$494 million of charges on one-time refunds of certain softwood lumber related duty deposits paid to the United States. These charges relate only to specified persons that did not elect to sell their rights to the duty deposit refund through the alternative refund mechanism managed by the Government of Canada.

Gross revenue from the newly implemented Softwood Lumber Product Export Charge totalled \$229 million for the year. \$207 million remained payable to the participating provinces at year-end.

## 11. Interest, penalties, and other revenues

Various tax legislation gives the Agency the authority, under certain conditions, to collect interest and penalties related to taxes due and regulations not met by taxpayers. The Agency has the authority to waive the interest and penalties that would normally be charged under certain circumstances such as Agency processing delays, financial hardship by taxpayers, or other extraordinary circumstances.

Other revenues consist of miscellaneous fees and charges such as court fines and administration charges for dishonoured payments instruments.

The following table presents details on interest, penalties and other revenues administered by the Agency for the federal government as reported in the Statement of Administered Revenues:

|   | 2007                      | 2006             |
|---|---------------------------|------------------|
|   | (in thousands of dollars) |                  |
| Gross interest and penalties                          | 4,498,333                 | 3,593,428        |
| Interest and penalties waived under authority of the: |                           |                  |
| <i>Income Tax Act</i>                                 | (321,112)                 | (492,926)        |
| <i>Excise Tax Act</i>                                 | (35,941)                  | (27,108)         |
|   | (357,053)                 | (520,034)        |
| Net interest and penalties                            | 4,141,280                 | 3,073,394        |
| Other revenues  | 9,359                     | 15,683           |
| <b>Interest, penalties, and other revenues</b>        | <b>4,150,639</b>          | <b>3,089,077</b> |

## 12. Other revenues

The following table presents details of other revenues administered by the Agency for the Provincial and Territorial Governments and First Nations as reported in the Statement of Administered Revenues:

|                                   | 2007                      | 2006           |
|-----------------------------------|---------------------------|----------------|
|                                   | (in thousands of dollars) |                |
| Nova Scotia workers' compensation | 205,449                   | 202,709        |
| First Nations Sales Tax and GST   | 9,442                     | 8,878          |
| First Nations Income Tax          | 1,432                     | 2,171          |
| <b>Total</b>                      | <b>216,323</b>            | <b>213,758</b> |



### 13. Net Revenues administered on behalf of the Canada Pension Plan

The following table presents details of the net revenues administered by the Agency on behalf of the Canada Pension Plan (CPP) as reported in the Statement of Administered Revenues:

|                                 | 2007                      | 2006              |
|---------------------------------|---------------------------|-------------------|
|                                 | (in thousands of dollars) |                   |
| Contributions                   | 32,282,184                | 30,005,314        |
| Interest and penalties          | 173,155                   | 141,235           |
| Provision for doubtful accounts | (100,247)                 | (30,566)          |
| <b>CPP net revenues</b>         | <b>32,355,092</b>         | <b>30,115,983</b> |

### 14. Related party transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Agency deposits all monies received to the CRF, the Department of Finance makes payments out of the CRF to provinces, territories, and other organizations for revenue amounts such as Provincial, Territorial, and First Nations taxes, for which the Agency administers the revenue collection process. Old Age Security benefit recoveries, Canada Pension Plan contributions, net of overpayments refunded by the Agency, and Employment Insurance premiums are credited to the Department of Human Resources and Social Development Canada (HRSDC) which administers the Old Age Security program, the Canada Pension Plan, and the Employment Insurance Account. The Agency also administers a refund set-off program by which tax refunds of individuals may be used to pay debts owed by clients under federal, provincial or territorial programs.

The Agency provides collection services to CBSA under Part V.I of the *Customs Act*. As well, effective August 1, 2005 the Agency provides to the Department of HRSDC collection services for certain accounts receivable under the *Canada Education Savings Act*, the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Canada Pension Plan* and the *Old Age Security Act*. The related payments are paid directly to either CBSA or HRSDC who are responsible for their deposits to the CRF, as well as their accounting and reporting. These payments are not recorded in the Agency's accounts.

Employment Insurance premiums administered on behalf of the Federal Government include the employer's share of Employment Insurance paid by the Federal Government. GST declared to the Agency includes the GST paid by the federal government to its suppliers on domestic purchases. GST collected by other federal government departments is deposited to the CRF, declared to the Agency, and are included in the GST domestic revenues.

### 15. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

# Management Discussion and Analysis - Administered Activities

## Introduction

The Financial Statements – Administered Activities reflect the total assets and liabilities, tax and non-tax revenues, expenses and recoveries, and cash flows administered by the CRA on behalf of the Government of Canada, provinces, territories, First Nations, and other government organizations. Tax revenues are recognized on an accrual basis and are net of the applicable deductions and credits allowed under various Acts.

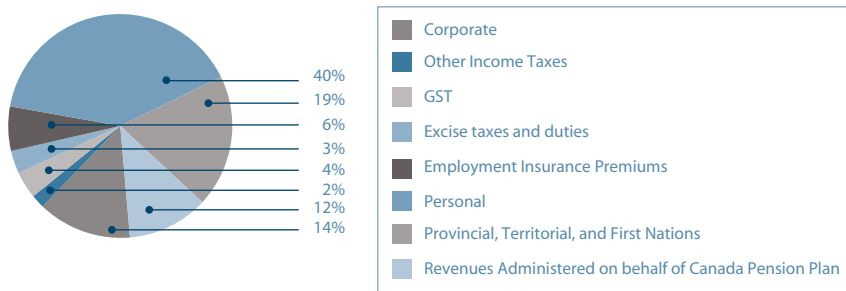
## Analysis of Revenues Administered on Behalf of the Federal Government of Canada

Federal income tax revenues were \$13.1 billion higher in 2006-07 than in 2005-06. Personal and trust income tax revenues increased \$6.8 billion, while corporate income tax revenues increased \$6.0 billion. Non-resident income tax revenues increased \$348 million. The increase in personal income tax revenues was due to gains in employment, wage levels and labour income, combined with the progressivity of the personal income tax system. This was partially offset by tax relief measures announced in Budget 2007 and the October 31, 2006 Tax Fairness Plan. The corporate income tax revenue increase resulted from higher corporate profits in 2006, particularly in the energy, base metals, and financial sectors. The rise in non-resident income tax revenue reflected strong growth in foreign direct investment in Canada.

There was a decrease of \$141 million in other taxes and duties. GST revenues increased \$121 million due to increased retail sales, mostly offset by the July 1, 2006 cut in the GST rate. The remaining taxes and duties were \$262 million lower; revenues from the one time Softwood Lumber Charge on Refund of Duty were \$494 million and revenues from the newly implemented Softwood Lumber Export Charge were \$229 million. However, there was \$1 billion drop in Other Excise revenues mainly attributable to lower tobacco duties as a large licensee began moving their domestic production to another country starting in October 2005.

Despite the general reduction in EI premiums, as well as the drop in premiums resulting from the implementation of the Quebec Parental Insurance Plan, revenues from employment insurance premiums increased \$193 million, due to gains in employment, wages, and salaries.

**Figure 24** Revenues 2006-2007



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## **Unaudited Supplementary Financial Information**



# Financial Performance Information – Parliamentary Appropriations

## Introduction

This section of the *CRA Annual Report to Parliament 2006-2007* provides the details of the Agency's Resource Management performance for the purpose of reporting to Parliament on the use of appropriations in 2006-2007. This complements the information provided in the spending profile sections under each Program Activity and satisfies the reporting requirements set for departmental performance reports.

## Financial reporting methodologies

The CRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and the CRA reports its expenditures and performance to Parliament, together with details on the management of Parliamentary appropriations on the same basis. In addition to the above reporting requirements, the CRA is also required to prepare its annual financial statements in accordance with the accounting principles applied in preparing the financial statements of the Government of Canada (full accrual accounting basis). Accordingly, the audited Statement of Operations – Agency Activities on page 110 includes certain items such as services provided by other government departments. A reconciliation can be found on Table 10, page 159.

## CRA financial information

### Activities of the Agency

|                              | <b>2006-2007</b><br>(in thousands<br>of dollars) |
|------------------------------|--|
| <b>Canada Revenue Agency</b> |  |
| Main Estimates               | \$3,228,253                                      |
| Planned Spending             | \$3,222,456                                      |
| Total Authorities            | \$3,625,846                                      |
| Actual Spending              | \$3,405,124                                      |

The Financial Statements – Agency Activities reports \$3,201.6 million as total Parliamentary appropriations used (Note 3 b on page 117 shows the reconciliation to the net cost of operations). The difference from the \$3,405.1 million reported in this section is explained by three items reported in the Financial Statements – Administered Activities: the Children's Special Allowance, \$197.8 million; the Energy Costs Assistance Measures expenses, \$4.1 million; and the Relief For Heating Expenses, \$1.7 million (part of Vote 1, Program Expenditures).

## Overview

For 2006-2007, Parliament approved planned spending for CRA in the amount of \$3,228.3 million through the Main Estimates, as shown in CRA's *Corporate Business Plan 2006-2007 to 2008-2009*.

The 2006-2007 Main Estimates have been adjusted to include:

- \$158.0 million for the Carry-forward from 2005-2006;
- \$59.6 million for Collective Agreements, mainly due to the CRA/PIPSC agreement signed in August 2005;
- \$58.8 million for Maternity and Severance payments;
- \$38.3 million increase for Respendable Revenue adjustment for information technology services provided to Canada Border Services Agency (CBSA);
- \$30.6 million for Budget measures arising from the 2006 Federal Budget;
- \$18.2 million for National Collection Services and Collection Litigation and Advisory Services;
- \$16.4 million for Universal Child Care Benefit;
- \$13.9 million for the implementation of a single administration of corporate tax for the Province of Ontario;
- \$12.4 million for Payments to Private Collection Agencies;
- \$10.8 million increase for the Children's Special Allowance Statutory Authority;

- \$9.3 million for the preparation, implementation and administration of the 2006 Canada United States Softwood Lumber Agreement;
- \$5.9 million for the National Initiative to address inter-provincial tax avoidance by corporations;
- \$4.1 million for Energy Cost Assistance Measures Statutory Payments; and
- \$1.2 million for the administration of the one-time Energy Cost Benefit payments.

Offsetting these increases, the CRA returned \$24.3 million in funding to the Treasury Board pending the approval of the Offshore Trusts Initiative legislation and some \$7.8 million related to Expenditure Review Initiatives and Spending Restraint Measures. Agency Budgets were also adjusted by \$8.3 million for Employee Benefits Plans reductions. This resulted in total approved authorities of \$3,625.8 million for 2006-2007, representing an in-year increase of 12.3% over the Main Estimates.

Of the \$3,625.8 million total authority, CRA's actual spending totalled \$3,405.1 million resulting in \$220.7 million unexpended at year-end. After adjusting for technical items such as a TB directed lapse of \$37.1 million for CPP/EI activities, an under-expenditure of \$0.5 million related to the Charities contribution program, and a TB directed \$15.4 million reversal of payments to the Department of Justice in 2006-2007, the remaining \$167.7 million is available for use by the Agency in 2007-2008. This amount is within 5% of the total authority.

The \$167.7 million carry forward to 2007-2008 will be directed primarily to selected strategic investments linked to Agency priorities from the Agency 2010 Blueprint such as:

- Focusing on Core Business, \$94 million (GST/HST Redesign, Integrated Revenue Collections, Compliance Systems Redesign, Identification Renewal Project, Corporate Tax Administration for Ontario, and Advanced Pricing Agreement);
- Strengthening Core Infrastructure, \$13.6 million, through investments in Network Services enhancements, Enterprise Tape Technology and Data Centre Facilities;
- Maintaining Trust and Integrity, \$30.9 million, via investments in Service Redress, Secure Channel, and Data Centre Recovery, and funding increased workload in Legal Services;
- Managing Human Resources and Labour Relations, \$5.4 million; various Business Development initiatives, \$7.4 million; and
- Payments for the federal sales tax administration by the Province of Québec, \$16.1 million.

## Revenues administered by the Agency

Net revenues administered by the CRA totalled some \$275.4 billion, an increase of 6.8% from the \$257.9 billion administered in 2005-2006.

|  | <b>2005-2006</b>          | <b>2006-2007</b>   |
|--|---------------------------|--------------------|
|  | (in thousands of dollars) |                    |
| Federal Government                                     | 179,271,204               | 190,711,197        |
| Provincial, Territorial, and First Nations Governments | 48,584,262                | 52,356,201         |
| Canada Pension Plan                                    | 30,115,983                | 32,355,092         |
| <b>Total</b>   | <b>257,971,449</b>        | <b>275,442,490</b> |

# Financial Performance Tables

## Introduction

The following tables provide financial information about the performance of the Agency during the 2006-2007 fiscal year. The tables compare Main Estimates and Planned Spending, as shown in the 2006-2007 *Report on Plans and Priorities* with total authorities at year-end and actual expenditures for the fiscal year.

The information is presented at the Agency level, the Program Activity level and by Functional Branch; as well as by authority and type of revenue and expense.

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\* These tables can be found on the TBS Web site at [http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index\\_e.asp](http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index_e.asp).

**Table 1 Comparison of Planned to Actual**

| (in thousands of dollars)                                 | 2004-2005<br>Actual <sup>1</sup> | 2005-2006<br>Actual <sup>1</sup> | 2006-2007         |                     |                      |                     |
|---|----------------------------------|----------------------------------|-------------------|---------------------|----------------------|---------------------|
|   |                                  |                                  | Main<br>Estimates | Planned<br>Spending | Total<br>Authorities | Actual <sup>1</sup> |
| Client Assistance   | 338,007                          | 331,972                          | 310,574           | 309,836             | 347,072              | <b>319,608</b>      |
| Assessment of Returns and Payment Processing <sup>2</sup> | 746,723                          | 811,333                          | 757,821           | 756,093             | 854,351              | <b>801,844</b>      |
| Filing and Remittance Compliance <sup>3</sup>             | 602,412                          | 651,903                          | 615,353           | 613,677             | 712,654              | <b>645,262</b>      |
| Reporting Compliance                                      | 968,632                          | 1,120,846                        | 1,096,578         | 1,094,565           | 1,209,551            | <b>1,165,717</b>    |
| Appeals   | 105,708                          | 121,858                          | 128,541           | 128,380             | 143,180              | <b>121,654</b>      |
| Benefit Programs <sup>4</sup>                             | 289,495                          | 669,502                          | 319,386           | 319,905             | 359,038              | <b>351,039</b>      |
| <b>Total</b>  | <b>3,050,977</b>                 | <b>3,707,414</b>                 | <b>3,228,253</b>  | <b>3,222,456</b>    | <b>3,625,846</b>     | <b>3,405,124</b>    |
| Less:   |                                  |                                  |                   |                     |                      |                     |
| Non-Tax Revenues  |                                  |                                  |                   |                     |                      |                     |
| Respendable Revenue – Pursuant to CRA ACT <sup>5</sup>    | 20,190                           | 129,357                          | 96,089            | 96,089              | 134,446              | <b>134,446</b>      |
| Non-respendable Revenue <sup>6</sup>                      | 32,211                           | 37,497                           | N/A               | 32,131              | N/A                  | <b>50,331</b>       |
| Plus:   |                                  |                                  |                   |                     |                      |                     |
| Cost of services received without charge                  | 423,872                          | 475,458                          | N/A               | 467,158             | N/A                  | <b>436,296</b>      |
| <b>Net Cost of Agency</b>                                 | <b>3,454,659</b>                 | <b>4,053,515</b>                 | <b>N/A</b>        | <b>3,593,525</b>    | <b>N/A</b>           | <b>3,656,642</b>    |
| <b>Full-Time Equivalents</b>                              | <b>36,368</b>                    | <b>37,577</b>                    | <b>N/A</b>        | <b>38,303</b>       | <b>N/A</b>           | <b>38,179</b>       |

<sup>1</sup> Excludes the payments made to Justice Canada during the fiscal year as directed by TBS (\$9.3 million in 2004-2005, \$3.6 million in 2005-2006 and \$15.4 million in 2006-2007.)

<sup>2</sup> Includes payment to the Ministère du Revenu du Québec in respect of the joint administration costs of Federal and Provincial sales taxes (\$127.2 million in 2004-2005, \$131.4 million in 2005-2006 and \$157.4 million in 2006-2007.)

<sup>3</sup> Includes Payments to Private Collection Agencies: \$12.4 million in 2006-2007.

<sup>4</sup> Includes a) Relief for Heating Expenses (a relief program announced in 2000) (\$4.2 million in 2004-2005, \$2.9 million in 2005-2006, and \$1.7 million in 2006-2007) b) Energy Costs Assistance Measures expenses (a relief program announced in the Fall of 2005) (\$357.7 million in 2005-2006 and \$4.1 million in 2006-2007) and c) Children's Special Allowance payments (\$159.4 million in 2004-2005, \$169.6 million in 2005-2006 and \$197.8 million in 2006-2007).

<sup>5</sup> The increase in Respendable Revenue is mainly related to the services provided to the Canada Border Services Agency (CBSA).

<sup>6</sup> This number reflects the approach taken in the Agency's Audited Financial Statement where a clear distinction is made between Agency activities and administered activities. Interest and penalties collected for personal, corporate and other taxes, which are part of the Agency's administered activities rather than Agency's activities, are excluded. For more details, see Table 5.2.



**Table 2 Resources by Program Activity**

| 2006-2007 (Budgetary in thousands of dollars)                       |                  |                                    |  |  |                             |   |                           |
|---|------------------|------------------------------------|--|--|-----------------------------|---|---------------------------|
| Program Activity  | Operating        | Voted<br>Grants &<br>Contributions | Subtotal:<br>Gross Voted<br>Expenditures | Statutory<br>Grants and<br>Contributions | Total Gross<br>Expenditures | Less:<br>Respendable<br>Revenues <sup>1</sup> | Total Net<br>Expenditures |
| <b>Client Assistance</b>  |                  |                                    |  |  |                             |   |                           |
| Main Estimates  | 323,494          | 1,000                              | 324,494                                  | –  | 324,494                     | 13,920  | 310,574                   |
| Planned Spending  | 322,756          | 1,000                              | 323,756                                  | –  | 323,756                     | 13,920  | 309,836                   |
| Total Authorities   | 367,751          | 2,000                              | 369,751                                  | –  | 369,751                     | 22,679  | 347,072                   |
| Actual Spending   | <b>341,759</b>   | <b>528</b>                         | <b>342,287</b>                           | –  | <b>342,287</b>              | <b>22,679</b>                                 | <b>319,608</b>            |
| <b>Assessment of Returns and<br/>Payment Processing<sup>2</sup></b> |                  |                                    |  |  |                             |   |                           |
| Main Estimates  | 786,751          | –                                  | 786,751                                  | –  | 786,751                     | 28,930  | 757,821                   |
| Planned Spending  | 785,023          | –                                  | 785,023                                  | –  | 785,023                     | 28,930  | 756,093                   |
| Total Authorities   | 894,414          | –                                  | 894,414                                  | –  | 894,414                     | 40,063  | 854,351                   |
| Actual Spending   | <b>841,907</b>   | –                                  | <b>841,907</b>                           | –  | <b>841,907</b>              | <b>40,063</b>                                 | <b>801,844</b>            |
| <b>Filing and Remittance<br/>Compliance</b>                         |                  |                                    |  |  |                             |   |                           |
| Main Estimates  | 704,117          | –                                  | 704,117                                  | –  | 704,117                     | 88,764  | 615,353                   |
| Planned Spending  | 702,441          | –                                  | 702,441                                  | –  | 702,441                     | 88,764  | 613,677                   |
| Total Authorities <sup>3</sup>                                      | 849,140          | –                                  | 849,140                                  | –  | 849,140                     | 136,486                                       | 712,654                   |
| Actual Spending <sup>3</sup>  | <b>781,748</b>   | –                                  | <b>781,748</b>                           | –  | <b>781,748</b>              | <b>136,486</b>                                | <b>645,262</b>            |
| <b>Reporting Compliance</b>   |                  |                                    |  |  |                             |   |                           |
| Main Estimates  | 1,106,654        | –                                  | 1,106,654                                | –  | 1,106,654                   | 10,076  | 1,096,578                 |
| Planned Spending  | 1,104,641        | –                                  | 1,104,641                                | –  | 1,104,641                   | 10,076  | 1,094,565                 |
| Total Authorities   | 1,225,686        | –                                  | 1,225,686                                | –  | 1,225,686                   | 16,136  | 1,209,551                 |
| Actual Spending   | <b>1,181,852</b> | –                                  | <b>1,181,852</b>                         | –  | <b>1,181,852</b>            | <b>16,136</b>                                 | <b>1,165,717</b>          |
| <b>Appeals</b>  |                  |                                    |  |  |                             |   |                           |
| Main Estimates  | 137,121          | –                                  | 137,121                                  | –  | 137,121                     | 8,580   | 128,541                   |
| Planned Spending  | 136,960          | –                                  | 136,960                                  | –  | 136,960                     | 8,580   | 128,380                   |
| Total Authorities   | 159,110          | –                                  | 159,110                                  | –  | 159,110                     | 15,930  | 143,180                   |
| Actual Spending   | <b>133,211</b>   | –                                  | <b>133,211</b>                           | –  | <b>133,211</b>              | <b>11,557</b>                                 | <b>121,654</b>            |
| <b>Benefit Programs<sup>4</sup></b>                                 |                  |                                    |  |  |                             |   |                           |
| Main Estimates  | 134,446          | –                                  | 134,446                                  | 187,000                                  | 321,446                     | 2,060   | 319,386                   |
| Planned Spending  | 134,965          | –                                  | 134,965                                  | 187,000                                  | 321,965                     | 2,060   | 319,905                   |
| Total Authorities <sup>5</sup>                                      | 160,197          | –                                  | 160,197                                  | 201,842                                  | 362,039                     | 3,001   | 359,038                   |
| Actual Spending <sup>5</sup>  | <b>152,198</b>   | –                                  | <b>152,198</b>                           | <b>201,842</b>                           | <b>354,040</b>              | <b>3,001</b>                                  | <b>351,039</b>            |
| Total Main Estimates  | 3,192,583        | 1,000                              | 3,193,583                                | 187,000                                  | 3,380,583                   | 152,330                                       | 3,228,253                 |
| Total Planned Spending  | 3,186,786        | 1,000                              | 3,187,786                                | 187,000                                  | 3,374,786                   | 152,330                                       | 3,222,456                 |
| Total Authorities   | 3,656,298        | 2,000                              | 3,658,298                                | 201,842                                  | 3,860,140                   | 234,295                                       | 3,625,846                 |
| <b>Total Actual Spending</b>  | <b>3,432,675</b> | <b>528</b>                         | <b>3,433,203</b>                         | <b>201,842</b>                           | <b>3,635,045</b>            | <b>229,922</b>                                | <b>3,405,124</b>          |

<sup>1</sup> Consists of Revenues Credited to Vote 1 (i.e. related to the administration of work for Canada Pension Plan and Employment Insurance).

<sup>2</sup> Includes payments to the Ministère du Revenu du Québec in respect of the joint administration costs of Federal and Provincial sales taxes.

<sup>3</sup> Includes payments to Private Collection Agencies.

<sup>4</sup> Includes Children's Special Allowance (CSA) payments.

<sup>5</sup> Includes Energy Costs Assistance Measures payments.

**Table 3 Voted and Statutory Items**

| Vote   | 2006-2007<br>(in thousands of dollars) |                           |                                   |                  |
|--|--|---------------------------|-----------------------------------|------------------|
|  | Total Main<br>Estimates                | Total Planned<br>Spending | Total<br>Authorities <sup>1</sup> | Actual           |
| <b>Canada Revenue Agency</b>   |  |                           |                                   |                  |
| 1 Program expenditures   | 2,551,607                              | 2,545,649                 | 2,890,492                         | <b>2,669,770</b> |
| (S) Minister of National Revenue and Minister of<br>Western Economic Diversification – Salary and<br>motor car allowance                     | 73                                     | 73                        | 73                                | <b>73</b>        |
| (S) Spending of revenues received through the<br>conduct of its operations pursuant to section 60<br>of the <i>Canada Revenue Agency Act</i> | 96,089                                 | 96,089                    | 134,446                           | <b>134,446</b>   |
| (S) Contributions to Employee Benefits Plan  | 393,484                                | 393,645                   | 385,489                           | <b>385,489</b>   |
| (S) Children’s Special Allowance payments  | 187,000                                | 187,000                   | 197,768                           | <b>197,768</b>   |
| (S) Payments to private collection agencies pursuant to<br>Section 17.1 of the <i>Financial Administration Act</i>                           |  |                           | 12,377                            | <b>12,377</b>    |
| (S) Energy Costs Assistance Measures   |  |                           | 4,073                             | <b>4,073</b>     |
| (S) Spending of proceeds from the disposal of surplus<br>Crown Assets  |  |                           | 210                               | <b>210</b>       |
| (S) Court Awards   |  |                           | 918                               | <b>918</b>       |
| <b>Total Agency</b>  | <b>3,228,253</b>                       | <b>3,222,456</b>          | <b>3,625,846</b>                  | <b>3,405,124</b> |

<sup>1</sup> For more details on the authorities approved after the Main Estimates, see Table 3.1

**Table 3.1 Authorities approved after tabled Main Estimates**

The following table details the authorities approved for the Agency after the Main Estimates and reconciles with the Total Authorities shown in Table 3.

|  | (in thousands of dollars) |
|--|---------------------------|
| <b>2006-2007 Main Estimates</b>  | <b>3,228,253</b>          |
| Administration of the One-Time Energy Cost Benefit Payments  | 1,186                     |
| Expenditures Review Announcements  | (7,070)                   |
| Real Property Disposition Revolving Fund   | 87                        |
| <b>Planned Spending (RPP)</b>  | <b>3,222,456</b>          |
| Carry Forward from 2005-2006   | 157,994                   |
| Collective Agreements  | 59,558                    |
| Maternity and Severance Payments   | 58,842                    |
| Responsible Revenue Adjustment for Information Technology services provided to CBSA  | 38,357                    |
| Funding to address legislative, policy, and operational initiatives arising from 2006 Federal Budget   | 30,641                    |
| Transfer from Human Resources and Social Development Canada for National Collections Services and Collection Litigation and Advisory Services (CLAS) | 18,166                    |
| Universal Child Care Benefit   | 16,416                    |
| Implementation of a single administration of Corporate Tax for the Province of Ontario   | 13,884                    |
| Payment to Private Collection Agencies Statutory Vote  | 12,377                    |
| Children's Special Allowance adjustment  | 10,769                    |
| Preparation, implementation and administration of the 2006 Canada-United States Softwood Lumber Agreement  | 9,292                     |
| Implementation of the National Initiative to Address Inter-Provincial Tax Avoidance by Corporations  | 5,879                     |
| Energy Cost Assistance Measures Statutory Payment  | 4,073                     |
| Court Awards   | 918                       |
| Crown Assets Disposal  | 210                       |
| Offshore Trusts Funding returned to Treasury Board of Canada Secretariat (TBS)   | (24,289)                  |
| Reduction to rates – Employee Benefit Plans  | (8,243)                   |
| Transfer to Transport Canada – Crown Corporation Secretariat   | (756)                     |
| Spending Restraint – Advisory Committees   | (698)                     |
| <b>Total Authorities at year-end</b>   | <b>3,625,846</b>          |

**Table 4 Services received without charge**

| (in thousands of dollars)   | <b>2006-2007</b> |
|---|------------------|
| Accommodations provided by Public Works and Government Services Canada (PWGSC)  | 225,335          |
| Payroll Services provided by PWGSC  | 1,635            |
| Contributions covering employer's share of employee's insurance premiums and expenditures paid by Treasury Board Secretariat <sup>1</sup> | 158,610          |
| Salary and associated expenditures of legal services provided by Justice Canada   | 46,800           |
| Audit services provided by the Office of the Auditor General  | 2,110            |
| Worker's Compensation coverage provided by Human Resources and Social Development Canada (HRSDC)  | 1,806            |
| <b>Total 2006-2007 Services Received Without Charge</b>   | <b>436,296</b>   |

<sup>1</sup> Represents 7.5% of the Personnel costs

**Table 5 Sources of Responsible and Non-Responsible Non-Tax Revenue**

By virtue of its mandate, the Canada Revenue Agency (CRA) is responsible for collecting tax revenue; these are described earlier in the Audited Financial Statements – Administered Activities. The CRA is also responsible for collecting non-tax revenue, similar to other government departments and agencies; these are detailed below, divided between responsible and non-responsible.

**Table 5.1 Responsible Non-Tax Revenue**

| (in thousands of dollars)  |                     |                     | 2006-2007           |                      |                |
|--|---------------------|---------------------|---------------------|----------------------|----------------|
|  | Actual<br>2004-2005 | Actual<br>2005-2006 | Planned<br>Revenues | Total<br>Authorities | Actual         |
| <b>Program Activity</b>  |                     |                     |                     |                      |                |
| Client Assistance  | 15,798              | 27,172              | 24,749              | 37,563               | <b>37,563</b>  |
| Assessment of Returns and Payment Processing   | 39,173              | 70,308              | 59,809              | 83,948               | <b>83,948</b>  |
| Filing and Remittance Compliance   | 90,208              | 119,293             | 109,181             | 164,470              | <b>164,470</b> |
| Reporting Compliance   | 13,512              | 46,451              | 36,888              | 50,902               | <b>50,902</b>  |
| Appeals  | 7,185               | 10,545              | 11,119              | 20,647               | <b>16,274</b>  |
| Benefit Programs   | 2,584               | 9,369               | 6,673               | 11,421               | <b>11,421</b>  |
| <b>Total</b>   | <b>168,460</b>      | <b>283,138</b>      | <b>248,419</b>      | <b>368,951</b>       | <b>364,578</b> |
| <b>Details</b>   |                     |                     |                     |                      |                |
| <b>Responsible Revenue pursuant to Section 60 of the CRA Act (cash receipts)</b>       |                     |                     |                     |                      |                |
| Refunds of Previous Year's Expenditures  | 470                 | 486                 | 952                 | 410                  | <b>410</b>     |
| Ruling Fees <sup>1</sup>   | 1,881               | 1,808               | 1,701               | 2,074                | <b>2,074</b>   |
| Advance Pricing Agreement  | 354                 | 440                 | 600                 | 477                  | <b>477</b>     |
| Other Services of a Regulatory Nature  | 132                 | 414                 | 25                  | 46                   | <b>46</b>      |
| Administration of Provincial Programs <sup>2</sup>                                     | 16,999              | 33,889              | 17,888              | 34,444               | <b>34,444</b>  |
| Other Services of a Non-Regulatory Nature  | 1,186               | 1,166               | 1,198               | 458                  | <b>458</b>     |
| Sales of Goods and Information Products  | 92                  | 100                 | 100                 | 110                  | <b>110</b>     |
| Other Fees & Charges   | 40                  | 44                  | 40                  | 46                   | <b>46</b>      |
| Services to Other Government Departments (OGD) <sup>3</sup>                            | –                   | 96,145              | 77,880              | 101,456              | <b>101,456</b> |
| Sub-total  | 21,154              | 134,492             | 100,384             | 139,521              | <b>139,521</b> |
| Less: Amounts Recovered on behalf of OGDs <sup>4</sup>                                 | 964                 | 5,135               | 4,295               | 5,075                | <b>5,075</b>   |
| <b>Total Responsible Revenue pursuant to Section 60 of the CRA Act (cash receipts)</b> | <b>20,190</b>       | <b>129,357</b>      | <b>96,089</b>       | <b>134,446</b>       | <b>134,446</b> |
| <b>Proceeds from the Disposal of Surplus Crown Assets</b>                              | <b>123</b>          | <b>407</b>          |                     | <b>210</b>           | <b>210</b>     |
| <b>Revenues credited to Vote 1</b>   |                     |                     |                     |                      |                |
| Canada Pension Plan administration work  | 72,067              | 75,576              | 76,250              | 105,575              | <b>105,575</b> |
| Employment Insurance administration work <sup>5</sup>                                  | 76,080              | 77,798              | 76,080              | 128,720              | <b>124,347</b> |
| <b>Total Revenues credited to Vote 1</b>   | <b>148,147</b>      | <b>153,374</b>      | <b>152,330</b>      | <b>234,295</b>       | <b>229,922</b> |
| <b>Total Responsible Non-Tax Revenue</b>   | <b>168,460</b>      | <b>283,138</b>      | <b>248,419</b>      | <b>368,951</b>       | <b>364,578</b> |

<sup>1</sup> The Canada Revenue Agency (CRA) charges taxpayers (based on a regulated user fee) for providing tax rulings in advance.

<sup>2</sup> Comprised mainly of a basic fee charged to the provinces under the tax collection agreements (TCA). Also involves work over and above the TCA (e.g. refund set-off, additional audit coverage, benefit programs).

<sup>3</sup> Comprised mainly of information technology services provided to Canada Border Services Agency (CBSA).

<sup>4</sup> Comprised mainly of amounts recovered on behalf of Public Works and Government Services Canada (PWGSC) and Treasury Board of Canada Secretariat (e.g. Employee Benefit Plans – EBP).

<sup>5</sup> The difference between authorities and actuals is related to Quebec Parental Insurance Plan and Employment Insurance Legal Fees which were collected directly by HRSDC.

**Table 5.2 Non-Respendable Non-Tax Revenue<sup>1</sup>**

| (in thousands of dollars)                         |                     | 2006-2007           |                     |               |  |
|---|---------------------|---------------------|---------------------|---------------|--|
| Program Activity                                  | Actual<br>2004-2005 | Actual<br>2005-2006 | Planned<br>Revenues | Actual        |  |
| Client Assistance                                 | 2,728               | 3,450               | 3,450               | <b>5,496</b>  |  |
| Assessment of Returns and Payment Processing      | 6,333               | 8,823               | 8,155               | <b>14,577</b> |  |
| Filing and Remittance Compliance                  | 17,968              | 18,191              | 7,762               | <b>11,208</b> |  |
| Reporting Compliance                              | 2,137               | 1,815               | 9,410               | <b>12,517</b> |  |
| Appeals   | 1,674               | 2,106               | 1,271               | <b>2,044</b>  |  |
| Benefit Programs                                  | 1,371               | 3,112               | 2,533               | <b>4,489</b>  |  |
| <b>Total</b>                                      | <b>32,211</b>       | <b>37,497</b>       | <b>32,581</b>       | <b>50,331</b> |  |
| <b>Details of Non-Respendable Non-Tax Revenue</b> |                     |                     |                     |               |  |
| Sales of goods and services                       |                     |                     |                     |               |  |
| Public Building and Property Rental               |                     |                     |                     |               |  |
| Lease and use of public property                  | 185                 | 149                 | 185                 | <b>118</b>    |  |
| Other fees and charges                            |                     |                     |                     |               |  |
| Recovery of employee benefits                     | 30,939              | 34,967              | 30,939              | <b>41,617</b> |  |
| Other   |                     |                     | 1,007               |               |  |
| Miscellaneous                                     | 1,087               | 2,381               |                     | <b>8,596</b>  |  |
| <b>Total Non-Respendable Non-Tax Revenue</b>      | <b>32,211</b>       | <b>37,497</b>       | <b>32,131</b>       | <b>50,331</b> |  |

<sup>1</sup> This table reflects the approach taken in the Agency's Audited Financial Statement where a clear distinction is made between Agency activities and administered activities. Interest and penalties collected for personal, corporate and other taxes, which are part of the Agency's administered activities rather than Agency's activities, are excluded.

**Table 6 Resource Requirements by Functional Organization and Program Activity**

| 2006-2007 (in thousands of dollars)                         |                   |  |                                  |                      |                |                             |                    |
|---|-------------------|--|----------------------------------|----------------------|----------------|-----------------------------|--------------------|
| Functional Organization                                     | Client Assistance | Assessment of Returns and Payment Processing | Filing and Remittance Compliance | Reporting Compliance | Appeals        | Benefit Programs            | Total <sup>1</sup> |
| <b>Assessment and Benefit Services Branch</b>               |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | (44)              | 358,717                                      | –                                | 9,909                | –              | 257,843                     | 626,425            |
| Actual Spending   | –                 | <b>396,580</b>                               | –                                | <b>11,792</b>        | –              | <b>277,780</b> <sup>2</sup> | <b>686,152</b>     |
| <b>Taxpayer Services and Debt Management Branch</b>         |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 124,737           | –  | 390,743                          | 4,308                | –              | 19,796                      | 539,584            |
| Actual Spending   | <b>138,368</b>    | –  | <b>403,958</b> <sup>3</sup>      | <b>4,314</b>         | –              | <b>25,586</b>               | <b>572,226</b>     |
| <b>Compliance Programs Branch</b>                           |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 173               | 410  | 394                              | 854,757              | 5,908          | 79                          | 861,720            |
| Actual Spending   | <b>187</b>        | <b>442</b>                                   | <b>425</b>                       | <b>864,088</b>       | <b>6,530</b>   | <b>86</b>                   | <b>871,759</b>     |
| <b>Appeals Branch</b>                                       |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | –                 | –  | –                                | –                    | 100,262        | –                           | 100,262            |
| Actual Spending   | –                 | –  | –                                | –                    | <b>86,572</b>  | –                           | <b>86,572</b>      |
| <b>Legislative Policy and Regulatory Affairs Branch</b>     |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 70,568            | 3,754  | 11,477                           | 4,331                | 433            | 722                         | 91,285             |
| Actual Spending   | <b>77,177</b>     | <b>1,926</b>                                 | <b>4,797</b>                     | <b>2,222</b>         | <b>223</b>     | <b>370</b>                  | <b>86,715</b>      |
| <b>Corporate Strategies and Business Development Branch</b> |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 2,532             | 162,135                                      | 5,755                            | 6,906                | 691            | 1,151                       | 179,170            |
| Actual Spending   | <b>2,864</b>      | <b>164,139</b> <sup>4</sup>                  | <b>6,509</b>                     | <b>7,811</b>         | <b>781</b>     | <b>1,303</b>                | <b>183,407</b>     |
| <b>Executive Office</b>                                     |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 804               | 1,901  | 1,828                            | 2,194                | 219            | 366                         | 7,312              |
| Actual Spending   | <b>962</b>        | <b>2,274</b>                                 | <b>2,186</b>                     | <b>2,624</b>         | <b>262</b>     | <b>438</b>                  | <b>8,746</b>       |
| <b>Assistant Commissioners, Regional Operations</b>         |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 3,293             | 7,783  | 7,484                            | 8,981                | 898            | 1,497                       | 29,936             |
| Actual Spending   | <b>3,525</b>      | <b>8,331</b>                                 | <b>8,011</b>                     | <b>9,613</b>         | <b>961</b>     | <b>1,603</b>                | <b>32,044</b>      |
| <b>Information Technology Branch</b>                        |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 61,277            | 111,502                                      | 90,327                           | 76,375               | 7,288          | 17,316                      | 364,085            |
| Actual Spending   | <b>51,687</b>     | <b>122,170</b>                               | <b>117,471</b>                   | <b>140,966</b>       | <b>14,097</b>  | <b>23,494</b>               | <b>469,885</b>     |
| <b>Public Affairs Branch</b>                                |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 4,777             | 11,292                                       | 10,857                           | 13,029               | 1,303          | 2,171                       | 43,429             |
| Actual Spending   | <b>5,133</b>      | <b>12,134</b>                                | <b>11,666</b>                    | <b>14,000</b>        | <b>1,400</b>   | <b>2,333</b>                | <b>46,666</b>      |
| <b>Corporate Audit and Evaluation Branch</b>                |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 1,159             | 2,739  | 2,634                            | 3,161                | 316            | 527                         | 10,536             |
| Actual Spending   | <b>1,215</b>      | <b>2,871</b>                                 | <b>2,761</b>                     | <b>3,313</b>         | <b>331</b>     | <b>551</b>                  | <b>11,042</b>      |
| <b>Finance and Administration Branch</b>                    |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 26,022            | 61,501                                       | 59,141                           | 70,971               | 7,098          | 11,830                      | 236,562            |
| Actual Spending   | <b>23,820</b>     | <b>56,302</b>                                | <b>54,137</b>                    | <b>64,964</b>        | <b>6,496</b>   | <b>10,827</b>               | <b>216,546</b>     |
| <b>Human Resources Branch</b>                               |                   |  |                                  |                      |                |                             |                    |
| Planned Spending  | 14,567            | 34,431                                       | 33,107                           | 39,728               | 3,973          | 6,621                       | 132,426            |
| Actual Spending   | <b>14,670</b>     | <b>34,675</b>                                | <b>33,341</b>                    | <b>40,009</b>        | <b>4,001</b>   | <b>6,668</b>                | <b>133,364</b>     |
| Total Agency Planned Spending <sup>1</sup>                  | 309,836           | 756,093                                      | 613,677                          | 1,094,565            | 128,380        | 319,905                     | 3,222,456          |
| <b>Total Agency Actual Spending<sup>1</sup></b>             | <b>319,608</b>    | <b>801,844</b>                               | <b>645,262</b>                   | <b>1,165,716</b>     | <b>121,654</b> | <b>351,039</b>              | <b>3,405,124</b>   |

<sup>1</sup> Any discrepancies in the sum of Total Planned Spending amounts can be attributed to rounding.

<sup>2</sup> Includes: a) the Children's Special Allowance (CSA) payments of \$197.8 million; b) Energy Costs Assistance Measures expenses \$4.1 million; and c) Relief for Heating Expenses \$1.7 million

<sup>3</sup> Includes Payments to Private Collection Agencies of \$12.4 million

<sup>4</sup> Includes payments to the Ministère du Revenu du Québec in respect of the joint administration costs of Federal and Provincial sales taxes of \$157.4 million.

## Table 7 User Fees

### Table 7.1 a) *User Fees Act* – Advance Income Tax Ruling Fees

|  |   |                                    |
|--|---|------------------------------------|
| <b>A. User Fee</b>   | Advance Income Tax Ruling Fees  |                                    |
| Fee Type   | Regulatory (R)  |                                    |
| Fee Setting Authority  | <i>Financial Administration Act – 19(b)</i>   |                                    |
| Date Last Modified   | April 1990  |                                    |
| <b>2006-2007</b>   |   |                                    |
| Forecast Revenue (\$000)   | \$1,701   |                                    |
| Actual Revenue (\$000)   | \$2,074   |                                    |
| Full Cost (\$000)  | \$2,074   |                                    |
| Performance Standard <sup>1</sup>  | The key service standard target is to issue advance income tax rulings to taxpayers within an average of 60 calendar days of receipt of all essential information. The Income Tax Rulings Directorate's Quality Management System requires a telephone acknowledgement of receipt of the request within 24 business hours. Within 14 days, a review of the file for completeness is conducted and an acknowledgement letter, complete with a contact name and request for any missing information (if required) is sent to the client. The client is again contacted by telephone when the file is assigned for processing. Where a delay is unavoidable, clients are contacted and delays are discussed with them. |                                    |
| Performance Results <sup>1</sup>   | Actual 2006-2007 results: 94 days   |                                    |
| <b>Planning Years</b>  | <b>Forecast Revenue (\$000)</b>   | <b>Estimated Full Cost (\$000)</b> |
| 2007-2008  | \$2,000   | \$2,000                            |
| 2008-2009  | \$2,000   | \$2,000                            |
| 2009-2010  | \$2,000   | \$2,000                            |
| <b>Total:</b>  | <b>\$6,000</b>  | <b>\$6,000</b>                     |
| <b>B. Other Information:</b>   |   |                                    |
| The performance standard was not met primarily due to staffing issues. The performance result is expected to improve and gradually get closer to the performance standard in the next few years through the additional hiring and training of staff. |   |                                    |

<sup>1</sup> Note:

According to prevailing legal opinion, where the corresponding fee introduction or most recent modification occurred prior to March 31, 2004 the:

- Performance standard, if provided, may not have received Parliamentary review;
- Performance standard, if provided, may not respect all establishment requirements under the *User Fees Act (UFA)* (e.g. international comparison; independent complaint address)
- Performance result, if provided, is not legally subject to *UFA* section 5.1 regarding fee reductions for failed performance.

### Table 7.1 b) Policy on Service Standards for External Fees – Advance Income Tax Ruling Fees

This table can be found on the TBS Web site at [http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index\\_e.asp](http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index_e.asp).



**Table 7.2 a) User Fees Act – Taxation Statistical Analysis and Data Processing Fees**

|                                   |  |                                    |
|-----------------------------------|--|------------------------------------|
| A. User Fee                       | Taxation Statistical Analysis and Data Processing  |                                    |
| Fee Type                          | Regulatory (R)   |                                    |
| Fee Setting Authority             | <i>Financial Administration Act 19(b)</i>  |                                    |
| Date Last Modified                | 1992   |                                    |
| <b>2006-2007</b>                  |  |                                    |
| Forecast Revenue (\$000)          | \$174  |                                    |
| Actual Revenue (\$000)            | \$219  |                                    |
| Full Cost (\$000)                 | \$219  |                                    |
| Performance Standard <sup>1</sup> | Provide statistical data to taxpayers within an average of 30 calendar days of receipt of all essential information. |                                    |
| Performance Results <sup>1</sup>  | Average provision time for requested data was 28.15 days   |                                    |
| <b>Planning Years</b>             | <b>Forecast Revenue (\$000)</b>  | <b>Estimated Full Cost (\$000)</b> |
| 2007-2008                         | \$150  | \$150                              |
| 2008-2009                         | \$150  | \$150                              |
| 2009-2010                         | \$150  | \$150                              |
| <b>Total:</b>                     | <b>\$450</b>   | <b>\$450</b>                       |

<sup>1</sup> **Note:**

According to prevailing legal opinion, where the corresponding fee introduction or most recent modification occurred prior to March 31, 2005 the:

- Performance standard, if provided, may not have received Parliamentary review;
- Performance standard, if provided, may not respect all establishment requirements under the *User Fees Act (UFA)* (e.g. international comparison; independent complaint address);
- Performance result, if provided, is not legally subject to *UFA* section 5.1 regarding fee reductions for failed performance.

**Table 7.2 b) Policy on Service Standards for External Fees – Taxation Statistical Analysis and Data Processing Fees**

This table can be found on the TBS Web site at [http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index\\_e.asp](http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index_e.asp).

**Table 7.3 a) User Fees Act – Access to Information Processing Fees**

|   |  |                                    |
|---|--|------------------------------------|
| <b>A. User Fee</b>  | Fees charged for the processing of access requests filed under the <i>Access to Information Act</i>  |                                    |
| Fee Type  | (O)  |                                    |
| Fee Setting Authority   | <i>Access to Information and Privacy Act</i>   |                                    |
| Date Last Modified  | 1992   |                                    |
| <b>2006-2007</b>  |  |                                    |
| Forecast Revenue (\$000)  | \$40   |                                    |
| Actual Revenue (\$000)  | \$46   |                                    |
| Full Cost (\$000)   | \$46   |                                    |
| Performance Standard <sup>1</sup>   | Processing time of 30 calendar days for the <i>Access to Information Act</i> , with no time limit for the extension period.<br>CRA's internal processing standard is 90% of completed request should be completed within legislative deadline. |                                    |
| Performance Results <sup>1</sup>  | 92% of the requests made under the <i>Access to Information Act</i> were processed within the legislative timeframe.   |                                    |
| <b>Planning Years</b>   | <b>Forecast Revenue (\$000)</b>  | <b>Estimated Full Cost (\$000)</b> |
| 2007-2008   | \$40   | \$40                               |
| 2008-2009   | \$40   | \$40                               |
| 2009-2010   | \$40   | \$40                               |
| <b>Total:</b>   | <b>\$120</b>   | <b>\$120</b>                       |
| <b>B. Other Information</b>   |  |                                    |
| It is the Canada Revenue Agency's practice to waive reproduction fees where the total owing per amount is less than \$25. |  |                                    |

<sup>1</sup> Note:

1. According to prevailing legal opinion, where the corresponding fee introduction or most recent modification occurred prior to March 31, 2004 the:

- Performance standard, if provided, may not have received Parliamentary review;
- Performance standard, if provided, may not respect all establishment requirements under the *User Fees Act (UFA)* (e.g. international comparison; independent complaint address)
- Performance result, if provided, is not legally subject to *UFA* section 5.1 regarding fee reductions for failed performance.

**Table 7.3 b) Policy on Service Standards for External Fees – Access to Information Processing Fees**

This table can be found on the TBS Web site at [http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index\\_e.asp](http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index_e.asp).

**Table 8 Details on Investment Plan Project Spending**

Supplementary information on Project Spending can be found at [http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index\\_e.asp](http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index_e.asp).

**Table 9 Details on Transfer Payment Programs**

Two Transfer Payment Programs with payments in excess of \$5M were administered by the Agency in 2006-2007:

- Children's Special Allowance Payments (CSA) (Statutory)
- Energy Cost Assistance Measures Expenses (Statutory)

Supplementary information on these Transfer Payments can be found at [http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index\\_e.asp](http://www.tbs-sct.gc.ca/rma/dpr3/06-07/index_e.asp)

**Table 10 Reconciliation to the Statement of Operations**

| (in thousands of dollars)  | <b>2006-2007<br/>Total Agency</b> |
|--|-----------------------------------|
| <b>Total Actual Spending<sup>1</sup></b>   | 3,405,124                         |
| <b>Financial Statements Adjustments</b>  |                                   |
| <b>Agency Activities</b>   |                                   |
| Services provided without charge (See Financial Statements – Note 11)                              | 436,296                           |
| Non-Tax Revenue – Respendable (see Financial Statements – Note 10)                                 | (134,120)                         |
| Non-Tax Revenue – Non – Respendable (See Financial Statements – Note 10)                           | (50,331)                          |
| Other adjustments to accrual from modified cash  | (4,863)                           |
| <b>Administered Activities</b>   |                                   |
| Children's Special Allowance (CSA)   | (197,768)                         |
| Energy Cost Assistance Measures  | (4,073)                           |
| Relief for Heating Expenses  | (1,718)                           |
| <b>Total Net Cost of Operations (from Statement of Operations – Agency Activities)<sup>2</sup></b> | <b>3,448,547</b>                  |

<sup>1</sup> Actual spending, on a modified cash basis, are net of revenues credited to Vote 1.

<sup>2</sup> Net cost of Operations (Expenses less Non-tax revenue) from the 'Statement of Operations – Agency Activities' on page 110 is presented on the accrual basis of accounting.



If you need more information, e-mail us at: [annual.report@cra-arc.gc.ca](mailto:annual.report@cra-arc.gc.ca) or write to:

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