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# IN BRIEF

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## Individual Income Tax Returns: Taxpayers Pay While the Government Saves

It is commonly accepted that new information technology (IT) can improve communication between government and citizens. For the majority of Canadians, it is also clear that the public sector should use IT to better meet their needs for information and public services. So it is not surprising to see governments gradually expand the content of their Web sites, providing ever more information on their programs and services.

The Internet and IT can also contribute significantly to productivity by increasing the public sector's administrative efficiency. Government portals are now offering more and more e-services, especially since they cost a mere fraction of what the same services would cost if offered by other means. The firm Accenture, citing a Government of Canada study, has noted that an over-the-counter transaction costs the government \$44, as compared to \$38 by mail, \$8 by telephone and less than \$1 over the Internet.<sup>(1)</sup>

### NETFILE AND ELECTRONIC RETURNS

The Canada Revenue Agency (CRA) has not escaped this trend. In recent years, it has invited Canadians to file their tax returns via the Internet. This service is quickly becoming more popular. When it was first offered, the CRA received 443,000 individual tax returns via the Internet. In 2004, it received close to four million.

It should be noted that businesses are also using e-filing: 64% of T4 slips and 95% of T5 slips are now sent electronically, and the filing of business tax returns via the Internet began two years ago.

Taxpayers who prepare their returns themselves and wish to send them via the Internet must use NETFILE. This service offers the following benefits:

- Security and confidentiality;
- Quick refund, usually within eight business days;

- Greater accuracy (fewer transcription errors occur when tax preparation software is used);
- Nothing to be mailed;
- No receipts to be submitted, unless requested;
- Immediate acknowledgement of receipt of tax return.

The CRA says that it actively encourages individuals to e-file. It also notes, in its 2005-2006 to 2007-2008 business plan, that it is taking steps to process 75% of all tax returns electronically in the coming years.<sup>(2)</sup> In connection with the 2005 budget and the related expenditure review, the CRA also indicates that it expects to reap significant savings (\$79.3 million by 2009-2010) by streamlining its processing and entering of the data included in tax returns.<sup>(3)</sup>

### ONE-SIDED SAVINGS?

Like TELEFILE, the corresponding telephone filing service, NETFILE itself is free of charge. Taxpayers who wish to use it, however, must purchase a Web application or a tax preparation software package marketed by the private sector and certified by the CRA. So while NETFILE is free, the application or software needed to use it is not.<sup>(4)</sup>

Thus, the federal government reaps considerable savings in time and money from processing returns electronically, since the data do not have to be entered a second time. The administrative resources that are freed up as a result could, as in other countries, be assigned to duties with higher value-added for taxpayers, such as fighting tax evasion or the black market economy. There is no indication, however, that the switch to electronic processing will lead to universal free access to tax preparation software or Web applications. Should taxpayers not also benefit from the savings the government is enjoying?

## FREE ELECTRONIC RETURNS?

Sharing savings are not unheard of outside Canada's federal government. Australia, Belgium, Denmark, Spain, France, New Zealand, Norway, the Netherlands, Singapore and Sweden are among the most industrialized and most advanced countries with respect to on-line government services. They all offer their citizens the option of preparing and submitting their tax return via the Internet *free of charge*. Further examples could be cited.

Moreover, France's tax agency offers taxpayers a tax discount of €20 if they file their return and pay their assessed taxes via the Internet.<sup>(5)</sup>

In the United States, agreements between software and applications developers and the government have been adjusted in order to attain the objective set by Congress of 80% of tax returns filed electronically by 2007. In addition, since January 2005, the Internal Revenue Service has required the consortium of companies that develop Web applications or software for tax preparation to offer at least 60% of Americans access to a completely free service for preparing and transmitting their federal tax returns.

In Canada, the Quebec government<sup>(6)</sup> offers individual taxpayers without a spouse or dependants and whose income sources are limited to employment, retirement, investment or benefits the option of preparing and submitting their provincial tax return electronically at no charge. The Government of Quebec's downloadable Web application is designed for individuals whose tax situation is simple, as it does not offer tax planning or optimization or any suggestions to the user.

## A BENEFIT IN PERPETUITY?

Among the tax agencies of advanced countries, Canada is part of a small group that still considers it to be in taxpayers' interest to pay for a Web application or software developed by the private sector in order to file a tax return electronically.

When NETFILE was first introduced, the CRA worked closely with the tax preparation software developers. According to the CRA, this collaboration has made it possible to develop high-quality tax preparation packages that are offered to the Canadian public at a price the CRA considers to be "reasonable."<sup>(7)</sup> The CRA believes that this public-private partnership benefits both the public and the Canadian software industry.<sup>(8)</sup> Moreover, given the competition in the industry, Canadians can choose among various software brands. Finally, the many financial and accounting software packages allow

clients to use tax preparation packages that are more sophisticated and complex than what the CRA maintains it can achieve.

This partnership has obviously allowed the CRA to reduce its start-up costs and to externalize the risk associated with developing and implementing the electronic filing option for individual taxpayers. As a result of this partnership, however, taxpayers are now paying what could be termed a "benefit in perpetuity" to the private-sector tax preparation software designers. In view of what other countries are doing, it is reasonable to question whether this situation is still truly in Canadians' interest.

Or in the CRA's interest, for that matter. As long as taxpayers have to pay to prepare their tax returns and file them via NETFILE, many could be reluctant to do so, reducing the potential cost savings to the government.

- (1) Accenture, *e-Government Leadership: High Performance, Maximum Value*, The Government Executive Series, May 2004 ([http://www.accenture.net/xdoc/en/industries/government/gove\\_egov\\_value.pdf](http://www.accenture.net/xdoc/en/industries/government/gove_egov_value.pdf)).
- (2) Canada Customs and Revenue Agency, *Future Directions for the Canada Customs and Revenue Agency – Individuals*, RC4314 (<http://www.cra-arc.gc.ca/E/pub/xi/rc4314/rc4314-e.pdf>).
- (3) Key elements of this process are the following:
  - Canadians will be able to amend their own statements of income and benefits by entering changes on a secure Web site. This will considerably reduce the waiting time to create a new tax assessment.
  - A two-dimensional bar code will be printed on all individual tax returns produced on paper by a tax preparation package. The bar code will provide all the tax return data in a format that can be read electronically, eliminating the need to enter the data manually.
  - The two-dimensional bar code project will be expanded to include business tax returns.
- (4) Except for very low-income taxpayers.
- (5) See the Web site of France's Ministry of Economics, Finance and Industry (<http://www.impots.gouv.fr>).
- (6) Quebec collects its own provincial tax directly, using a separate tax return. The federal government collects taxes for all the other provinces, through the form used for federal taxes.
- (7) Correspondence from the Parliamentary Affairs Directorate, Canada Revenue Agency.
- (8) Two of the main products on the Canadian market are those offered by INTUIT and H&R Block, both American companies.