




CCRA **Annual Report** to Parliament
2004-2005



More Ways to Serve You!
Pour vous servir encore mieux!



Canada Customs
and Revenue Agency

Agence des douanes
et du revenu du Canada

Who We Are

The Canada Revenue Agency (CRA) is the principal revenue collector for the federal government. Annually, we collect over \$300 billion in taxes and other revenues; distribute close to \$12.5 billion in benefit payments to millions of families and individuals on behalf of the federal, provincial, and territorial governments, as well as First Nations; and employ up to 34,300 permanent employees at 55 service sites across the country.

Changes—both large and small—in the lives of Canadians impact the CRA. Whether it is the birth of a child, a new job, a change in marital status, a business investment, 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 mandate and strategic direction focus on promoting compliance with the legislation we administer. We pursue our mandate while ensuring that the tax and benefits administration system functions in the best interest of Canadians at the lowest possible cost. We continue to maximize the full potential of our agency status to build on these services and programs in ways that will benefit individuals and other levels of government into the future. With four enduring values—integrity, professionalism, respect, and co-operation—we believe in providing service excellence to all our clients, supported by fair and responsible enforcement, to ensure the integrity of our tax and benefits system and to maintain the trust and confidence of Canadians.



On December 12, 2003, the Government transferred the customs function of the Canada Customs and Revenue Agency (CCRA) to the Canada Border Services Agency (CBSA). As a result of this transfer, it is proposed that the CCRA continue operations under the name of the Canada Revenue Agency (CRA). This name change and the renaming of the *Canada Customs and Revenue Act* to the *Canada Revenue Agency Act* are presented in Bill C-26, an Act to establish the Canada Border Services Agency, which has been referred to committee in the Senate at the time of printing of this document.

To reflect these proposed legislative changes, and to ensure the reader understands that the information contained in this document pertains only to the revenue and benefits components, we are using the name Canada Revenue Agency (CRA).

2004-2005 CRA at a Glance



- Collected close to \$305 billion—averaging over \$1.2 billion every working day, including:
 - Over \$42 billion on behalf of the provinces, territories, and First Nations
 - Over \$17.7 billion for Employment Insurance Premiums
 - Approximately \$29 billion in net revenues on behalf of the Canada Pension Plan
- Benefit and credit payments worth close to \$12.5 billion distributed to over 11 million entitled Canadian recipients

- Over \$1 billion in interest and penalties waived or cancelled under fairness provisions
- Almost 1.5 million employers withheld and remitted \$171 billion in source deductions—about 56% of the revenues we collected
- Close to \$10.2 billion in fiscal impact identified through measures for addressing non-compliance
- Almost 90 agreements with other government departments and agencies for joint program delivery
- Over 24 million individual and trust tax returns and 1.5 million corporate tax returns processed



- Over 24 million tax-related visits to the CRA's website
- Approximately 22 million public enquiries answered
- Almost 15,800 volunteers completed more than 458,000 simple tax returns for low-income, eligible taxpayers
- More than 6,600 voluntary disclosures processed, with related assessments totalling nearly \$320 million
- Resources:
 - Operating budget of \$3.2 billion
 - Workforce of up to 34,300 permanent employees across Canada, and a term population which fluctuates to approximately 10,000 during peak tax filing season

Performance against Strategic Outcome

	Performance rating	Data ¹ quality
Strategic Outcome – Compliance with Canada’s tax laws, and the effective delivery of benefits and other programs and services	2004-2005	Met
	2003-2004	Met
Performance against Expected Outcomes		Page
✓ Canadians pay their required taxes and the tax base is protected		
<ul style="list-style-type: none"> Compliance rates continued to be high, as demonstrated in the table, ‘Estimated Compliance Rates and Indicators’. Most individuals and businesses file their returns and pay their reported income taxes on time. We reduced the ratio of gross tax debt to gross revenue, and the inventory of tax debt greater than five years of age, and we exceeded our cash collection commitments to the Government of Canada, although the dollar value of tax debt grew. For reporting compliance, we focus on the small percentage of the population who pose the greatest risk to tax revenue since, in our judgement, incidence of non-compliance is relatively low, although in total it is financially significant. 	25	38
<ul style="list-style-type: none"> We met or mostly met our most important service standards, including those for the timeliness of processing tax returns. We expanded our electronic service options. Our take-up rates for electronic services improved and we achieved a participation rate of 49.4% for T1 electronic filing for the 2004 tax year. 	27	28
✓ Canadians receive their rightful share of entitlements		
<ul style="list-style-type: none"> We issued on time over 99.8% of all CCTB, GST/HST credit, and provincial and territorial payments, for programs that we administer, consistent with our performance last year. 	44	
<ul style="list-style-type: none"> Based on an internal CRA study, over 99% of benefit payments and notices were issued accurately. 	44	
✓ Provinces, territories and other government departments rely on the CRA as a key service provider		
<ul style="list-style-type: none"> We collected over \$42 billion in taxes and administered 17 ongoing child benefit and credit programs for provinces and territories. We continued to broaden the scope of programs and services administered on behalf of our client governments. 	29	21 46
☑ Canadians receive an impartial and responsive review of contested decisions		
<ul style="list-style-type: none"> We resolved most disputes administratively. The majority of our determinations that went to the Tax Court of Canada were upheld. The timeliness of our dispute resolution, specifically Income Tax, has steadily improved over the past several years. However, we need to improve the timeliness of CPP/EI dispute resolution. Continued effort is required to reduce the inventory of disputes and voluntary disclosure cases. 	54	53
✓ Internal services enable business lines to maximize performance and operations		
<ul style="list-style-type: none"> Our strategic direction and the strategic oversight by our Board of Management was reviewed in our internal assessment of agency status. The Board has promoted results-based management. 	58	
<ul style="list-style-type: none"> We continued to improve financial systems and controls to respond to the recommendations included in the Auditor General’s report on government-wide financial management. 	59	
<ul style="list-style-type: none"> While our HR reform is well under way, the Taking Stock review has identified some required improvements in the area of the Competency Based Human Resources Management system (CBHRM). 	61	
CRA Net expenditures	(in millions)	
	2004-2005	3 050 977
	2003-2004	2 945 838

Met
 Mostly Met
 Not Met

¹ See ‘Performance and Data Quality Ratings’ page 20 for the definitions of the ratings used.

Message from the Minister

As Minister of National Revenue, it is my privilege and honour to table the Canada Revenue Agency's (CRA) fifth Annual Report to Parliament, which demonstrates how we fulfilled our mandate over the past year.

The responsibility for administering taxes and benefits on behalf of governments and government institutions in our country, brings with it two important obligations. First, we must maintain public confidence in the integrity of the tax system by being fair and diligent in enforcing the law. We also place a high priority on the security of our facilities, information privacy, respect for citizens and employee ethics. As a result, the Agency is recognized and respected for its integrity, fairness and innovation in administering high-quality, yet affordable, programs.



Second, we must be efficient in how we administer our budget. Our agency status has provided a foundation from which we can administer our core program activities in a productive and innovative manner. The CRA has done this by managing expenditures, raising productivity and reallocating resources to the most essential program activities, while maximizing the use of existing resources. Our Board of Management, composed of individuals from the private sector across the country, has imposed on the Agency an additional level of rigour. This enables us to maintain a strong core business, advance our governance, develop business and ensure growth, and maintain program efficiencies.

Our services, such as 'My Account', use cutting-edge technology to provide Canadians with a secure option for viewing and managing their personal income tax accounts from their own home or office. By providing services like this and others, we are offering Canadians more convenient and accessible ways to voluntarily comply with their tax obligations.

In the past year, we increased co-operation with other federal departments and agencies. New services were also provided to provinces, territories and First Nations governments. We participated in discussions with the Government of Ontario on leveraging our systems to collect provincial corporate tax, we created the First Nations Advisory Committee, and we concluded agreements with First Nations governments to collect taxes on their behalf. These measures illustrate our willingness and desire to work collaboratively in designing services that meet the needs of various client governments.

We have made great progress since becoming an agency only six years ago, and we are well positioned to continue delivering the best value in our services. I am proud to be responsible for such a dynamic and professional organization.

A handwritten signature in black ink that reads "John McCallum". The signature is written in a cursive style and is positioned above the printed name of the Minister.

The Honourable John McCallum, P.C., M.P.
Minister of National Revenue



Foreword by the Chair

The Board of Management brings to the Canada Revenue Agency (CRA) private sector rigour and expertise in managing its resources, services, property, personnel and contracts. Our goal is to increase efficiency in administrative overhead spending and reinvest the savings, where possible, to address the risks and challenges in maintaining the integrity of the tax system, while enhancing service to Canadians.

This past year has seen significant progress on the Agency's change agenda. We continued to transform how we do business, keeping pace with changes in technology and management practices. For example, we carried on with reforms to our human resource regime and to our financial information and performance measurement systems. We also laid the groundwork for future business achievements, by managing expenditures and reallocating resources to focus on our key program priorities. In the year ahead, my colleagues on the Board of Management and I look forward to working with management in setting the future direction for the CRA.



This is the first Annual Report to be tabled in Parliament since I was confirmed as Chair of the Board of Management in March 2005. This Annual Report is a vital part of our reporting efforts, as it helps fulfill the Agency's priority of ensuring trust and integrity in our people and our operations. We will continue reporting tangible and practical results, to remain transparent and to demonstrate our accountability to Canadian taxpayers.

I am pleased to recommend this report to the Minister of National Revenue, the Honourable John McCallum, for tabling in Parliament.

A handwritten signature in cursive script, appearing to read 'Connie I. Roveto'. The signature is written in black ink and is positioned above the printed name and title.

Connie I. Roveto
Chair, Board of Management



Management's Representation and Statement of Responsibility for Performance Information

I submit for tabling in Parliament the 2004-2005 Annual Report (Departmental Performance Report) for the Canada Revenue Agency (CRA)¹. The *Canada Customs and Revenue Agency Act* requires that an annual report be tabled in Parliament. This report must include information about the CRA's performance on objectives established in its Corporate Business Plan. It must 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 CRA's actual performance.

This report has been prepared on the basis of reporting principles and other requirements in the *Guide for the Preparation of 2004-2005 Departmental Performance Reports* (Treasury Board of Canada Secretariat, April 2005). The CRA maintains systems and practices that provide reasonable assurance that the performance information presented in this report is accurate, comprehensive and balanced. However, some of the performance information 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 performance measures for its expected results.

The CRA's Corporate Audit and Evaluation Branch conducts independent reviews of various aspects of the CRA's performance. Also, the Board of Management's Audit Committee oversees management's responsibilities for maintaining internal controls and financial and performance 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 performance information with the assessment of the Auditor General of Canada, as shown on page 69. This Annual Report also includes the CRA'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. Business line 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 153 under the financial statements section of this report.



Michel Dorais
Commissioner

1. Please refer to inside cover regarding the name change from Canada Customs and Revenue Agency (CCRA) to Canada Revenue Agency (CRA).



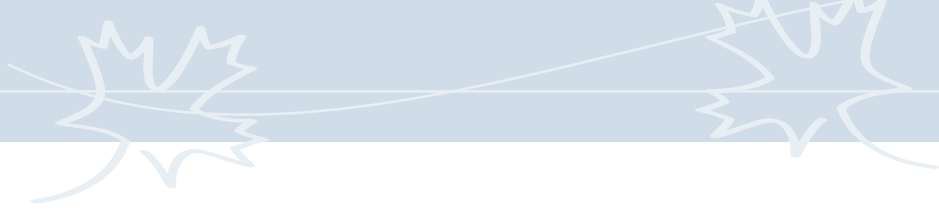


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Executive Summary

The Canada Revenue Agency's (CRA)² strategic outcome is ***Compliance with Canada's tax laws and the effective delivery of benefits and other programs and services***. Our Annual Report to Parliament for fiscal year 2004-2005 assesses the extent to which we have achieved this strategic outcome, by measuring how well we deliver on the following expected outcomes:

- Canadians pay their required taxes and the tax base is protected.
- Provinces, territories, and other government departments rely on the CRA as a key service provider.
- Canadians receive their rightful share of entitlements.
- Canadians receive an impartial and responsive review of contested decisions.
- Internal services enable business lines to maximize performance and operations.

The inside cover section at the front of this report provides highlights of our performance by strategic outcome. The chapters that follow provide details for each of our business lines: Tax Services, Benefit Programs and Other Services, Appeals, and Corporate Management and Direction.

Canadians pay their required taxes and the tax base is protected

We believe that, to achieve our mandate, we must make it easy for taxpayers and businesses to meet their obligations. We must also ensure fairness and tax integrity by applying robust compliance programs, and operate in a cost-effective manner.


2. Please refer to inside cover regarding the name change from Canada Customs and Revenue Agency (CCRA) to Canada Revenue Agency (CRA).

As 'Estimated Compliance Rates and Indicators' on page 25 shows, voluntary compliance continued to be high for filing, registration and remittance in 2004-2005. There are non-compliance challenges related to the reporting of the right amount of income and claiming the correct deductions and credits—whether unintentional or not. It is our assessment that, for the vast majority of Canadians, the incidence and magnitude of non-compliance are relatively low, although in total it is financially significant. Notwithstanding, we have established a strategy to further strengthen compliance in both the short and the long term, specifically in the following areas:

- aggressive tax planning;
- the underground economy;
- Goods and Services Tax / Harmonized Sales Tax (GST/HST); and
- Non Filers / Non-Registrants and Collections.

Our measures to address non-compliance identified almost \$10.2 billion in fiscal impact, exceeding our commitment to the Government of Canada by nearly \$1.5 billion.

Further, to better manage the level of tax debt, we invested additional resources in our accounts receivable program to improve the collection of outstanding accounts and reduce the proportion of aged accounts. Reducing the size of inventory of older accounts continued to be a high priority in 2004-2005. As a result of this special initiative to reduce accounts to their net realizable value, we wrote off in whole or in part approximately \$2.4 billion of uncollectible amounts—almost double that of previous years. This, coupled with the reduced intake of tax debt, eliminated the gap between the dollar value of accounts resolved and the intake of new debt, lowered the ratio of gross tax debt to gross revenues, and reduced the inventory of older tax debt. Total tax debt now stands at \$18 billion.



In 2004-2005 we increased the reliability and efficiency of our financial systems that are used to record revenues owed by and due to taxpayers. We also embarked on a multi-year process to modernize our data-processing systems to support our move towards an integrated, client-centred approach and improve our ability to manage tax debt.

Part of our strategy in 2004-2005 to deliver affordable client services was to increase client self-service by enhancing our electronic service options. For instance, Canadians can now go online to view their income tax information, change their return, change their address or file a formal dispute, and obtain benefits information.

Our commitment to timely, accessible, reliable and fair service that is responsive to clients' needs is supported by published service standards that help to set public expectations and contribute to overall client satisfaction. This year, we added four new service standards, bringing the total to 36 service standards related to this expected outcome. We met or mostly met 89% of our service standard targets compared with 69% in 2003-2004. See 'Schedule C' for our performance against service standards.

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

The CRA delivers tax and benefit programs and services on behalf of provinces, territories, First Nations, and other federal departments and agencies. We administer 17 child benefit and credit programs for the provinces, many of which started under the joint federal, provincial and territorial National Child Benefit (NCB) initiative. Our approach to administering these programs is to reduce duplication and increase efficiency, as well as to simplify tax and benefit administration for provincial governments. One example of this approach is the electronic data exchange service, which makes it easier for clients to receive benefits from their

provincial programs. In 2004-2005, seven provincial programs joined our income verification data exchange service, bringing this total to 13 programs.

In addition, we supported the Department of Finance Canada in its negotiations with First Nations on establishing new tax administration agreements. These agreements included the collection of a First Nations GST with nine Yukon First Nations, a First Nations Personal Income Tax Agreement with the Kluane First Nation, and an agreement to allow the CRA to collect certain First Nations taxes with the Whitecap Dakota First Nation.

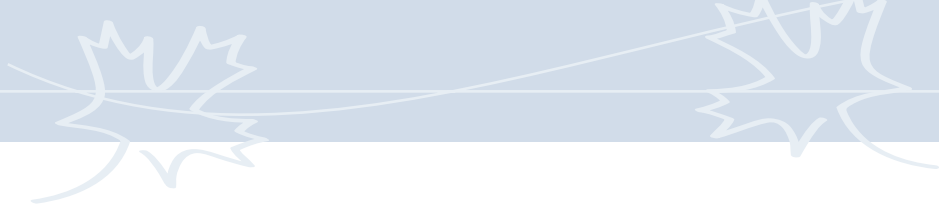
One of the objectives of becoming an agency was to improve our capacity to work with other levels of government. We anticipate signing a memorandum of understanding in the near future with the province of Ontario on the implementation of a single corporate tax administration.

Our strengthened accountability regime includes not only an annual report that is tabled in Parliament, but also annual reports submitted to provinces and territories on the services we administer on their behalf.

Canadians receive their rightful share of entitlements

The benefit programs administered by the CRA, such as the Canada Child Tax Benefit (CCTB), the GST/HST credit, Children's Special Allowances, and the disability tax credit, make a significant contribution to the economic and social well-being of Canadians. We issued more than 70 million CCTB and GST/HST credit payments, totalling close to \$12.5 billion, to over 11 million low- and moderate-income recipients.

Again this year, we issued on time more than 99% of all CCTB, GST/HST credit, and provincial and territorial payments for the programs that we administer. We also met our targets for the timely and accurate processing of applications for benefit and account adjustments, as well as for



processing the benefit amounts resulting from these in-year transactions.

To improve the degree of compliance with benefit rules, we increased the number of CCTB accounts selected for review and achieved an increase in our validation adjustment rate. This enabled us to minimize the amounts of overpayments under these programs.

Canadians receive an impartial and responsive review of contested decisions

Our appeals program is one of the largest dispute resolution services in government. It includes the Fairness Initiative, which allows us to forgive interest and penalties in situations where clients are unable to comply with their tax obligations due to circumstances beyond their control, and the Voluntary Disclosures Program, which allows clients to correct past errors without penalty.

The CRA tries to resolve cases fairly with clients. If they are not satisfied with the CRA's determination, clients have the option of appealing to the courts—a lengthy and potentially costly option. Across the three program areas, Income Tax (the largest program), GST/HST, and CPP/EI, the majority of appeals cases were resolved before going to the courts; this demonstrates responsiveness and cost-effectiveness. Further, the courts confirmed the CRA's original pre-court determinations in more than half of the cases they reviewed.


With respect to timeliness, for income tax files, we reduced the average processing time from 135 days to 130 days. We did not, however, meet our processing targets for GST/HST and CPP/EI files. A review of these results will help us determine the next steps needed to balance timeliness with the quality of our decisions.

Internal services enable business lines to maximize performance and operations

The Board of Management, which became part of the CRA's governance structure when it became an agency in 1999, is responsible for overseeing the organization and administration of the CRA and the management of its resources, services, property, personnel and contracts. It is also responsible for approving the Corporate Business Plan, which establishes the objectives on which this document reports. With membership from private business across Canada, the Board also brings a private sector perspective to the CRA's work, and performs a healthy challenge role to senior management.

The strengthening of financial management is a key priority at the CRA. In 2004-2005 the CRA spent \$3,051 million of its \$3,226 million budget, a lapse of \$175 million, or 5.4% of budget. While workload volumes have increased in some areas, and labour negotiations were settled with the largest union in 2004-2005, financial expenditures remained relatively stable, increasing by \$105 million or about 3.6% over last year. We have also introduced various initiatives and reviews aimed at improving efficiency, such as modernizing employee compensation services, and these measures are contributing to savings in operating expenditures.

As part of our resource management strategy, where possible, we limited administrative overhead spending and reallocated funding to program priorities. The initiatives that we undertook upon becoming an agency, such as those to reform procurement, contracting and other administrative activities, are largely complete. Through these reforms, savings have been identified and our processes have improved. Our human resource management initiatives continue to mature. This has included developing strategies to address the impact of the expenditure review and to deal with future requirements for more knowledge workers.



In support of program delivery, our information technology (IT) services continued to deliver high levels of IT service availability of the applications, infrastructure and network services that are needed for operational capability in a secure environment. At the same time, we took steps to strengthen the security, monitoring and control features in our financial systems to respond to Auditor General's concerns about financial system controls. With continuous expansion and improvements in our online services, once again we were recognized for our IT performance with six awards from the Government Technology Exhibition Conference (GTEC).

Conclusion

We believe that, based on our results for the 2004-2005 fiscal year, we have once again achieved our strategic outcome: Compliance with Canada's tax laws and the effective delivery of benefits and other programs and services. As in previous years, compliance with Canada's tax laws, with respect to

filing, registration and remittance, remains at a high level. We do recognize that non-compliance exists, and we continue to identify and challenge this.

Overall, our service delivery was timely and effective, and this is enhanced by the CRA's continued development of electronic services that make it easier for Canadians to get the information they need in order to comply voluntarily. In addition, the increased availability of two-way transactions over the Internet and telephone enables Canadians to access a full range of CRA services; this makes the filing of taxes and the application for benefits more efficient and accessible. In addition, we improved our performance against our service standards.

In its first five years as an agency, the CRA has evolved into an innovative and progressive organization, while maintaining the transparency that has become essential in government today. However, to better respond to the constant changes and unique challenges we face, we must continue to remain creative and dynamic as the CRA moves forward into the next five years.

Performance by Business Line

Context: Strategic Risks and Priorities

The strategic priorities—tax integrity, trust and integrity, business sustainability, and service to Canadians—established in the *Corporate Business Plan 2004–2005 to 2006–2007* were based on an assessment of the following six key risks, challenges and opportunities facing the CRA:

- addressing threats to compliance;
- fulfilling our fiduciary responsibilities;
- managing financial pressures;
- protecting confidential information;
- sustaining human resources; and
- responding to socio-economic and political trends.

In 2004-2005, our greatest risk, that of increasing threats to compliance, was addressed by establishing **tax integrity** as a strategic priority. An Agency-wide review of compliance risks, including emerging trends, as well as shifts in attitudes and behaviours that might affect client confidence in the CRA, confirmed the following four areas of focus.


- **Aggressive tax planning:** The growth in abusive tax schemes, such as tax avoidance arrangements through liberal interpretations of Canada’s tax laws, undermines public confidence in our tax system and may give the impression that tax avoidance and evasion are pervasive. The strategy used by the CRA to counteract this includes identifying and auditing all such transactions as quickly as possible, and publicly stating our position on those transactions to prevent further abuses.
- **GST/HST:** Millions of GST/HST transactions take place daily, and an extremely large number of registrants request refunds. Our primary focus is to prevent improper refunds and create a legislative and administrative environment to reduce systemic opportunities for fraud. We used the profiling of

high-risk registrants, informant leads, partnerships with other law enforcement agencies, as well as our own audits and investigations to identify cases of possible GST/HST non-compliance.

- **Underground economy:** As part of our multi-dimensional strategy for dealing with the underground economy, we have expanded the use of third-party reporting as well as third-party information. Since non-reporting and under-reporting by self-employed individuals account for much of the unreported income, in addition to our “Get it in Writing!” campaign and Contract Payment Reporting initiative, which are already in place, we published a new pamphlet, entitled “Will you do it for cash?”. The pamphlet reminds construction businesses of the requirement to report cash payments on their GST/HST and income tax returns, identifies the consequences of participating in the underground economy, and provides information on the results of our activities to combat the underground economy.
- **Non-filers/non-registrants and collections:** A number of key risks to our compliance objectives were identified in the area of collections and non-filers/non-registrants, including employer compliance issues, inventories of non-filers and past performance in the collections of accounts receivable.

The **trust and integrity** strategic priority mitigated risks associated with protecting confidential information, by responding to policy, social and economic trends, and meeting our financial responsibilities. In 2004-2005, key mitigation strategies included increased focus on the security of information and systems, continued attention to ethics and conduct, and strengthened financial controls and reporting.

In addressing the risks associated with maintaining program integrity, we set the strategic priority of



business sustainability (the maintenance of our programs and services, with particular emphasis on financial and human resources). We realized further productivity gains through a risk-based decision process to reallocate resources to support our core tax and benefits programs and to invest in service innovations.

To meet the challenges of maintaining a voluntary compliance approach to Canada's taxation system and to support the government-wide service priority, we made **service to Canadians** a strategic priority. We believe that if they feel they are getting good service, our clients will have a more positive overall view of our tax administration. This in turn, will reinforce their voluntary compliance. Specific results achieved in 2004-2005 related to this priority are discussed in both the Tax Services and the Benefit Programs and Other Services sections of this report.

The CRA has remained vigilant about managing ongoing risks through the strategic priorities we have established. Our overall strong performance against our expected results demonstrates our success in integrating risk management strategies into our decision making.

Strategic Planning and Reporting Framework

The strategic framework is based on the strategic outcome, which governs the priorities we pursue, and the investments we make to support those priorities. Linked to this strategic outcome are the expected outcomes and expected results for each of our business lines. The expected outcomes describe the impact that each business line has on Canadians. The expected results are what the CRA expects to achieve, and represent the criteria against which our performance will be assessed and reported.

Strategic Framework

Strategic Outcome				
Compliance with Canada's tax laws and the effective delivery of benefits and other programs and services				
Business Lines				
	Tax Services	Benefit Programs and Other Services	Appeals	Corporate Management and Direction
Expected Outcomes	Canadians pay their required taxes and the tax base is protected	Canadians receive their rightful share of entitlements	Canadians receive an impartial and responsive review of contested decisions	Internal services enable business lines to maximize performance and operations ¹
	Provinces, territories and other government departments rely on the CRA as a key service provider			
Expected Results	Clients receive timely, accessible, reliable and fair service that is responsive to their needs			Sound strategic direction, financial and treasury management
	High levels of compliance are achieved and non-compliance is identified and addressed ²	Non-compliance is identified and addressed		Enhanced human resource management, which contributes to a knowledgeable and skilled workforce in the right place at the right time
	Tax debt is resolved on a timely basis and is within targeted levels ³			Demonstrate excellence in the provision of internal services
Key Programs	<ul style="list-style-type: none"> Client Enquiries Returns / Applications / Charities Processing Rulings and Interpretations Revenue Collections Reviews, Audits, Investigations and Enforcement 	<ul style="list-style-type: none"> Canada Child Tax Benefit and GST/HST credit Provincial and territorial benefit and credit programs Children's Special Allowances Disability Tax Credit 	<ul style="list-style-type: none"> Dispute Resolution Fairness Monitoring Voluntary Disclosures 	<ul style="list-style-type: none"> Information Technology Human Resources Finance and Administration Policy and Planning, Corporate Audit and Evaluation, Agency Management

¹ The wording was modified from the Corporate Business Plan 2004-2005, which was as follows: "Internal services maximize performance of our business lines and operations." The new wording reflects the enabler role of internal services.

² The wording was modified from the Corporate Business Plan 2004-2005, which was as follows: "Non-compliance is identified and addressed." The new wording includes the CRA's efforts to ensure high compliance, and not just to address non-compliance.

³ The wording was modified from the Corporate Business Plan 2004-2005, which was as follows: "Level of tax debt is within targeted levels." The new wording includes the CRA's attention to the timely resolution of tax debt.

Rating our Performance

In the following sections, the performance of each business line is measured by how it achieved the expected results outlined in the strategic framework. For each expected result, we provide a performance summary, including the rationale for the performance rating in relation to the performance expectations in the Corporate Business Plan, and comment on year-over-year performance.

We use qualitative and quantitative indicators to determine our performance ratings. Survey results, statistical sampling and business operational data inform our performance assessments. Although we have made progress in developing robust performance measures, we need to make some of

them more concrete and measurable. In these cases, we use the best information we have to make an assessment.

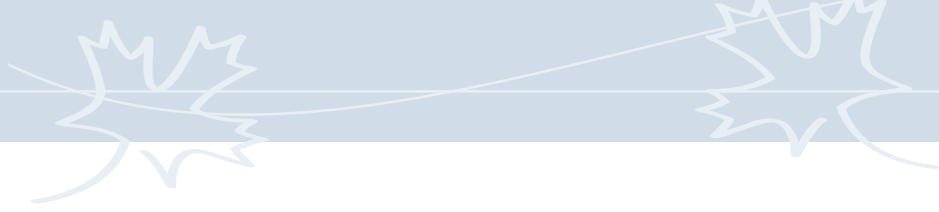
We rate the performance of our business lines on whether expectations, set in our corporate business plan, were met, mostly met or not met. The data quality ratings indicate whether they are based on good, reasonable or weak data. The table below, entitled 'Performance and Data Quality Ratings', defines these terms. Generally, our data collection systems provide reliable information.

The sections that follow provide more in-depth discussions of our performance in 2004-2005 for each of our four business lines.

Performance and Data Quality Ratings

Performance Ratings	
Met	Our performance met our expectations
Mostly met	While the performance met most of our expectations some gaps exist
Not met	Significant gaps exist in performance and most or key expectations were not met

Data Quality Ratings	
Good	Performance rating based on management judgment supported by an appropriate level of accurate information (including management estimates) obtained from reliable sources or methods
Reasonable	Performance rating based on management judgment supported, in most cases, by an appropriate level of accurate information (including management estimates) obtained from reliable sources or methods
Weak	Significant gaps in robustness of performance information ; performance rating based on management judgment supported by entirely or predominantly qualitative information from informal sources or methods



Tax Services

Tax Services is the largest of the CRA's business lines. It is responsible for administering, assessing and collecting more than \$300 billion in taxes and excise taxes, including more than \$42 billion in taxes on behalf of Canada's provinces (except Quebec), territorial governments and First Nations. Our clients include almost 30 million individuals, businesses, trusts and other organizations.

The Canadian tax system is based on self-assessment and voluntary compliance. Tax Services programs are aimed at promoting compliance with Canada's tax laws and ensuring that clients pay their required taxes. Compliance is highly sensitive to many factors, such as perception of government, general values held by society, the economy, the structure of the tax system and legislation. Many of these factors are beyond our control.

Tax Services programs help to ensure that CRA's clients receive accurate information and assistance in understanding their rights and obligations under the Canadian tax system. Tax Services activities include registering businesses, charities and deferred profit-sharing plans; obtaining and processing returns and payments; issuing rulings on and interpretations of tax law; collecting arrears; performing reviews and audits; and identifying and prosecuting cases of wilful non-compliance. We also administer tax incentives, such as the Scientific Research and Experimental Development (SR&ED) tax credit, film tax credits and other targeted credits, as well as deductions that generate refunds or otherwise reduce the amount of tax that would be owed. In addition, the CRA provides expert technical assistance to foreign revenue administrations.



The CRA is not alone in promoting tax compliance. A strong legislative foundation requires employers to withhold and remit deductions at source, obliges businesses to collect and remit GST/HST on our behalf, and specifies sanctions and penalties for non-compliance. Financial institutions offer convenient, accessible services that enable individuals and businesses to receive and deposit refunds and remit tax payments on time.

Equally important are law enforcement agencies, such as the Royal Canadian Mounted Police (RCMP) and the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). We work closely with these agencies when conducting investigations into suspected tax evasion related to money laundering or terrorist financing. We also work with international tax administrations and organizations, such as the Pacific Association of Tax Administrators (PATA), the Organisation for Economic Co-operation and Development (OECD) and the Inter-American Center of Tax Administrations (CIAT).

Spending Profile

In 2004-2005, 66% (\$2 billion) of the CRA's overall expenditures were devoted to the Tax Services business line. The CRA had 27,384 full-time equivalent (FTE) staff delivering tax programs and services. The expenditures have increased by 4.2% over the amount for 2003-2004, while FTE utilization has decreased by 2.2%.

A similar trend can be observed at the agency level, where expenditures have increased by 3.6% and FTE utilization decreased by 2.6%. The increase in expenditures can be attributed largely to retroactive and current-year salary increases. The decrease in FTE utilization, in part attributable to the 2004 labour disruption, is not reflected in the employee count at year-end, which has remained stable over the last two fiscal years.

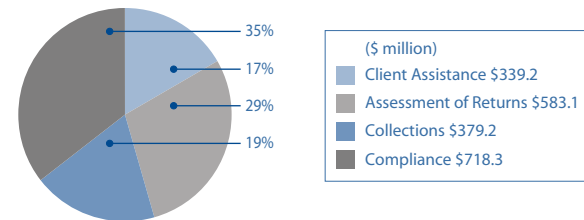
As shown in Figure 1, the largest share of Tax Services resources (35.5%) was spent on activities related to reporting compliance for reviews, examinations, audits and other compliance programs. Some 28.9% was spent on the assessment of returns, which includes filing and remittance operations, SR&ED activities and payments to the Ministère du Revenu du Québec to administer the GST in Quebec. The third component is Collections (18.8%), which is dedicated to ensuring that deductions at-source are remitted and to collecting outstanding accounts. Client Assistance, through various service channels such as telephone assistance and publications, made up 16.8% of the expenditure.

Throughout Client Assistance and Assessment of Returns programs, business processes are continually being re-engineered to generate efficiency gains that, over time, help to offset the impact of the normal growth in workload, which is not compensated by the central agencies. For example, while Individual Returns and Payments Processing FTE utilization decreased by some 3.7% from 3,686 to 3,550, from

2003-2004 to 2004-2005, the annual growth in individual returns processed stood at some 1.5%.

While the Agency has not received funding for normal volume growth, there has been funding provided tied to specific initiatives related to new tax rules for registered charities, money laundering and the impact of the 2004 federal budget initiatives, such as the charities disbursement quota, Canada Learning Bond and Canada Education Savings, Tax Shelters and Non-Resident Investment through Mutual Funds.

Figure 1 Resource Spending by Programs



Total Spending: \$2,019.8 million

Data quality: Good

Key Volumetrics

Cash Deposits: \$304.8 billion to the Consolidated Revenue Fund

Clients: 24.4 million individual income tax filers; about 1.5 million employer accounts; about 1.6 million corporate tax filers; 2.4 million GST/HST registrants (excluding Quebec); 25,082 registered pension and deferred profit-sharing plans; and 81,424 registered charities

Services: More than 14 million public enquiries handled and more than 24 million tax-related visits to the CRA website

Processing: 23.6 million individual returns, close to 1.6 million corporate returns, approximately 6.7 million GST/HST returns, 175,554 trust returns and 78,669 charities returns, resulting in more than 34 million payments

Fiscal Impact of Our Compliance Programs: Almost \$10.2 billion

Audits and Investigations Completed: 318,337 reviews, examinations and audits, as well as 3,898 other enforcement actions, including criminal investigations of tax evasion and audits under the Special Enforcement Program for income obtained from illegal activity

Performance Report Card

Expected Outcomes:

- Canadians pay their required taxes and the tax base is protected
- Provinces, territories and other government departments rely on the CRA as a key service provider

Expected Result – Clients receive timely, accessible, reliable and fair service that is responsive to their needs	2004-2005	Performance rating	Data quality
	2003-2004	Met	Good
Performance against Expectations			Page
✓ Maintain effective communications and implement legislative changes accurately and within required timeframes			26
✓ Expand the range of our alternative electronic services			26
✓ Improve take-up rate of alternative electronic information services			27
☑ Increase participation in electronic filing to 50% of T1 returns by 2004-2005			27
☑ Meet our service standards and internal performance targets			27
✓ Assess returns accurately			28
✓ Maintain or increase client satisfaction levels			29
Demonstrate efficiency in trends on cost of operations ¹			29
✓ Continue growth in programs and services administered by the CRA on behalf of the provinces and territories			29

¹ No results for 2004-2005 related to this performance expectation are available. We are working towards measurement of these results for future reporting.

Expected Result – High levels of compliance are achieved and non-compliance is identified and addressed	2004-2005	Met	Good
	2003-2004	Met	Good
Performance against Expectations			Page
☑ Achieve overall high levels (over 90%) of filing, registration and remittance compliance by individuals, corporations, businesses and employers			31
✓ Meet benchmark for number of returns and registrations secured through the Non-Filer Program			32
✓ Risk assessment processes to identify reporting non-compliance are effective			32
✗ Meet audit coverage level commitments to the Government of Canada			35
✓ Identify issues and make recommendations to the Department of Finance Canada for legislative changes			36
✓ Participate in meaningful discussions with domestic and international associations and committees to address the risk of non-compliance in areas such as e-commerce and tax havens			37
✓ Meet anticipated fiscal impact levels of our compliance programs			37

Expected Result – Tax debt is resolved on a timely basis and is within targeted levels	2004-2005	Met	Good
	2003-2004	Mostly Met	Good
Performance against Expectations			Page
✓ Level of tax debt is within forecasted dollar levels			38
✓ Meet cash collection commitments to the Government of Canada			38
✓ Dollar value of accounts resolved meets or exceeds the intake of new debt (assuming stable levels of intake)			38
✓ Stabilize or prevent further deterioration in the ratio of outstanding tax debt to gross cash receipts			39
✓ Increase productivity, as measured by cost to resolve \$1,000 in tax debt			39
☑ Reduce the inventory of older accounts (greater than five years) relative to prior years			39
✓ Enhance processes for managing tax debt			40

Met
 Mostly Met
 Not Met



Performance Discussion

The Tax Services business line has two expected outcomes.

Canadians pay their required taxes and the tax base is protected. Canada's tax system is based on voluntary compliance and self-assessment. We believe that most taxpayers, given the proper information, tools and assistance, will voluntarily comply with Canada's tax laws. We assist Canadians in complying with Canada's tax laws by providing timely and accessible services, as well as through education. We also carry out enforcement activities based on risk assessment and risk management.

We have met this expected outcome through the following:

- continuing our strong performance in service delivery and returns processing. We exceeded our service standard targets for individual and corporate returns, and we have made advances in expanding our range of electronic service offerings;
- assisting a vast majority of individuals and businesses to file their income tax returns and pay their reported taxes on time. The table entitled 'Estimated Compliance Rates and Indicators' on page 25, shows our compliance rates and indicators for filing, registration, remittance and reporting. For the vast majority of Canadians, the incidence and magnitude of non-compliance remain relatively low, although in total it is financially significant. While the CRA has a sustained audit presence across all sectors, CRA enforcement is focused on addressing the small minority of taxpayers who are engaged in more serious acts of non-compliance and who pose the greatest risk to tax revenue;

- continuing to identify and address non-compliance through the assessment and management of ongoing and emerging risks. We exceeded our fiscal impact commitment to the Government of Canada and met most of our internal audit coverage rate targets. We did not, however, meet most of the audit coverage commitments made to the Government of Canada; and
- improving our performance in managing tax debt, achieving a rate of production equivalent to the total intake of new debt, meeting our Government of Canada commitment for cash collections, stabilizing the ratio of outstanding tax debt to gross cash receipts and enhancing efforts to reduce older uncollectible accounts, through either collection activities or write-offs.

Provinces, territories and other government departments rely on the CRA as a key service provider. Our legislative flexibilities as an agency, our business expertise and the adaptability of our automated systems enable the CRA to provide Canadians with a wide range of services on behalf of the provinces, territories, and other federal departments and agencies. This helps to eliminate duplication and reduce the overall cost to taxpayers.

We have met this expected outcome by continuing to strengthen our relationships with provincial and territorial clients by administering programs; providing accountable, client-focused services and expanding services for these clients. A new service agreement was signed with Manitoba, and we expect to use this agreement as a model for future negotiations. We also increased the number of arrangements with First Nations. Under these arrangements, we collect income and consumption taxes on their behalf.

By effectively delivering tax services, we believe we have contributed to the achievement of the CRA's strategic outcome.

Estimated Compliance Rates and Indicators

Filing Compliance – Recent analyses show that most Canadian individuals (over 18 years of age) and businesses file their tax returns on time, without any direct intervention by the CRA. Our estimates are outlined below				
	2001-2002	2002-2003	2003-2004	2004-2005
• Individuals ¹ who filed a timely return ²	93.1%	93.1%	92.6%	92.6%
• Corporations ³ —taxable incorporated businesses that filed their returns on time	91.9%	87.2%	87.1%	86.0%
• Businesses ⁴ that filed their GST/HST returns on time	90.3%	91.6%	91.5%	91.9%
• Employers who filed their T4 returns	96.4%	96.4%	96.5%	94.5%
GST/HST Registration Compliance³ – Our estimates indicate a reasonably high degree of registration compliance (many businesses are not required to participate). Our estimates are outlined below				
	2001-2002	2002-2003	2003-2004	2004-2005
• Canadian businesses that were registered for the GST/HST	83.2%	84.6%	86.6%	88.8%
Remittance Compliance				
	2001-2002	2002-2003	2003-2004	2004-2005
• Individuals who paid their reported taxes on time	90.3%	93.1%	94.3%	93.2%
• Corporations—taxable incorporated businesses that paid their reported income taxes on time	95.0%	93.1%	91.0%	90.7%
• Businesses that collected GST/HST ⁵	2.5 million collected \$41 billion	2.5 million collected \$44 billion	2.6 million ⁶ collected \$44 billion	2.7 million collected \$47 billion
• Employers who forwarded at-source deductions on behalf of their employees	89.9%	90.1%	90.1%	89.1%
Reporting Compliance – Non-compliance with reporting requirements takes many forms, ranging from errors and unintentional omissions to wilful tax evasion. To make a qualitative assessment of compliance, we rely on macro indicators, such as the tracking of GST revenues to retail sales and personal expenditures on goods and services. We also consider program indicators, compliance rate estimates and public opinion indicators, examples of which are outlined in this report. Our assessment is that, for the vast majority of Canadians, the incidence and magnitude of non-compliance are relatively low, although in total it is financially significant. CRA enforcement is focused on addressing the small minority of taxpayers who are engaged in more serious acts of non-compliance and who pose the greatest risk to tax revenue				
	Program Year			
	2000	2001	2002	2003
• Individuals—Compliance rate for key tax credits and deductions not subject to third-party reporting	92.8%	91.1%	89.9%	88.9%
• GST/HST—Prepayment compliance rate	N/A	N/A	92.6%	92.7%

¹ Statistics Canada estimate, based on census data.

² These statistics have been restated to exclude late filed returns with balances owing.

³ Source: CRA T2 corporate tax database.

⁴ 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 Agency.

⁵ Data is consistent from the prior year cycle to the year in question.

⁶ Number of businesses updated from last year's number due to rounding.

Expected Result – Clients receive timely, accessible, reliable and fair service that is responsive to their needs

To help clients meet their obligations under the law and to foster high levels of voluntary compliance, the CRA continued in 2004-2005 to provide timely, accessible, reliable and fair service and education to its clients. To inform and educate our clients, our services include Internet-based information and transactions; telephone and face-to-face communications; plain language forms, guides and publications; technical interpretations; rulings; and specialized problem resolution services.

- ✓ **Maintain effective communications and implement legislative changes accurately and within required timeframes**

Our client services, combined with our partnerships with other government and non-governmental organizations, allow us to provide updated and coordinated information to our clients in a timely and accessible fashion. During 2004-2005, we continued to successfully implement major legislative changes within required timeframes through our rigorous and highly structured annual publications review process. We ensured that any new or changed information and legislation were accurately incorporated in time to meet our critical delivery targets for more than 1,000 tax-related publications—all of which are available on or through our website. Our visually impaired clients can also obtain these publications in alternative formats, including Braille, large print, audio cassette and diskette.

- ✓ **Expand the range of our alternative electronic services**

We believe that our clients are more likely to participate in a tax system that is accessible and provides responsive service. We face the ongoing challenge of responding to clients' needs, while at the same time using their tax dollars effectively. One cost-effective measure is to focus our resources on electronic services, which our studies have shown to be, on average, more than 20 times less expensive than in-person services.

Our goal is to encourage clients to choose more affordable access channels, such as TELEFILE and the Internet. To support the move to electronic services over more traditional service options, we continued to move towards assisted self-service in 2004-2005.

The Internet is our primary electronic service channel. In line with our strategy to increase Internet use by clients, this year our home page was redesigned to make it easier to find information. Clients can now get answers to their questions by topic, client type, or through our secure online application, 'My Account'. We also enhanced the security and protection of confidential client information by requiring clients to register for a Government of Canada epass prior to logging onto 'My Account'. In addition, we introduced a new feature in November 2004; 'Change my Return', of which 3,871 returns were changed between November 2004 and March 2005. Clients can also update their address or phone number. These transactions are completed without the help of a CRA agent and without mailing a request. The 'My Account' application will soon be linked to the Government of Canada website through the 'My Government Account' service, and our expertise is being shared with other federal departments to allow them to develop similar services.

✓ **Improve take-up rate of alternative electronic information services**

We implemented a marketing strategy to encourage the use of our website for obtaining information and conducting transactions with the CRA. In 2004-2005, our website registered more than 24 million visits, an increase of 27.6% over the previous year.

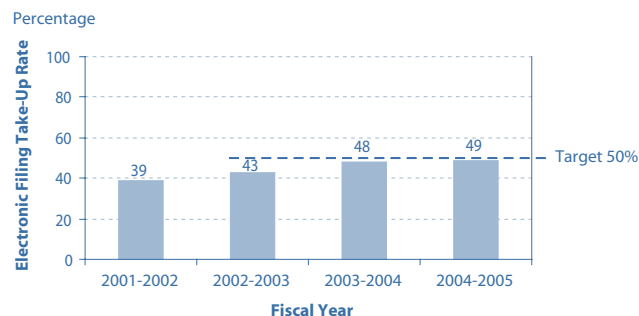
Marketing activities were aimed at reaching a greater number of individuals and businesses and further increasing take-up rates for electronic filing. As a result, take-up rates for electronic filing have steadily increased in recent years.

In 2004-2005, we exceeded the target for Internet-filed corporate (T2) returns by 18,416, resulting in 93,416 Internet-filed T2 returns. This represents an increase of more than three times the amount of T2 Internet-filed returns received in 2003-2004. In addition to T2 Internet filing, in the past fiscal year, GST/HST Internet filing doubled; T4 Internet filing rose by 41%; and electronic payments increased by 19%.

✓ **Increase participation in electronic filing to 50% of T1 returns by 2004-2005**

Participation in electronic filing for individual (T1) returns has grown each year since 2001 (see Figure 2). In 2004-2005, we almost met our target of 50% participation for T1 electronic filing, with more than 800,000 new electronic filers, bringing the total to more than 11.5 million electronic filers for the fiscal year. We achieved a rate of 49.4% for our filing season, up from 47.7% in 2003-2004.

Figure 2 Take-Up of Electronic Filing for Individual Income Tax Returns



Data quality: Good

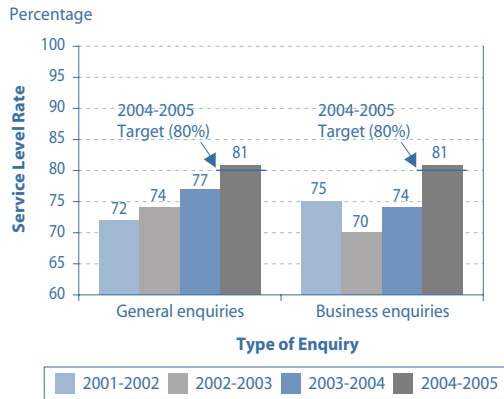
Our studies show that approximately 8% of returns cannot be filed electronically because of CRA-imposed exclusions. We continue to pursue initiatives to increase the percentage of individual returns that are filed electronically.

✓ **Meet our service standards and internal performance targets**

The telephone remains the most popular service channel for client enquiries. Through a toll-free network of call centres, our telephone enquiries services provide clients with a wide range of tax information. We are striving to improve overall client service, as well as balance caller accessibility³ and the service level. Under the Government of Canada's Service Improvement Initiative, we implemented a new service standard for all calls answered⁴ within two minutes (previously an internal target). We met the 80% target set for this service standard, and achieved an 81% result for both general and business enquiries (see Figure 3).

3. See 'Schedule E – Glossary' on page 84 for a definition of "caller accessibility".
4. Answered calls are calls handled by an agent, as well as calls from clients who abandon their call within two minutes of entering the queue.

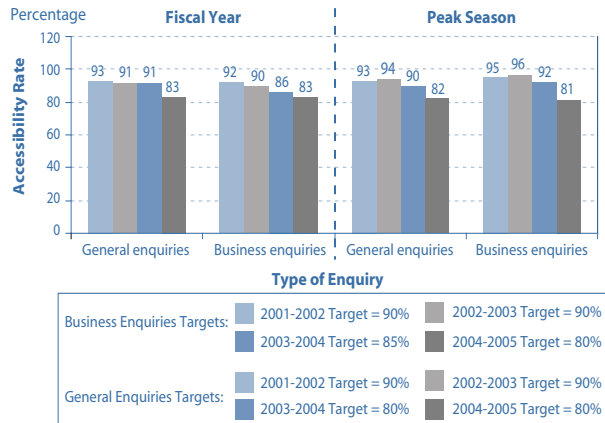
Figure 3 Percentage of Telephone Calls Answered Within Two Minutes⁵



Data quality: Good

During 2004-2005, we achieved our caller accessibility target, attaining 83% for both general and business services. We strive to provide better overall service to our clients by balancing accessibility and timeliness (see Figure 4).

Figure 4 Telephone Caller Accessibility⁶



Data quality: Good

A variety of tools help ensure that clients find our services reliable and responsive. One tool is our quality assurance program, which evaluates the reliability of our telephone services. Results for

- During the six weeks of the fall 2004 labour disruptions with fewer phone lines staffed, we believe that we mostly met these standards. We have excluded these results, because they do not fairly represent the reduced level of service available to Canadians during this period.
- See footnote for Figure 3 Percentage of Telephone Calls Answered Within Two Minutes.

2004-2005 indicate that agent accuracy remained high in comparison to our benchmark year.

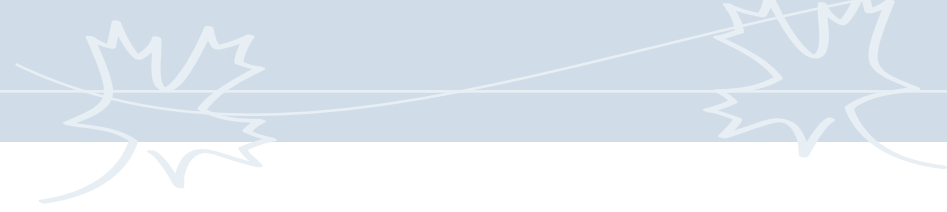
In 2004-2005, four new Tax Services service standards were introduced. To establish an equivalent comparison with last year, we compared our performance against the service standards, excluding the four new standards. The results showed that our performance improved by almost 18 percentage points, to 87.8%, over the previous year. Including the four new service standards, we met or mostly met 89% of all service standards for Tax Services programs this year. We met or mostly met seven of the nine most important service standards, involving high impact or high volume activities, and exceeded our timeliness targets for processing both paper and electronic T1 returns, as well as our target for processing GST/HST returns.

Our commitment to mail out 95% of Statements of Arrears and Statements of Interim Payments on time in accordance with our service standards fell short this year. For Statements of Arrears, we achieved a 63% success rate. For Statements of Interim Payments, the figure was only 49%. We are currently implementing a plan to improve these results.

✓ **Assess returns accurately**

The primary tool for determining whether we assess returns accurately is our T1 Quality Evaluation Program, which reviews initial assessments of tax returns for individuals for each processing year. Our review for the 2004 processing year found that processing errors with a direct impact on a client's refund or balance due declined to approximately 1%, which demonstrates an improvement over the 1.4% rate found the previous year. Although taxable processing errors that directly impacted a client's refund or balance due were relatively rare, the amounts involved, on average, were significant—typically, \$300 to \$400 per error; this amount has remained stable over the past six years.

Considering the complexity of tax legislation, it is not surprising that we find errors made by clients on their



tax returns. While some client errors could result in additional tax owing⁷, others could result in clients paying more tax than required. Our objective is to collect the correct amount of tax. The CRA strives to be fair in all aspects of its activities because we believe that fairness is crucial to maintaining integrity in our tax administration. Under our Beneficial Client Adjustment program in 2004-2005, we refunded over \$68 million to more than 343,500 individuals who under-reported at-source tax deductions or Canada Pension Plan contributions on their returns.

✓ **Maintain or increase client satisfaction levels**

All CRA activities undertaken within this expected result apply to maintaining and increasing client satisfaction levels. In addition, we have a client-focused annual survey to determine first-hand the level of client satisfaction with our services.

The CRA's 2004 Annual Survey puts client satisfaction with the CRA as a whole at 62%, a result similar to that of the previous year⁸. Clients' overall satisfaction rating of Tax Services fell slightly, from 70% in 2003-2004 to 67% in 2004-2005. On the other hand, 94% of clients were either somewhat satisfied or very satisfied with the time it took to receive their Notice of Assessment or refund (compared to 88% in 2003-2004). Overall, we have maintained client satisfaction levels.

7. Results from our matching and related programs that relate to underreporting of income can be found on page 34 (see Figure 9).
8. The survey is administered by telephone to a national random sample of adult Canadians. For the 2004 CRA Annual Survey, 3,051 interviews were completed across Canada, representing an 11% response rate. The response rate was calculated using the Professional Marketing Research Society's standard format. This response rate is similar to those reported for phone surveys by major private survey research firms in Canada. While the CRA had taken a number of steps in its survey design, there remains the potential for nonresponse bias.

✓ **Continue growth in programs and services administered by the CRA on behalf of the provinces and territories**

The CRA is a key service provider for other federal agencies and departments, as well as for Canada's provinces and territories. We administer individual and corporate taxes for most provinces and territories. In 2004-2005, the Government of Canada renewed Tax Collection Agreements with nine provinces and territories. To improve accountabilities with the provinces, we also finalized a new Service Management Framework (SMF) with the Government of Manitoba. This will serve as a model for future SMFs with other provinces and territories, since it is the first to refer to the updated Tax Collection Agreements.

In April 2004, we signed a memorandum of understanding with the Government of British Columbia to establish an integrated business registration system accessible by clients on the Internet. This online business registration system will use the CRA Business Number as a common business identifier. The streamlined registration system reduces the administrative burden on businesses located in British Columbia, and simplifies their interactions with federal and provincial governments.

We worked towards an agreement with the Government of Ontario to implement a single administration for corporate tax, simplifying the filing process and reducing the compliance burden on businesses. We hope to conclude the agreement during 2005-2006.

The trend towards self-government has increased opportunities for greater business relationships with First Nations. During 2004-2005, we supported the Department of Finance Canada in its negotiations with First Nations on establishing new tax administration agreements. Agreements were finalized with nine Yukon First Nations on collecting First Nations GST. The Kluane First Nation also signed a First Nations Personal Income Tax Agreement, joining the eight

others that had signed such agreements in previous years. In addition, the Whitecap Dakota First Nation in Saskatchewan became the 10th First Nation to sign an agreement allowing the CRA to collect First Nations tax related to fuel, tobacco and alcoholic beverages sold on reserve.

Expected Result – High levels of compliance are achieved and non-compliance is identified and addressed

Overall, our measures indicate that the majority of Canadian individuals and businesses continued to participate voluntarily in Canada’s tax system and to meet their obligations in 2004-2005. Where individuals and businesses do not comply with our tax laws—whether intentionally or not—the CRA delivers a wide range of programs to help protect Canada’s tax base and ensure that Canadians pay their required taxes.

The CRA’s robust set of checks and balances (see the table entitled ‘Non-Compliance: Checks and Balances’ on page 30) include both preventive and detective controls, and an active collections program.

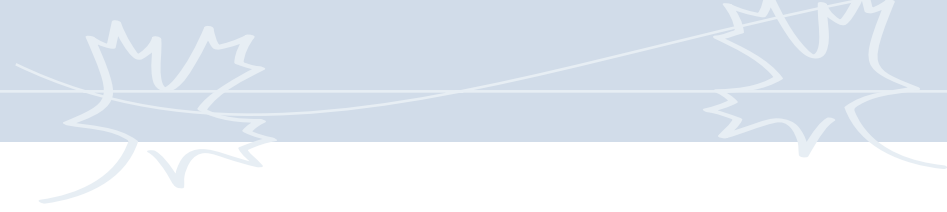
To provide us with a systematic approach to monitoring and measuring compliance, we completed the development of our Compliance Measurement Framework (CMF) and its supporting system in 2004-2005. The CMF will significantly enhance our knowledge of compliance behaviour. We will use the results of our compliance monitoring activity to increase awareness of the factors that influence compliance and the extent to which our current service and program strategies are achieving their compliance objectives. The October 2004 OECD Guidance Note, entitled *Compliance Risk Management: Managing and Improving Tax Compliance*, recognized the CRA’s leadership role in developing such a framework.

Non-Compliance: Checks and Balances

Elements of Tax Non-Compliance	Checks and Balances
<p>Non-Filing and Non-Registering: Individuals and businesses fail to file income tax and/or GST/HST returns, or to register for GST/HST</p> <p>Inaccurate reporting: Income is undisclosed or understated, and/or expenses/credits/rebates are overstated or overclaimed on returns filed by individuals and businesses</p> <p>Non-remittance: Failure to remit payroll deductions, federal and provincial/territorial taxes, or GST/HST as required</p>	<ul style="list-style-type: none"> • Outreach activities • Employer compliance • Trust account examinations • GST/HST Delinquent Filer Program • Non-Filer/Non-Registrant Program • Third-party information reporting (information slip reporting) • Exchange of information • Compliance research • Risk assessment (random or compliance sampling) • Document matching • Audit and review • Penalties • Investigation and referral to the Department of Justice Canada for prosecution • Collections

Tax integrity is closely linked to the public’s perception of our tax system. We monitor the public opinion environment because the magnitude and composition of non-compliance can be influenced by changes that are both internal and external to the

CRA. Although it is not possible to establish a direct link between views expressed in public opinion research studies and actual compliance behaviour, understanding public perceptions can help us adjust the way we deal with and communicate to Canadians.



Among our sources of information is the CRA Annual Survey⁹, which for 2004 found that 68% of respondents agreed with the following statement: “Given the opportunity, most people would hide income or overstate an expense or deduction to avoid paying tax.” This result represents an increase from 64% in 2003. In addition, three out of four respondents to this survey agreed with the following statement: “The CRA would not know about income received in cash unless you declare it” (76% in 2004, versus 66% in 2003). When the public was specifically asked about what the CRA should do about tax cheating, the vast majority of people believed the CRA should better inform Canadians about the penalties for tax cheating, with a smaller majority agreeing that the CRA should increase the use of audits and penalties. Although not a reflection of actual non-compliance levels, this information, coupled with the results of other research and surveys—such as a recent CROP survey¹⁰ that segmented and tracked Canadian society according to their values, motivations and behaviours—supports our view that the CRA needs to continue to pay close and long-term attention to flagrant non-compliers.

We have established a strategy for further strengthening compliance and tax integrity in both the short and the long term. In 2004, the CRA undertook a comprehensive, Agency-wide review of the risks facing tax administration in Canada. The review spanned all program areas, and involved identifying key areas of risk, as well as developing comprehensive strategies to address those risks. This review confirmed that our top risk areas are aggressive tax planning, the underground economy, GST/HST compliance, and non-filers/non-registrants and collections. We started implementing these

strategies in 2004-2005 (see the section entitled, ‘Context: Strategic Risks and Priorities’ on page 17).

Achieve overall high levels (over 90%) of filing, registration and remittance compliance by individuals, corporations, businesses and employers

Our measures and indicators for filing, registration and remittance compliance demonstrate continued, strong overall performance for 2004-2005 (see the table entitled, ‘Estimated Compliance Rates and Indicators’ on page 25).

Although several of these results did not meet our expectations, our estimates show that participation in the tax system among individuals remains high. Close to 93% of the Canadian population over 18 years of age filed a return or paid on time for the 2003 tax year. These results are especially important given that individuals make up a large proportion of our client base.

Employers play a vital role in maintaining compliance among the large number of individual taxpayers—employers must make payroll deductions, remit amounts that are deemed “in trust for the Receiver General for Canada,” and report employment-related earnings to the government. Of the \$305 billion in tax collected by the CRA in 2004-2005, 66%, or \$200 billion, was from personal income tax paid by individuals. Of this amount, \$171 billion, or 86%, was collected by some 1.5 million employers through source deductions. Although our estimates for 2004-2005 fall just short of our 90% target, remittance compliance among employers remains strong, with approximately 90% of the employer population meeting their obligations to withhold and remit payroll taxes.

Other forms of third-party reporting, such as various information slips, also play a vital role in maintaining compliance among the 24 million Canadian taxpayers.

9. See the footnote on page 29 for further information regarding the CRA’s Annual Survey.

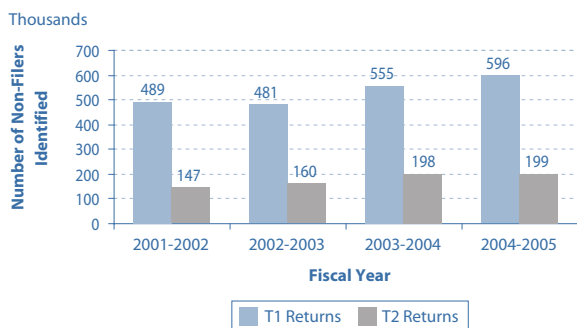
10. Compliance, Tax Evasion and Social Change in Canada in 2003—3SC 2003 Final Report, Crop Marketing Research Opinion Survey.

- ✓ **Meet benchmark for number of returns and registrations secured through the Non-Filer Program**

As the basis for establishing each filer's tax liability, a tax return is the first and most important step in the compliance process. Our Non-Filer Program is aimed at identifying high-risk cases based on danger of loss and assessment potential. Our Non-Registrant Program seeks to ensure that all those who are required to register for the GST/HST meet their obligations.

In 2004-2005, our Non-Filer Program generated 795,000 T1 and T2 returns from individuals and businesses that did not meet their filing requirements (see Figure 5), while our GST/HST Non-Registrant Program identified 4,123 non-registrants that did not comply with GST/HST legislation as required. This figure has increased from 4,050 in 2003-2004. The Non-Filer/Non-Registrant (NF/NR) Program also initiated legal action that led to the conviction of 1,232 taxpayers, resulting in more than \$1.3 million in fines and seven prison sentences. The fiscal impact for the NF/NR Program is noted in Figure 16 on page 37.

Figure 5 Number of Non-Filers Identified



Data quality: Good

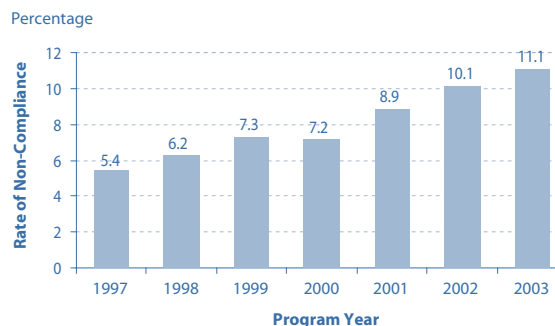
- ✓ **Risk assessment processes to identify reporting non-compliance are effective**

Our self-assessment system is based on complete and accurate voluntary reporting by our clients. This means reporting all taxable income and other information required under the law. It also means claiming only allowable expenses, deductions and credits in determining one's tax liability.

Overall, our measures and indicators indicate that reporting non-compliance is found only in a minority of the general population, although in total it is financially significant.

Of note, the random sample conducted as part of the Processing Review Program shows that the vast majority of claims by individuals for key deductions and credits not subject to third-party reporting is correct. Overall rates of non-compliance in this sector have been slowly increasing, however, over the past number of years (see Figure 6). Several initiatives are in progress to address this rise in the number of errors being made. We are conducting several studies involving client profile analysis as well as exploring new client education methodologies. It should be noted that indicators suggest the vast majority of errors made by clients result from non-deliberate acts, including mistakes in interpretation and mathematical errors. Increasing complexity of income tax legislation is viewed to be a contributing factor.

Figure 6 Estimated Rate of Individual Income Tax Non-Compliance



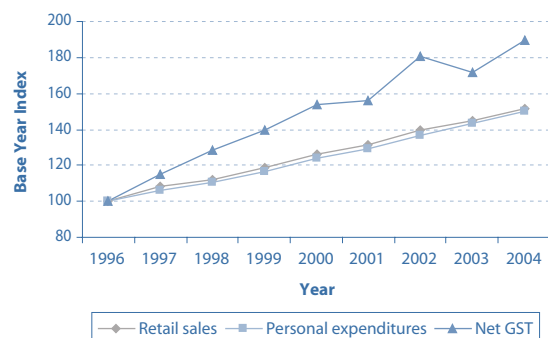
Data quality: Reasonable

An area of higher risk relates to the financial reporting of self-employed individuals. Our studies show that 8.6% of this group are non-compliant in the amount of \$5,000 or more in tax.

Similarly, random sample audits indicated that 8.5% of small and medium-sized corporations were non-compliant in the amount of \$5,000 or more in tax.

In addition to indicators about specific client groups, we look at macro indicators of compliance (see Figure 7). For example, personal income reported to the CRA tracks favourably, relative to personal income estimated by Statistics Canada; and GST revenues track consistently with retail sales and personal expenditures on goods and services.

Figure 7 Macro Indicators of Compliance



Data quality: Good

Note: 1996 was selected as the base year for analysis, with a value of 100 assigned for each of the three factors. Changes in subsequent years are indicated in relation to the base year.

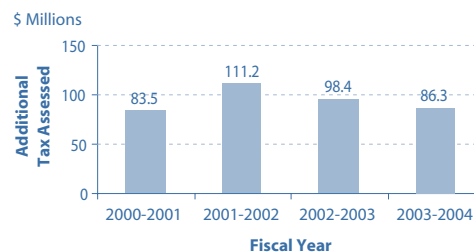
The need for effective processes to identify non-compliance is fundamental to managing tax compliance risk and ensuring that people pay their required taxes. We manage our approach to non-compliance through a range of different programs tailored to the characteristics of specific client groups. Depending on the nature of the non-compliance, our approach may involve outreach, review, enforcement or a combination of these elements.

The CRA processes tax returns with an automated review of the information reported, but the returns may be subject to further review at a later date under our post-assessment programs. Since we must work

within established budgetary limits, we depend on risk assessment systems to target the largest share of our compliance resources to areas of high risk. The aim is to administer the tax system more effectively, recover the appropriate amount of tax, and impose a smaller burden on compliant taxpayers. This approach complements the robust checks and balances listed in the table entitled, 'Non-Compliance: Checks and Balances' on page 30.

When we find errors early during processing, we can recover funds owed to the Crown at a lower cost than that of undertaking enforcement actions later on in the process. As a result, once tax returns are filed, the CRA conducts pre-assessment reviews based on a risk scoring approach to select returns for detailed review. Through these reviews, we assess significant additional amounts every year, including an additional \$86 million in taxes during the past fiscal year (see Figure 8).

Figure 8 Taxes Assessed through Pre-Assessment Reviews



Data quality: Good

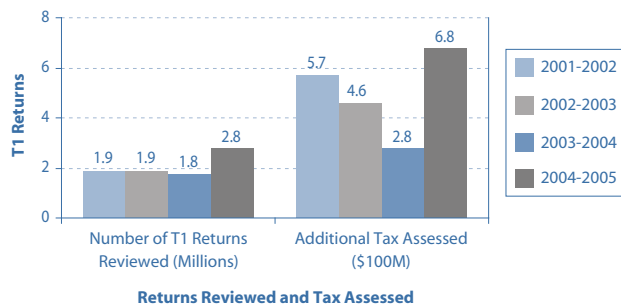
Note: Due to the time required to produce and validate our data, the results reported from this program are always one year behind. In addition, due to certain field review coverage requirements and other issues concerning shifting field review priorities, some variations from year to year are expected.

The post-assessment reviews of key credit and deduction items involve both targeted reviews based on risk assessment as well as random reviews. The random reviews facilitate both an estimation of the non-compliance rate for these deductions and credits as well as ongoing refinement of risk assessment rules. The success of our risk assessment approach at this stage is demonstrated by average targeted recoveries exceeding random recoveries by a ratio of about 3.4 to 1.

Post assessment reviews also include the income matching program which involves comparing income reported by third parties on information slips to income amounts reported on individual returns. The post assessment review of key deductions and credits combined with the review of income for inaccurate reporting generated tax assessments exceeding \$600 million relative to the 2004-2005 program (see Figure 9).

Our matching process was redesigned prior to the 2003-2004 fiscal period. Unanticipated system issues resulted in a decrease of over \$180 million in tax assessments from 2002-2003. Our redesign is now complete, however, and plans are in place to make up for the lost revenues.

Figure 9 Individual Income Matching and Processing Review Program Results

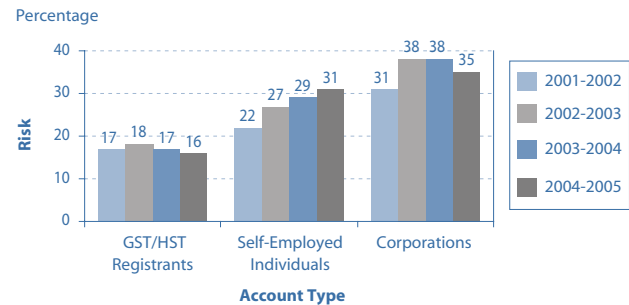


Data quality: Good

The CRA has developed risk assessment systems that are used to provide a preliminary assessment of compliance. Tax returns or accounts with characteristics indicating the possibility of non-compliance are flagged, and their relative risk is used to help prioritize further compliance actions. The risk assessment systems are supplemented by the knowledge and experience of compliance specialists in order to make a final selection of accounts for compliance action, such as an audit. The estimated percentage of tax accounts deemed to be at substantive risk of non-compliance remained

relatively constant for GST/HST accounts in 2004-2005. The estimated percentage for self-employed individual accounts steadily increased over the past four years (see Figure 10).

Figure 10 Estimated Percentage of Business Accounts Deemed to be at Substantive Risk of Non-Compliance



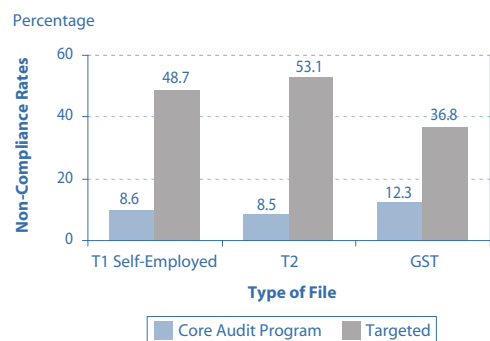
Data quality: Reasonable

Note: The percentages identified are not a reflection of non-compliance for these sectors. Rather, they represent the percentage of accounts having possible tax at risk, with respect to reporting compliance.

One way we evaluate the success of our risk assessment processes is by comparing the results of our targeted audits, with the results of random audits. In 2004-2005, we developed baseline measures of non-compliance from our Core Audit program. This program used statistical methods to select a random sample of small and medium-sized enterprises (SMEs) in order to estimate reliable compliance rates. These measures were estimated separately for self-employed and corporate tax filers, as well as for GST accounts.

Figure 11 compares the percentage of audits revealing non-compliance of \$5,000 or more from the Core Audit program, with the results of targeted compliance audits from our SME audit program in 2004-2005. The substantial difference noted with the targeted programs, which range from factors of about three to six times as effective, indicates that our risk assessment processes are working.

Figure 11 Non-Compliance Identification: Comparison of Core Audits to Targeted Audits



Data quality: Good

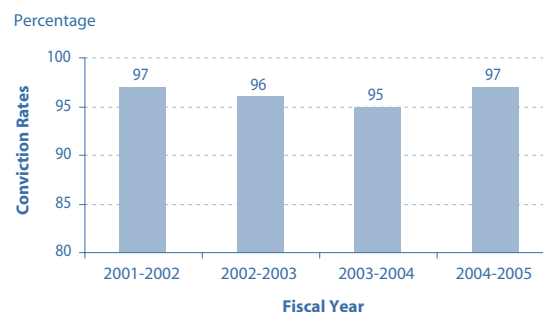
We are also working to identify increased cases of possible GST/HST non-compliance through the profiling of high-risk registrants, informant leads, partnerships with other law enforcement agencies, and audits and investigations.

Large multinational corporations that maximize their profits through tax avoidance and by obtaining tax rebates are a major component of our international workload. We address these risks by focusing on industry-specific issues; offshore transactions; valuation of intangible assets; loans and financing; and the restructuring of entity operations to push profits out of Canada. In 2004-2005, we assessed approximately \$1.2 billion in additional tax (comprised of federal tax, penalties, interest and provincial/territorial tax) from adjustments to international transactions.

For those involved in repeat or deliberate non-compliance, the CRA enforces criminal sanctions that are intended to ensure compliance by deterring fraudulent behaviour. In addition to Non-Filer/Non-Registrant prosecution results, this year, 243 income tax and GST/HST investigations (including 28 GST cases by the Ministère du Revenu du Québec) were referred to the Department of Justice Canada for prosecution. These and previous years' referrals resulted in convictions for tax evasion or fraud in 250 cases, including 39 in Quebec courts, in 2004-2005. In all provinces/territories, courts imposed close to \$13.3 million in fines and more than 26 years of prison sentences. The convictions related

to a revenue loss of \$14.3 million. We obtained convictions in 97% of the cases prosecuted (see Figure 12), demonstrating the effectiveness of our risk approach to the identification and prosecution of cases of wilful non-compliance and fraud.

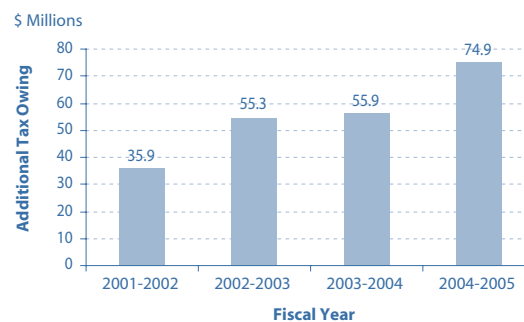
Figure 12 Conviction Rates



Data quality: Good

As part of our Special Enforcement Program, in 2004-2005, we conducted 1,196 audits of clients suspected of earning income from the illegal economy. The audits identified close to \$75 million in additional tax owing (see Figure 13).

Figure 13 Results from Special Enforcement Program



Data quality: Good

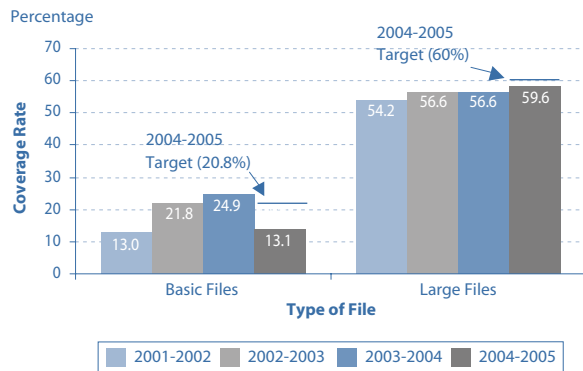
× **Meet audit coverage level commitments to the Government of Canada**

We audit all types of tax returns. Our audit coverage rates vary depending on the risk and the taxpayer population being considered.

Starting in 2001-2002, additional funding from Treasury Board allowed us to gradually increase the

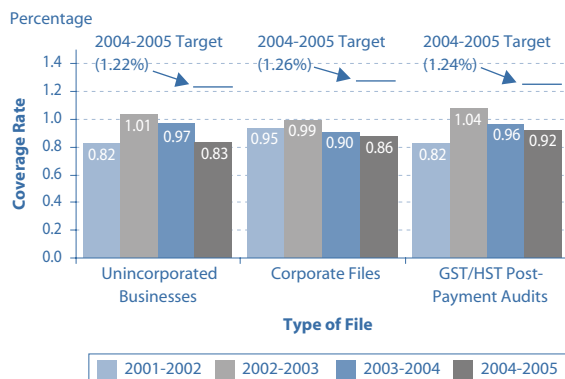
number of audits we complete each year; audit coverage rates were established on the basis of the population at that time. Although we met all of our internal targets (with the exception of the small and medium-sized business sector), which were based on available funding, we did not meet our audit coverage rate commitments for 2004-2005 (see Figure 14 and Figure 15). The reason, in part, is because of changes in population, which were not considered when the funding was originally approved. We recognize the need to redefine our commitments to the Government of Canada, based on available funding, population sizes and risk management.

Figure 14 Audit Coverage Rates—Large Business



Data quality: Good

Figure 15 Audit Coverage Rates—Small and Medium-Sized Business and GST/HST Files



Data quality: Good

- ✓ **Identify issues and make recommendations to the Department of Finance Canada for legislative changes**

In 2004-2005, we joined with the Department of Finance Canada in various negotiations involving tax treaties. In response to a recommendation from the 23rd Report of the Standing Committee on Public Accounts in June 2003, we report that Canada has 83 tax treaties concluded by the Department of Finance Canada and currently in force. Another six treaties have been signed but are not yet in force, while 17 are under negotiation or renegotiation. We have also signed a Memorandum Of Understanding with the tax commissioners of Australia, the United Kingdom, and the United States to establish the Joint International Tax Shelter Information Centre (JITSIC) to deter the promotion of, and investment in, abusive tax schemes. In the cases involving the use of offshore tax planning arrangements that are currently under review, the amount of tax at risk is estimated at \$658 million. In addition, the most recent figures show that approximately \$4.4 billion in tax was paid by non-residents of Canada on income earned from Canadian contract services, investments, pensions, disposition of taxable Canadian property and other sources of taxable income in Canada.

In 2004-2005, we established the necessary infrastructure and partnerships for advancing charities reform to improve the legislative and regulatory environment in which the charitable sector operates. Further, 69 recommendations made by the Joint Regulatory Table were accepted in full or in part by the Department of Finance Canada and were reflected in the federal budget speech of March 2004. Each supported or partially accepted recommendation has been captured within the context of a five-year regulatory reform action plan.

- ✓ **Participate in meaningful discussions with domestic and international associations and committees to address the risk of non-compliance in areas such as e-commerce and tax havens**

We rely on strategic partnerships with tax treaty partners to solve common problems and identify best practices. The CRA plays a significant leadership role in various international organizations and associations, such as the Pacific Association of Tax Administrators. We have also been actively participating in OECD initiatives to improve the reliability of accounting software and electronic point of sale systems. Through co-operation between tax authorities, software developers, businesses and public accountants, the following documents were developed and posted on the OECD website: Guidance on Tax Compliance for Business and Accounting Software Developers and Guidance on Standard Audit File (Income and GST/VAT Taxes).

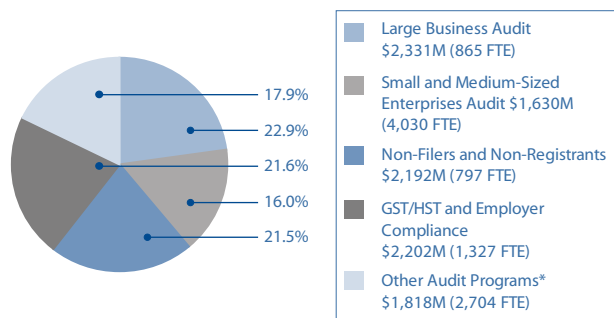
- ✓ **Meet anticipated fiscal impact levels of our compliance programs**

In 2004-2005, our programs to address non-compliance identified a total fiscal impact of close to \$10.2 billion (see Figure 16). These results exceeded our commitment of \$8.7 billion to the Government of Canada by 17%, and are similar to our fiscal impact results in prior years. We recognize that a portion of our fiscal impact results will be subject to appeals and/or will be uncollectible.

These results also include \$1.2 billion in outstanding payroll taxes assessed by the CRA in 2004-2005. Although this total represents a decrease of 5.3% compared with 2003-2004, the number of accounts reviewed and examined has increased year over year. The resulting average dollar amounts assessed per review have declined.

Our fiscal impact totals also include results in addressing the underground economy through the Contract Payment Reporting System, where results exceeded our commitment to the Government of Canada in 2004-2005: 33,050 additional individual and corporate tax returns were filed, totalling more than \$233 million in federal and provincial/territorial assessments and registered or reactivated 565 GST/HST accounts.

Figure 16 Total Gross Fiscal Impact of 2004-2005 Tax Compliance Activities



Data quality: Good

Note: Total gross fiscal impact includes federal and provincial/territorial tax (participating provinces/territories only), federal tax refunds offset or reduced, interest and penalties, and present value of future tax assessable, where appropriate.

* Other Audit Programs include Tax Avoidance, International Tax Programs, Tax Incentives and Investigations.

Expected Result – Tax debt is resolved on a timely basis and is within targeted levels

In 2004-2005, we invested additional resources in revenue collections to increase revenues and to identify uncollectible debts to be written off. By doing so, we were able to eliminate the gap between the dollar value of accounts resolved and the intake of new debt, lower the ratio of gross tax debt to gross cash receipts, and reduce the inventory of older accounts.

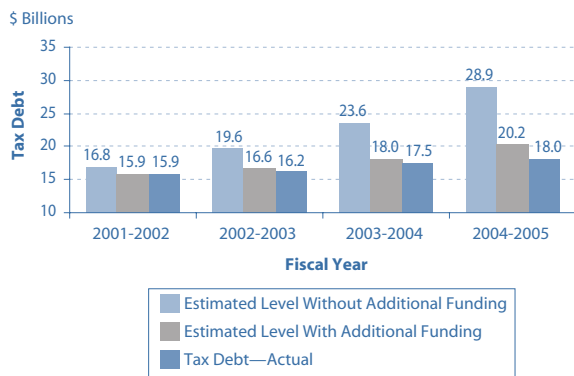
Almost all reported income taxes are paid on time by individuals and businesses (see 'Estimated Compliance Rates and Indicators' on page 25).

- ✓ **Level of tax debt is within forecasted dollar levels**

Managing tax debt is a significant challenge, since the CRA has limited control over the external environment. According to available information, the collection of tax debt is a growing problem for a number of OECD countries.

Multiple initiatives implemented in 2004-2005 helped to improve tax debt management. In 1999-2000, our internal estimates of year-over-year trends in the growth of tax debt had projected that gross tax debt would climb to almost \$29 billion in 2004-2005 with the level of resources that were available at that time. We estimated that, with additional resources, we could slow this growth. A request for additional funding to manage the growing level of tax debt was made to the Government of Canada in 2000-2001, and was accepted. Performance results show that the level of tax debt, at \$18 billion, is considerably below the \$20.2 billion, which was the amount projected in the CRA's 2001 Resource Management Review submission to the Government of Canada requesting the additional funding (see Figure 17).

Figure 17 Projected Growth in Tax Debt



Data quality: Good

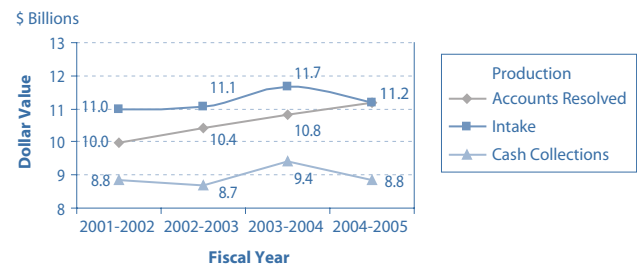
- ✓ **Meet cash collection commitments to the Government of Canada**

Cash collections in 2004-2005 totalled \$8.84 billion, exceeding our \$8.54 billion cash commitment to the Government of Canada by approximately \$300 million. This represents a decrease from the \$9.42 billion collected in the previous year, mainly due to our increased focus on resolving older accounts, as well as the lower intake of new debt.

- ✓ **Dollar value of accounts resolved meets or exceeds the intake of new debt (assuming stable levels of intake)**

The 2004-2005 fiscal year represented a milestone in terms of the production recorded by Tax Services Offices (cash collections plus write-offs, in whole or in part) relative to tax debt intake. Production matched the intake of new debt. In other words, accounts resolved (cash collections, plus approximately \$2.4 billion in write-offs, in whole or in part), which totalled about \$11.2 billion, represent the equivalent of 100% of new debt (see Figure 18). If this trend continues, it should contribute to a significant slowing of the growth of tax debt. Contributing factors are: a 4% decrease in intake; the increased effort to address new debt in 2004-2005; and the significant increase in write-offs.

Figure 18 Tax Services Offices—Intake, Accounts Resolved and Cash Collections



Data quality: Good

- ✓ **Stabilize or prevent further deterioration in the ratio of outstanding tax debt to gross cash receipts**

The ratio of our tax debt to our gross cash receipts decreased slightly to 5.43% in 2004-2005 from 5.54% in the previous year. External factors, such as individual debt load or income levels of self-employed individuals whose taxes were not deducted at source, can affect this ratio. Internal factors also exert an influence on this ratio, such as the amount and status of tax assessed as a result of audits, the timing of processing, and the accumulation of accrued interest on older accounts. Consequently, this ratio is used as a trend indicator of the global performance of our tax debt management strategy rather than as a performance target.

- ✓ **Increase productivity, as measured by cost to resolve \$1,000 in tax debt**

To facilitate the timely resolution of routine accounts outstanding, we directed newly-assessed, high-volume, low-risk accounts to our National Collections Call Centre. In 2004-2005, more than \$1.5 billion in payment arrangements for over half a million accounts were made, an increase of almost 3% over last year's dollar value.

In 2004-2005, we marked the second complete year of the T1 national workload, where work is distributed on the basis of available resources and capacity, regardless of geographical boundaries. The strategy is to resolve routine tax debt with minimal enforcement action within a specified period of time, in order to allow our TSO collections agents to concentrate on more complex T1 accounts. Additional resources were added in the third quarter to increase production and, as a result, overall cash collections totalled \$676 million, an increase of nearly 24% over last year. This year was the first full year that the GST revenue line was added to the national workload; in

2004-2005, it generated cash collections of an estimated \$387 million.

We were able to reduce our Tax Services Office's cost to resolve \$1,000 in tax debt to \$16, down from \$17 in 2003-2004.

- ✓ **Reduce the inventory of older accounts (greater than five years) relative to prior years**

Reducing the size of the inventory of older accounts continued to be a high priority in 2004-2005. We reviewed outstanding accounts and reduced many to their net realizable value (see Figure 19), thereby resolving over \$1 billion in older inventory (i.e., greater than five years of age). As a result of this special initiative, the proportion of accounts over five years of age within our total TSO inventory decreased from 19% to 17%.

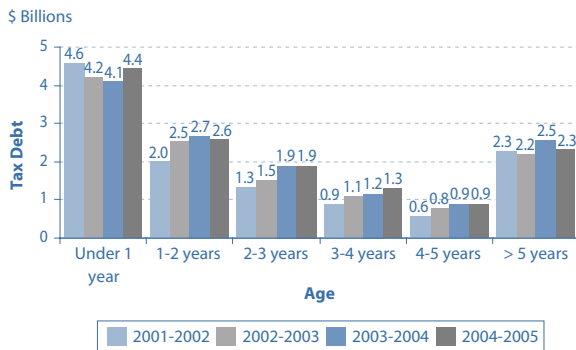
Figure 19 Tax Services Offices—Write-Offs



Data quality: Good

In contrast to the progress on our older inventory, the proportion of accounts under one year of age in our inventory rose in 2004-2005 due to the impact of the labour disruption in 2004 (see Figure 20). As for accounts between one and five years of age, we were able to keep their proportion stable, at slightly less than 50%. We expect that our approach to resolving older accounts will continue to yield positive results and help us achieve our objective, which is to continue to reduce the size of the inventory to fulfill our commitment to the Government of Canada.

Figure 20 Tax Services Offices—Aging of Tax Debt



Data quality: Good

Note: Tax Services Office inventory excludes accounts handled by the National Collections Call Centre.

✓ **Enhance processes for managing tax debt**

The CRA has been implementing a debt management strategy to stem the growth of our tax debt inventory and reduce the proportion of older accounts. We continue to work towards the following objectives set when the CRA received additional funding from the Government of Canada under the Resource Management Review: increase risk identification; meet our cash collection commitment to the Government of Canada; increase the ratio of resolved accounts to the intake of new debt; and reduce the age of tax debt.

The Board of Management encouraged the CRA to review the underlying factors driving the growth in the level of tax debt over the past few years. To this effect, a management review¹¹ was completed in

11. The Executive Summary of the Review of the Management of Accounts Receivable is available at http://www.tbs-sct.gc.ca/rma/database/1det_e.asp?id=11865

January 2005. Its objectives were to identify factors influencing the growth, provide assurance that tax debt is managed effectively, and identify opportunities for potential improvement.

This review found that, while growth in tax debt results partly from factors beyond our control (e.g., heavy individual or corporate debt loads result in late payments), overall, the CRA is managing factors within its control through approaches set out in our tax debt strategy. For example, national pools for routine collections were established. These allowed telephone-based collection work to be distributed regardless of regional boundaries, and freed up staff to focus on older, more complex accounts. Further opportunities for improvement will be addressed through specific strategies in the coming years.

We have recently launched the Revenue Collections Business Transformation Initiative. This initiative will better position the CRA to integrate the collections workloads of other government departments. One of the key components to the effective transformation of our business is the modernization of our technological platform (Integrated Revenue Collections). It will support our move towards an integrated, client-centred approach, and improve our ability to manage debt and compliance issues.

This modernization of technology will allow us to efficiently manage and distribute our workload and to develop and deploy strategies that are best suited to resolve client issues. In 2004-2005, we developed a conceptual framework of our data environment for exploratory and compliance research activities.

Benefit Programs and Other Services

The Benefit Programs and Other Services business line delivers income-based benefits, credits and other services that contribute directly to the economic and social well-being of Canadians. Through this business line, we administer four federal programs: the Canada Child Tax Benefit (CCTB), the Goods and Services Tax/Harmonized Sales Tax (GST/HST) credit, Children's Special Allowances (CSA), and the Disability Tax Credit (DTC). We also use our federal delivery infrastructure to administer 17 ongoing child benefit and credit programs for the provinces and territories. In total, we deliver income-tested child benefit programs for nine of the 11 jurisdictions that have established programs since 1996. We also provide data to facilitate provincial administration for the remaining two (Ontario and Quebec).

We supply information authorized by law to federal, provincial and territorial clients to support the delivery of their income-tested programs; we issue rulings for the Canada Pension Plan (CPP) and Employment Insurance (EI) programs; and we account to our clients about the work that we do on their behalf.

Our work is supported by strong federal, provincial and territorial legislation that clearly identifies who is eligible to receive benefits and how much they are entitled to receive. We rely on consultations with our clients to define program objectives and identify cost-effective solutions for delivering benefit programs and other services, using flexible and adaptable systems. Public Works and Government Services Canada acts as our agent, issuing cheques and direct deposit payments on our behalf. Canada Post delivers our payments, ensuring that clients receive the benefits they expect on time.



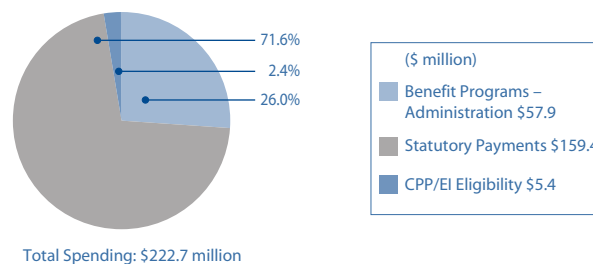
Spending Profile

In 2004-2005, this business line accounted for 7% (\$222.7 million) of the CRA's overall expenditures. Of this amount, 28.4% was devoted to program direction, split between Benefit Programs–Administration (26%, \$57.9 million), and CPP/EI Eligibility (2.4%, \$5.4 million).

The remaining 71.6% (\$159.4 million) was devoted to statutory direct transfer payments under the Children's Special Allowances program (see Figure 21), up from \$147.4 million in 2003-2004.

The Relief for Heating Expenses program, which paid out some \$4.2 million to Canadians in 2004-2005 and \$7.2 million in 2003-2004, is now accounted for in the Corporate Management and Direction business line. The payments associated with this program will gradually be phased out.

Figure 21 Resource Spending by Programs



Data quality: Good

Key Volumetrics

CCTB: Distributed almost \$8.7 billion to over 3.2 million recipients, including over \$3 billion in National Child Benefit Supplements and over \$34 million in Child Disability Benefits

GST/HST Credit: Distributed over \$3.2 billion to almost 9.5 million recipients

Provincial/Territorial Programs: Provided over \$272 million in ongoing payments to almost 795,000 clients and over \$4.6 million (net of offsets) in one-time payments for Nova Scotia

Children's Special Allowances Program: Distributed approximately \$159.4 million

Disability Tax Credit Program: Provided approximately \$508 million in income tax credits for over 435,000 severely disabled individuals

Client Services: Handled over 8.6 million telephone enquiries; recorded over 1.9 million visits to the 'Child and Family Benefits' section of the CRA's website.

Processing: Processed over 660,000 benefit applications and elections, and over 639,000 account maintenance adjustments processed; issued over 70 million benefit payments

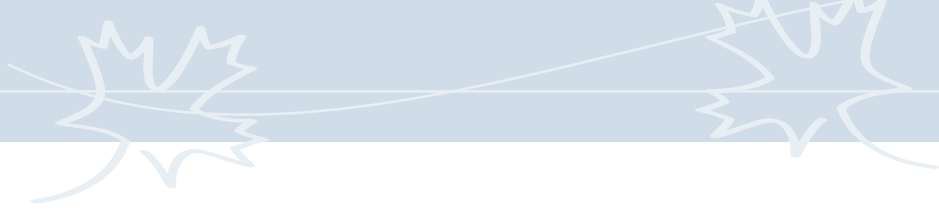
Performance Report Card

Expected Outcomes:

- Canadians receive their rightful share of entitlements
- Provinces, territories and other government departments rely on the CRA as a key service provider

		Performance Rating	Data Quality
Expected Result – Clients receive timely, accessible, reliable and fair service that is responsive to their needs	2004-2005	Met	Good
	2003-2004	Met	Good
Performance against Expectations			Page
<input checked="" type="checkbox"/> Maintain high program awareness and take-up through effective communications tools			43
<input checked="" type="checkbox"/> Meet or exceed internal performance target of 99% for timely processing of benefit payments			44
<input checked="" type="checkbox"/> Meet or exceed established service standards of 98% for timely processing of applications and account maintenance adjustments			44
<input checked="" type="checkbox"/> Meet or exceed internal performance targets of 98% for accurate processing of benefit payments, applications, and account maintenance adjustments			44
<input checked="" type="checkbox"/> Meet or exceed internal performance target of 80%-85% for caller accessibility			45
<input checked="" type="checkbox"/> Increase the use of alternative electronic services and information channels			45
<input checked="" type="checkbox"/> Maintain or increase client satisfaction levels			46
<input checked="" type="checkbox"/> Growth in the programs and services administered for the provinces, territories, and other federal departments to reduce duplication across all levels of government and to lower the overall cost of program delivery			46
Expected Result – Non-compliance is identified and addressed	2004-2005	Mostly Met	Good
	2003-2004	Mostly Met	Good
Performance against Expectations			Page
<input checked="" type="checkbox"/> Maintain high overall compliance in relation to our 95% benchmark			48

✓ Met	☑ Mostly Met	✗ Not Met
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Performance Discussion

The Benefit Programs and Other Services business line has two expected outcomes. The first is ***Canadians receive their rightful share of entitlements.***

It is critical that we offer Canadians the right tools and information. This enables them to give us the information we need to register them on the appropriate benefit rolls, and helps to ensure that they receive timely and accurate benefit payments. Canadians are likely to access these programs if they are informed about them and clearly understand what they need to do to receive benefits. We conduct review activities 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 the legislation. On balance, we believe that we have met this expected outcome through the following:

- continuing our strong performance in processing benefit payments and associated transactions in a timely and accurate manner;
- improving our telephone service, enhancing the transaction capabilities and the information available on our website, and pursuing outreach efforts to promote our programs and promote awareness of client rights and obligations; and
- ensuring that the correct amounts are being paid to entitled clients through the results of our validation and controls program, with the acknowledgement that overall benefits compliance declined somewhat from results recorded in previous years.

The second expected outcome is as follows:

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

Our legislative flexibilities as an agency, our business expertise and the adaptability of our automated systems enable us to provide Canadians with a greater range of services on behalf of the provinces, territories, and other federal departments and

agencies, thereby eliminating duplication and reducing the overall cost to taxpayers. On balance, we believe that we have met this expected outcome, by administering programs and providing expanded services to our clients, leveraging the strong performance we have achieved using the federal benefit delivery infrastructure.

Our performance against our Expected Results is described in detail throughout the rest of this chapter.

By effectively delivering benefits and related services, we have also contributed to the achievement of the CRA's strategic outcome.

Expected Result – Clients receive timely, accessible, reliable and fair service that is responsive to their needs

- ☑ **Maintain high program awareness and take-up through effective communications tools**

We attempt to maintain awareness of program requirements and take-up by using a variety of communications tools. These enabled us to reach potential benefit and credit recipients, as well as to inform new and existing clients about the benefits to which they were entitled and how to access them. During 2004-2005, we undertook the following outreach efforts:

- We placed CCTB information inserts in our July 2004 notices to current child benefit clients. In six jurisdictions, these were accompanied by over 709,000 provincial inserts promoting the National Child Benefit initiative.
- To promote direct deposit, we included six million inserts/enrolment forms with the October CCTB and GST/HST credit cheques. Over the next six months, the number of clients receiving their payments via direct deposit increased by 99,000 for the CCTB and 182,000 for the GST/HST credit. The April 2005 enrolment rates of 72% for the

CCTB and 39% for the GST/HST credit represent the highest direct deposit take-up for these programs in at least the past four years.

- In co-operation with Citizenship and Immigration Canada, over 130,000 pamphlets and applications were placed in their *Welcome to Canada* kits to inform newcomers about potential benefits.

As we reported last year, the most recent study of the take-up rate for the CCTB program¹² indicates that the benefit was issued to 94.3% of clients who would be entitled to it (as defined by legislation). As of the end of the 2003-2004 benefit year, over 77.3% of families with children under 18 years of age were entitled to the CCTB, a drop from 80% recorded in the previous year.

- ✓ **Meet or exceed internal performance target of 99% for timely processing of benefit payments**

We maintained our high standard by issuing on time over 99.8% of 70 million payments under the CCTB, GST/HST credit, and the various provincial and territorial programs that we administer. These payments total close to \$12.5 billion, distributed to over 11 million low- and moderate-income recipients. The GST/HST credit, CCTB and CSA were adjusted in July 2004 to reflect increases in payment amounts and thresholds. We also implemented a legislative change to the CCTB reduction rate—that is, the rate at which benefits are reduced for families with net income above a certain threshold. The change is intended to increase by 10% the total number of children under 18 covered by the CCTB.

12. Internal CRA CCTB Take-up Rate Study 2001. Our next study of CCTB take-up is scheduled to follow the 2006 Census.

- ✓ **Meet or exceed established service standards of 98% for timely processing of applications and account maintenance adjustments**

Our monitoring studies show that we met our service standards for timely processing of benefit applications and elections¹³ and account maintenance adjustments requiring a notice to be issued¹⁴ (see Figure 22).

Figure 22 Processing Timeliness

Processing Timeliness	Target	2001-2002	2002-2003	2003-2004	2004-2005	2004-2005 volumes
Applications/Elections	98%	97%	97.9%	99.1%	99.3%	660,545
Account Maintenance	98%	80%	97%	98%	98.9%	639,872

We also processed over 1,645,000 GST/HST credit account adjustments during 2004-2005; these ensured fairness by taking into account in-year changes to family circumstances in a manner that is aligned with the CCTB.

- ✓ **Meet or exceed internal performance targets of 98% for accurate processing of benefit payments, applications, and account maintenance adjustments**

Our monitoring studies also show that we met our targets by accurately issuing over 99.8% of benefit payments and notices when processing applications¹⁵ and 99.5% when processing account maintenance adjustments (see Figure 23).¹⁶

13. Internal CRA Quality Assurance Studies, Monitoring CCTB Application Processing Timeframes, April 1-30, 2004; July 1-31, 2004; October 1-31, 2004; January 1-31, 2005.

14. Internal CRA Quality Assurance Study, Activity Types 307/308 Processing Timeframes, March 1-31, 2004.

15. Internal CRA Quality Assurance Study, Activity Types 395/397 (Accuracy), January 4-14, 2005.

16. Internal CRA Quality Assurance Study, Activity Types 307/308 (Accuracy), August 23-27, 2004.

Figure 23 Processing Accuracy

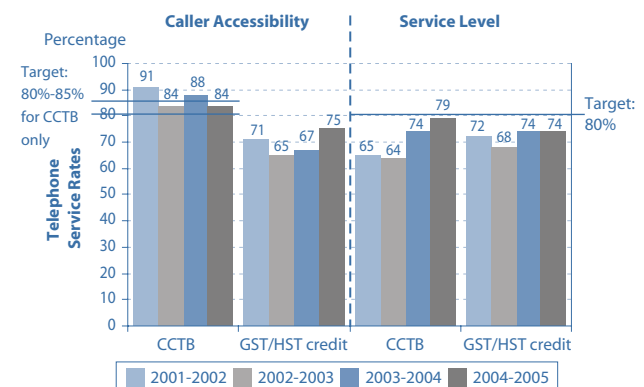
Processing Accuracy	Target	2002-2003	2003-2004	2004-2005
Applications/Elections	98%	99.2%	99.9%	99.8%
Account Maintenance	98%	99.4%	98.1%	99.5%

- ☑ Meet or exceed internal performance target of 80%-85% for caller accessibility

Caller accessibility measures the percentage of callers who succeed in reaching our telephone service. We met our 80%-85% internal performance target for CCTB, with 84% caller accessibility. For GST/HST credit calls, a toll-free network was introduced in the summer of 2004 to better route calls to agents. The network was one factor that contributed to the significant improvement in caller accessibility, which rose from 67% in 2003-2004 to 75% this year.

Service level measures the percentage of calls answered¹⁷ within two minutes of when a client enters the queue. We significantly improved our timeliness by answering 79% of CCTB calls within 2 minutes, just below our 80% target. Our timeliness in answering GST/HST credit calls remained below target, at 74% (see Figure 24). We intend to review the performance target for CCTB service level in 2005-2006 and to implement a service standard for CCTB service level in 2006-2007. For GST/HST credit calls, we will review our caller accessibility and service level performance after we have compiled and analyzed a full year's data from the new toll-free network, after which time appropriate performance targets will be established.

17. Answered calls are calls handled by an agent, as well as calls from clients who abandon their call within two minutes of entering the queue. For abandoned calls, we assume that clients received the information they needed from the pre-recorded messages they heard while on hold.

Figure 24 Telephone Service

Data quality: Good

- ✓ Increase the use of alternative electronic services and information channels

By far, the telephone is our clients' preferred method of contacting us. However, our service delivery strategy aims to reduce a clients' need to call by offering alternative service channels. The 'My Account' service allows benefits clients to view their personal account details online 21 hours a day, seven days a week. In 2004-2005, we added several new features, such as payment summary screens that display past payments and expected future payments. Over 107,000 clients were also able to change their address online in 2004-2005, up 14% from the previous year. The year also saw a 21% increase in client use of the "Child and Family Benefits" section of the CRA's website to get general information or to use our benefits simulators; the number of visits totalled 1.94 million. This suggests that the efforts being made to reduce our clients' need to call are working.

The number of benefit calls handled through the CRA's enquiries lines decreased for the second consecutive year, albeit only marginally, to just over 8.6 million calls.

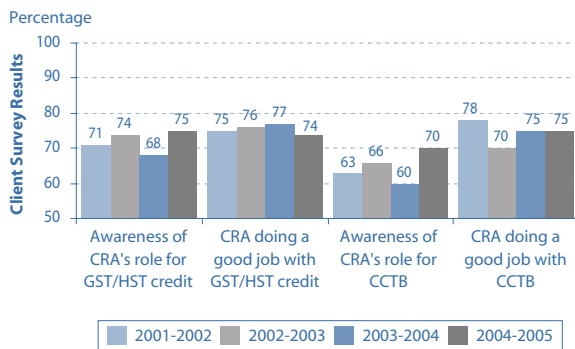
The year saw a continued increase in electronic filing of monthly care changes by agencies to whom we pay Children's Special Allowances for children in their care. Almost 26% of these agencies (covering over 59% of the children for whom an allowance is paid)

filed electronically rather than on paper, up from 22.5% recorded in the previous year.

✓ **Maintain or increase client satisfaction levels**

According to our 2004 Annual Survey,¹⁸ client satisfaction with our performance in delivering benefit programs remained reasonably high. Some 75% of CCTB clients and 74% of GST/HST credit clients feel that the CRA is doing a good or very good job administering these programs (see Figure 25). The results have not changed significantly since the baseline survey of 2000.

Figure 25 Program Awareness and Client Satisfaction



Data quality: Reasonable

First-time CCTB applicants were also surveyed to determine their satisfaction with aspects of the application process. The survey¹⁹ showed high satisfaction levels, although slightly lower overall than those of previous years. For example, the survey revealed the following results:

- 93% of respondents agreed that application instructions were easy to understand;
- 77% were satisfied with application processing times;

18. See footnote on page 29 for further information regarding the CRA's Annual Survey.

19. CCTB First-Time Applicants Survey, September 12-25, 2004. We are cautious in attributing too much significance to the results due to a low response rate (16%).

- 91% were satisfied with the information they received; and
- 89% were satisfied with the service they received.

✓ **Growth in the programs and services administered for the provinces, territories, and other federal departments to reduce duplication across all levels of government and to lower the overall cost of program delivery**

Our clients are not limited to the individuals who receive the GST/HST credit or the families who receive the CCTB. They also include the provincial and territorial governments, and other federal departments and agencies on whose behalf the CRA administers benefit programs or provides benefit related services. We are continuing to use our benefit delivery infrastructure to expand the programs and services we administer for our clients. Our aim is to improve service and eliminate duplication, reducing the overall cost to taxpayers.

We administer 17 ongoing child benefit and credit programs for provinces and territories; many of these were launched under the joint federal, provincial and territorial National Child Benefit (NCB) initiative. In 2004-2005, we adjusted payment amounts and/or thresholds for seven of our ongoing programs. The CRA integrates entitlements under provincial and territorial benefit programs with federal benefits, and issues a single payment. Two jurisdictions have specifically noted that this approach reduces duplication, streamlines efficiency and simplifies administration.²⁰

In 2004-2005, we implemented seven new income verification data exchanges using File Transfer Protocol (FTP) methodology (see Figure 26). This brings the number of program clients to 13. Another four programs are being tested for implementation in

20. NCB Progress Report 2003, published April 6, 2005, available at www.nationalchildbenefit.ca

2005-2006, and we are negotiating with seven provinces to enrol 22 more programs.

Figure 26 New Provincial Income Verification FTP Program Clients, 2004-2005

British Columbia Ministry of Health Services (Medical Premium Assistance Plan, Home and Community Care Program)
British Columbia Ministry of Human Resources (Employment and Assistance Program)
Alberta Ministry of Human Resources and Employment (Child Health Program, Adult Health Program)
Saskatchewan Ministry of Health (Special Care Program)
Newfoundland and Labrador Ministry of Human Resources and Employment (Income Support Program)

During the year, 7,146,809 income verification transactions were processed using FTP, which allows the CRA to release limited taxpayer information, with client consent, using a secure, two-way, online electronic data exchange. This reduces the need for CRA offices to release information over the counter.

We continued to issue payments under the Nova Scotia Taxpayer Refund program. For the year, these totalled over \$4.6 million (net of offsets), paid to more than 30,000 eligible Nova Scotians. Preparations are under way to sunset the program by the April 2006 deadline specified in provincial legislation.

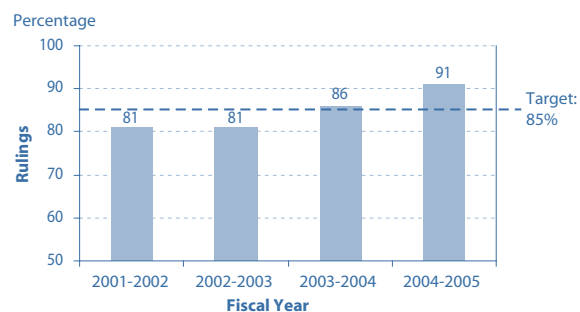
To demonstrate accountability to the provinces and territories, we issue Commissioner's Annual Reports, documenting the range and scope of the activities we undertake each year.

In collaboration with Human Resources and Skills Development Canada (HRSDC) and Social Development Canada (SDC), we used our systems capabilities to facilitate access to other Government of Canada entitlements. For example, we worked throughout the year with HRSDC on developing and testing an FTP-based data exchange to support the

July 2005 implementation of the Canada Learning Bond and the Additional Canada Education Savings Grant. During the year, we also implemented FTP based data exchanges with HRSDC for the Employment Insurance Family Supplement program, and with SDC for the Guaranteed Income Supplement program. This co-operation allows our federal clients to identify potential beneficiaries of these programs and to be responsive in issuing entitlements to eligible Canadians. We continue to examine options for further improvements in service delivery to Canadians with lower overall costs, over the coming years.

We also participate with HRSDC and SDC in the regulatory process for the CPP and EI. In 2004-2005, we completed over 68,000 requests for CPP or EI rulings. In this regard, we exceeded the 85% service level specified in our memorandum of understanding with HRSDC and we completed on time approximately 93% of the requests from that department relating to cases where there was an application for EI benefits. We also exceeded the 85% service level and improved our overall rate for timely completion to 91% for all types of ruling requests, including requests from the public, HRSDC, SDC and other CRA programs (see Figure 27), in part through workload redistribution between our offices.

Figure 27 CPP/EI Rulings – Percentage Completed on Time

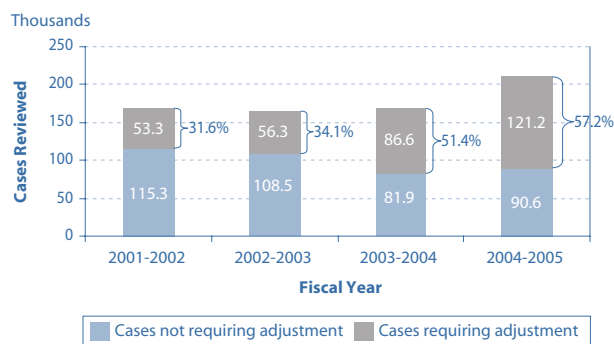


Data quality: Good

Expected Result – Non-compliance is identified and addressed

We attempt to ensure that clients receive the amount to which they are entitled through the activities of our validation and controls program. Our validation projects target accounts that have been identified as high-risk—for example, because of inconsistencies we note in reported marital status or other information in our records. We reviewed over 211,700 accounts in 2004-2005, with a validation adjustment rate for these selected accounts of 57.2% (see Figure 28). This adjustment rate suggests that we have effective criteria for selecting accounts for review.

Figure 28 Number of Cases Reviewed – Number and Percentage of Adjustments



Data quality: Good

We informed 98.2% of clients about the results of our reviews within 60 days, exceeding our new timeliness service standard of 90%.²¹

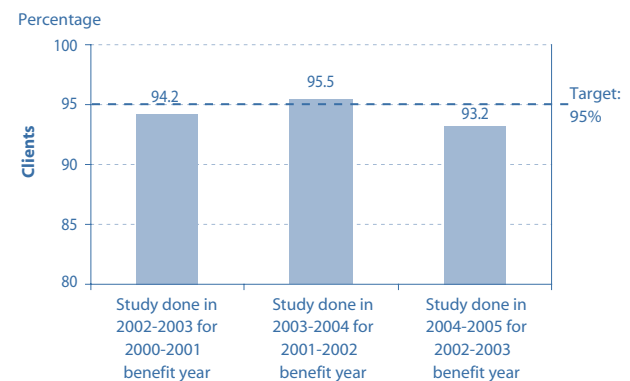
We are as yet unable to provide the total dollar value for the adjustments we perform. We had anticipated that this new facility would be fully functional in 2004-2005, but implementation will not be completed until 2005-2006.

21. Internal CRA Quality Assurance Study, Activity Types 300/671 (Validation and Controls) – Processing Timeframes, January 17-28, 2005.

Maintain high overall compliance in relation to our 95% benchmark

In contrast to our validation projects, we also conduct an annual random sample of accounts to measure overall benefits compliance. We estimate that approximately 93.2% of CCTB accounts for 2002-2003 (the benefit year of our most recent study) had complete and accurate payment and account information (see Figure 29).²² This figure falls short of our 95% benchmark, an indication that overall compliance declined somewhat from results recorded in previous years. We are developing a new compliance strategy to ensure the overall integrity of our records.

Figure 29 Percentage of Clients Receiving Proper Entitlement, Based on Random Sample



Data quality: Good

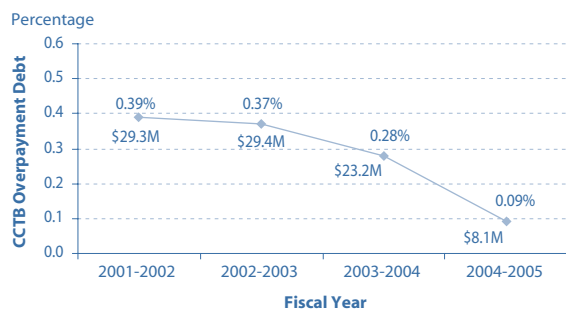
For the third consecutive year, the growth in net CCTB overpayment debt has been reduced. Overpayments are established, for example, when the CCTB has been paid to clients who belatedly report that they no longer have children in their care, or when our validation efforts uncover such a situation. Net CCTB overpayments were \$8.1 million in 2004-2005, representing 0.09% of approximately \$8.7 billion issued during the year (see Figure 30). This represents a significant improvement over previous years. It is largely attributable to a

22. Compliance Levels Exhibited by Recipients of Canada Child Tax Benefits – Final Results (April 7, 2005—target population as of November 2002).

\$13.7 million increase in the value of T1 refunds used to offset CCTB overpayment debt. The net overpayments are also well under the new ceiling of 0.4% that we have established for 2005-2006 to demonstrate proper payment control.

Accumulated debt from CCTB overpayments since the beginning of the program in 1993 stands at almost \$207.4 million (net of write-offs). This represents 0.27% of the \$78.2 billion in payments made under the program.

Figure 30 CCTB Overpayment Debt as a Percentage of Current Year Payments (and Associated Dollar Amounts)



Data quality: Good

Appeals

The CRA's Appeals program administers one of the Government of Canada's largest dispute resolution services. We strive to provide our clients with a fair dispute resolution process that respects Canadians' fundamental right to redress in their dealings with the federal government.

Clients can dispute assessment decisions pertaining to their income tax (individual clients account for over 67% of total disputes), GST/HST or excise tax, and Canada Pension Plan and Employment Insurance cases. If they are not satisfied with the results of our review, clients may then appeal to the courts. In addition, our Appeals program leads the CRA's Fairness Initiative and administers our Voluntary Disclosures Program (VDP). Under the Fairness Initiative, legislative provisions are applied to forgive interest and/or penalties owed by clients who cannot comply with tax laws because of circumstances beyond their control. Under the VDP, clients are allowed to correct past errors or omissions and report their tax obligations without penalty.

While the achievement of our expected outcome is largely within our control, we rely on other parties to help provide fair and timely dispute resolution. Where the unintended consequences of legislation are recognized, we work with the Department of Justice to help identify legislative amendments, and recommend these changes to the Department of Finance. To enhance the impartiality of the appeals process, both the CRA and our clients rely on the independence of the courts; they—the courts—are the ultimate arbiters of disputes that cannot be resolved through the CRA's administrative redress process.

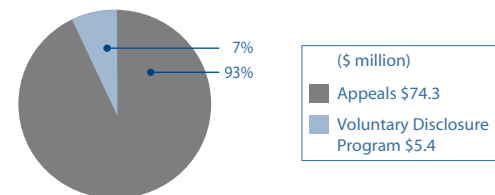
Spending Profile

In 2004-2005, the Appeals business line, the smallest of the CRA's business lines, represented 3% (approximately \$80 million) of the Agency's overall expenditures. This amount represents an approximately 4.3% reduction from 2003-2004.



The activities and resources of the Appeals business line support the facilitation of voluntary compliance through channels such as publications, case information services and the timely provision of fair dispute resolution. We believe that our impartial and timely redress system fosters trust in the tax system as a whole, which, in turn, promotes voluntary compliance with the system. Specific expenditures of \$5.4 million were allocated directly to the VDP compared with \$4.3 million in 2003-2004 (see Figure 31).

Figure 31 Resource Spending by Programs



Total Spending: \$79.7 million

Data quality: Good

Key Volumetrics

Total Taxes in Dispute: approximately \$9.37 billion

New Disputes Received: 56,889

Disputes Resolved: 55,247

Fairness Provisions: 48,201 requests granted in full or in part; cancelled a dollar value of almost \$234 million

Voluntary Disclosures Processed: 6,632, with related assessments estimated at \$318 million

Performance Report Card

Expected Outcome:

- Canadians receive an impartial and responsive review of contested decisions

Expected Result – Clients receive timely, accessible, reliable and fair service that is responsive to their needs	Performance rating		Data quality
	2004-2005	Mostly Met	Good
	2003-2004	Mostly Met	Good
Performance against Expectations			Page
<input checked="" type="checkbox"/> Maintain or exceed the high levels of transparency, accessibility, and consistency reported since 2000-2001			52
<input checked="" type="checkbox"/> Meet service standard for contact across all three program areas			52
<input type="checkbox"/> Meet targets for turnaround times			53
<input checked="" type="checkbox"/> Reduce the average age of workable inventory			53
<input checked="" type="checkbox"/> Demonstrate fairness, responsiveness, and cost-effectiveness in resolution of disputes. Majority of disputes are resolved administratively or the CRA's original determinations are upheld by the courts			54
<input checked="" type="checkbox"/> Fairness provisions are applied consistently			54
<input checked="" type="checkbox"/> All cases are resolved consistently, and complex cases are handled where expertise exists			55

 Met

 Mostly Met

 Not Met

Performance Discussion

The Appeals business line has one expected outcome:

Canadians receive an impartial and responsive review of contested decisions. Our aim is to provide clients with a fair dispute resolution process. We believe that an impartial and responsive process fosters trust in the integrity of Canada's tax system, and that this in turn helps promote voluntary compliance with our system.

On balance, we believe that we have mostly met this expected outcome, through the following:

- demonstrating that our dispute resolution process maintains high levels of transparency and consistency to help promote the fair and impartial treatment of our clients, and introducing the 'Register My Formal Dispute' feature on our website to further enhance client accessibility to our redress process;

- meeting our service standard, which monitors our responsiveness to client requests, although timeliness of case processing remains an issue in specific areas;
- working on improving turnaround times across the three program areas for the delivery of Appeals services; this was not fully achieved in 2004-2005, however, and additional strategies are being reviewed to determine the next course of action, especially with respect to the CPP/EI program;
- continuing efforts to reduce the average age of workable inventory and resolve cases consistently; and
- demonstrating fairness through the fair treatment of Canadians by applying the law impartially and ensuring the continued success of our Voluntary Disclosures Program, and demonstrating cost-effectiveness in the resolution of disputes through efforts to resolve the majority of disputes administratively, thereby avoiding the more costly option of a court proceeding.

Expected Result – Clients receive timely, accessible, reliable and fair service that is responsive to their needs

✓ **Maintain or exceed the high levels of transparency, accessibility, and consistency reported since 2000-2001**

Our aim is to ensure all of our clients have access to responsive and impartial redress. To achieve this, we believe our dispute resolution process must maintain high levels of transparency, accessibility, and consistency.

We use our Quality Assurance Program to measure transparency for our Income Tax and GST/HST/Excise program areas and to measure consistency for these two program areas as well as for CPP/EI. Using sampling techniques, our quality assurance review covered all Appeals activities across Canada in order to assess the performance of our dispute resolution service against established benchmarks.

Our 2004-2005 review found that all relevant information supporting issues under dispute, including records of discussion with the auditor and excluding the information held in confidence under the Canadian tax system, was made available to the client under the transparency rules 96% of the time for income tax and 98% of the time for GST/HST/Excise cases. To meet our very demanding 100% benchmarks for transparency, recommendations were made to ensure that, in the future, relevant information related to the issues in dispute and records of discussion with the auditor are always provided to the clients.

In the case of consistency, our review indicated that officers determined and weighed all the facts and evidence of the case; reviewed, researched, and addressed issues under dispute; applied the law correctly and impartially; provided clients with an opportunity to respond to our final position and, where warranted, to find a mutually acceptable

resolution; and decisions were applied within the law and were consistent with the facts of the case. Although some improvements are required for certain elements, the results of 99% for income tax and CPP/EI and of 95% for GST/HST/Excise cases reviewed showed that the benchmarks for consistency were exceeded in all of the three program areas.

To ensure that all clients are aware of their right to redress as well as how to access Appeals services, we continually advise potential clients of the appeals program and their appeal rights through our major tax and benefits forms. Our 2004 Annual Survey²³ found that 74% of Canadians were aware of their right to file a dispute if they disagreed with our decision; this represented a slight increase from the results of the previous survey.

In an effort to continue to improve client accessibility to our Appeals process, the 'My Account' feature on the CRA website was expanded in the fall of 2004. Through it, over 2,000 individual income tax filers requested an administrative review of their assessments in 2004-2005. Further improvements are proposed for 2005-2006, including making it easier for clients to retain copies of their submission for future reference.

✓ **Meet service standard for contact across all three program areas**

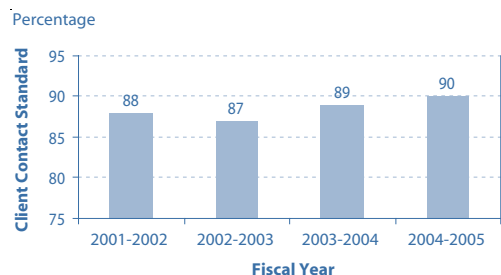
To support the government-wide Service Improvement Initiative and maintain timely service that is responsive to client needs, we have in place a service standard to ensure that 85% of clients who file disputes are provided with a status update within 30 days of filing. This status update confirms receipt of the dispute and provides a contact name and telephone number; it may also indicate when an appeals officer will contact the client.

In 2004-2005, we again exceeded our service standard, achieving a rate of 90% across all three

23. See footnote on page 29 for further information regarding the CRA's Annual Survey.

program areas. In fact, we have consistently met this standard for the past four years (see Figure 32).

Figure 32 Service Standard – Client Contact



Data quality: Good

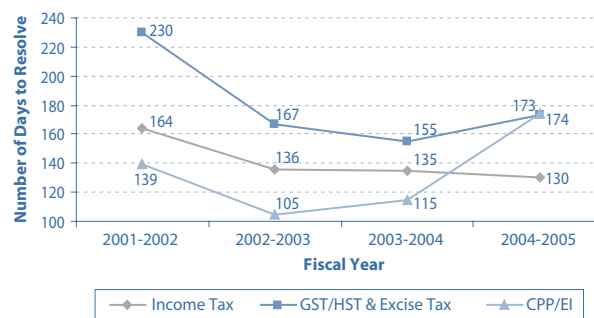
✗ **Meet targets for turnaround times**

Our three-year initiative to improve timeliness in delivering Appeals services ended in 2004-2005. This year, we established revised performance objectives for Income Tax files, aiming to improve on the 2003-2004 results that we achieved.

For Income Tax files (our largest program), we did not meet all specific internal targets; however, we succeeded in reducing the average processing time from 135 to 130 days (see Figure 33). We did not meet our internal target for GST/HST files. A review of these results will help us determine the next steps we should take regarding our timeliness, while ensuring that we do not sacrifice the quality of our decisions for the sake of timeliness.

For CPP/EI files, there was a rise in the number of larger and more complex cases received, leading to longer processing times and a growing overall inventory. As a result, our CPP/EI program failed to meet any of three established processing targets. In January 2005, we released the CPP/EI Appeals Process Review interim report. This outlined the challenges facing the program and made recommendations for enhancing timeliness and efficiency; we intend to implement the report's recommendations in the coming year.

Figure 33 Average Time to Resolve Disputes



Data quality: Good

☑ **Reduce the average age of workable inventory**

Disputes are categorized within Appeals as being either workable or non-workable; cases can move from one category to the other and back again several times before they are resolved. When a dispute is in non-workable status, our officers cannot pursue the case because it has been referred to another party (e.g., to the Department of Justice) for an opinion, or the case is related to a case in court on the same issue. At the end of 2004-2005, just under 73% of our total inventory of disputes, or 51,720 cases, were in non-workable status; included in this inventory are more than 20,000 cases related to the treatment of federal government pay-equity payments, a matter that is currently before the courts.

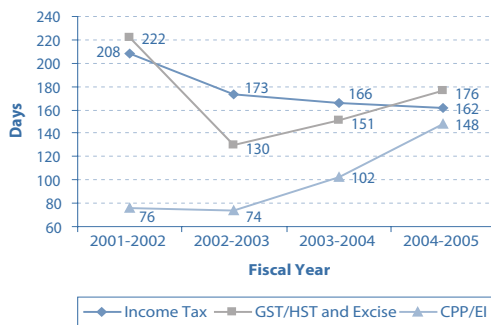
We monitor the average days in which a case is in workable status to provide us with an indication of the aging of the inventories that we can move forward. The average age of our workable inventory of income tax files—which is, by far, the largest proportion of files in our workable inventory—fell from 166 days old in 2003-2004 to 162 days old in 2004-2005 (see Figure 34).

Meanwhile, the average age of our workable GST/HST files rose from 151 days old to 176. Some short-term remedial actions have commenced pending completion of an analysis to determine the underlying causes of this increase. Once this analysis is complete,

we will be better positioned to determine any additional action that may be required.

As discussed earlier, the timeliness of our CPP/EI files is on the rise; consequently, the average age of these files also rose from 102 days in 2003-2004 to 148 in 2004-2005. Additional resources were secured for a two-year period to reduce the size and average age of this inventory. Implementation of the recommendations from the CPP/EI Appeals Process Review interim report is expected to have a positive effect on the average age of CPP/EI files.

Figure 34 Average Age of Workable Files



Data quality: Good

- ✓ **Demonstrate fairness, responsiveness, and cost-effectiveness in resolution of disputes. The majority of disputes are resolved administratively or the CRA's original determinations are upheld by the courts**

In 2004-2005, we resolved a great majority of appeals cases administratively in the Income Tax and GST/HST/Excise program areas (almost 94% and over 92% respectively—slightly down from the 95% achieved in the previous year). In this way, we continued to demonstrate fairness, responsiveness and cost-effectiveness. In the CPP/EI program, the administrative resolution rate was 70%, an improvement over the results for the previous year (66%). The variance in the resolution rates between the programs is the result of legislated

program differences in the administrative redress processes.

Although, we have been successful in resolving most disputes at the administrative level, in some cases clients may still wish to appeal to the Tax Court of Canada. In 2004-2005, the majority of the decisions (almost 51%) rendered by the courts continue to support the CRA, a result that is consistent with our goals. We review the impact of adverse court decisions to determine whether to appeal or to accept the Court's decision, which may result in the amendment of legislation or policy.

- ✓ **Fairness provisions are applied consistently**

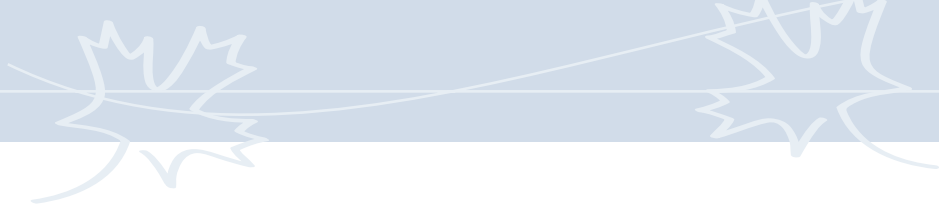
Fairness principles are integrated generally across the CRA. They find expression in two major ways: through our VDP and through our application of the CRA's fairness provisions. Use of the VDP by the public remained virtually constant in 2004-2005. There was an increase in the number of cases completed: 6,632, up from 6,164 in the previous year (see Figure 35). Still, the VDP inventory in 2004-2005 remained relatively stable compared with 2003-2004. An estimated \$318 million was generated in related assessments, with related income tax files accounting for \$153 million and GST/HST files, including the cases now administered for us by the MRQ, accounting for \$165 million.

Figure 35 VDP Case Completion



Data quality: Good

Note: In 2004-2005, completion results include GST/HST voluntary disclosures administered by the MRQ, which totalled 171 cases during the year.



Sections of the *Income Tax Act* and other acts administered by the CRA permit us to cancel and/or waive penalties and interest payable by clients who have faced extenuating circumstances. Interest and penalties may be cancelled in cases where they have already been assessed; they may be waived when they have not been assessed. As noted in the Tax Services chapter, most of the day-to-day administration of the fairness provisions falls to various Tax Services programs. The Appeals business line, however, leads the Fairness Initiative across the CRA.

Requests from clients processed under the fairness provisions last year totalled 75,299, an 11% increase from 2003-2004. Relief was provided in 64% of these cases. The value of interest and penalties cancelled or waived as a result of these requests also increased, from more than \$184 million in 2003-2004 to approximately \$234 million in 2004-2005.

The total value of automatic waivers of penalty and interest under the fairness provisions increased significantly, from approximately \$446 million in 2003-2004 to over \$851 million in 2004-2005; the 2003-2004 total is a restatement from the over \$290 million reported in last year's Annual Report. The near-doubling of the total value of automatic waivers occurred for a variety of reasons, including system enhancements that allowed for improved reporting. In total, more than \$1 billion was cancelled

or waived by the CRA in 2004-2005 for over one million clients.

We use monitoring visits to ensure the effective and efficient administration of the fairness provisions. We continued with the commitment to expand the monitoring to all programs that are involved in granting relief under the fairness provisions. In 2004-2005, these reviews found that existing policies and procedures were being followed and consistently applied in most cases. Some common problems, however, were identified in the application of the fairness procedures across the functions. Where inconsistencies were identified, solutions were implemented, culminating in an updated version of the Fairness Registry User Guide. Some of these suggestions will be incorporated in the next release of the Fairness Provisions Reference Guide.

-
- ✓ **All cases are resolved consistently, and complex cases are handled where expertise exists**
-

As discussed earlier, our Quality Assurance Program found in 2004-2005 that, with a few exceptions, our dispute decisions were applied within the law and consistent with the facts of the case. This program also found that, overall, dispute files were screened at the proper complexity level and were assigned to an officer at the appropriate level.

Corporate Management and Direction

Working within the CRA's governance structure, and adhering to the principles of modern comptrollership, Corporate Management and Direction (CMD) provides strategic direction in support of all CRA programs and services. Our goal is to have a modern and innovative corporate infrastructure that maximizes the performance and operation of our business line.

CMD activities support the CRA's programs with services in the areas of human resources management, finance and administration, information technology, public affairs, agency management, corporate audit and program evaluation, and policy and planning.

Spending Profile

In 2004-2005, CMD's total expenditures were about \$729 million, or about 24% of the CRA's total expenditures. As shown in Figure 36, Information Technology (IT) expenditures were the largest component in CMD's spending profile. Note that this represents all IT expenditures for the CRA, and includes systems development and support for the other business lines. In 2004-2005, the CRA spent about \$410.1 million on IT (\$258.8 million for IT and \$151.3 million for IT Solutions), which accounts for about 56% of CMD's total expenditures. Excluding the \$70.5 million in IT services provided and charged to CBSA, the CRA's IT increased spending by 10.8% in 2004-2005, over the \$370 million spent in 2003-2004.

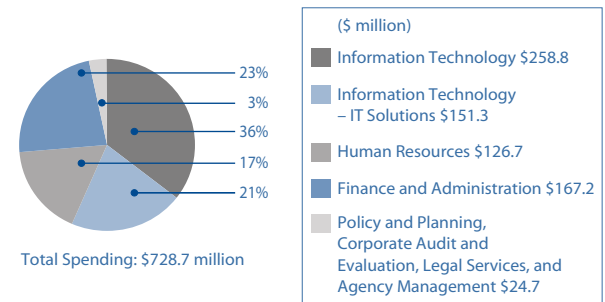
About \$167.2 million, or 23% of CMD's expenditures, was spent on finance and administration; about \$126.7 million or 17% was spent on human resources



management; and the balance, about \$24.7 million, or 3% was attributable to policy and planning, audit and evaluation, legal services, and agency management.

CMD has realized permanent savings through corporate support reviews and administrative renewals. These reviews have also generated funds to be reallocated to program areas which help to offset the impact created by growth in volume and workload.

Figure 36 Resource Spending by Programs



Data quality: Good

Key Volumetrics

Staffing: processed about 8,900 staffing placements through internal selection processes, and about 4,300 placements through external selection processes

Information Technology (IT): supported over 300 IT applications and 200 databases in production

Information Requests: received over 1,800 requests under the *Access to Information Act*, and over 2,800 requests under the *Privacy Act*

Contracting: in calendar year 2004, CRA issued/managed contracts for close to \$500 million of goods and services

Performance Report Card

Expected Outcome:

- Internal services enable business lines to maximize performance and operations

		Performance rating	Data quality
Expected Result – Sound strategic direction, financial and treasury management	2004-2005	Mostly Met	
	2003-2004	Mostly Met	Good
Performance against Expectations			Page
✓ Demonstrate excellence in oversight and management leadership			58
☑ Reflecting modern comptrollership principles, demonstrate excellence in financial stewardship, including sound cash and financial and non-financial information management			58
☑ Improve financial management controls and systems to be responsive to the needs of internal and external stakeholders			59
Expected Result – Enhanced human resources management, which contributes to a knowledgeable and skilled workforce in the right place at the right time	2004-2005	Met	
	2003-2004	Met	Good
Performance against Expectations			Page
✓ The workforce is knowledgeable, skilled and representative			60
✓ CRA workplace policies and practices support workforce well-being and sustainability			61
✓ Continue to implement the HR Strategy, which includes the HR Reform and Renewal (HRR&R) initiative and the results of the “Taking Stock and Moving Forward” review			61
☑ Deliver ongoing HR activities, and complete the implementation of competency-based staffing, competencies, classification, and compensation initiatives			62
Expected Result – Demonstrate excellence in the provision of internal services	2004-2005	Met	
	2003-2004	Met	Good
Performance against Expectations			Page
✓ Deliver high standards of IT systems availability, reliability and sustainability			63
✓ Meet current and future business needs using appropriate IT solutions			63
☑ Enhance internal service standards for client-focused service			63
✓ Protect confidentiality of client information, and strengthen key security policies and practices			63
✓ Respond to requests for information within legislated time requirements			65

✓ Met	☑ Mostly Met	✗ Not Met
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Performance Discussion

Corporate Management and Direction has one expected outcome:

Internal services enable business lines to maximize performance and operations. CMD makes a vital contribution to the CRA’s core business by helping to deliver better service to Canadians through modern and innovative support for the CRA’s many programs and services. CMD provides the strategic direction and executive oversight for the CRA, guiding the establishment and maintenance of systems and practices that support effective,

principled governance and sound management. On balance, we believe we have met this expected outcome through the following:

- providing a governance structure and management practices that promote excellence in administrative services;
- continuing to improve financial systems controls and enhance critical financial and non-financial systems to improve management’s decision-making abilities;
- continuing to improve our HR systems and practices to put the right people in the right place at the right time;

- delivering effective e-commerce solutions and providing high levels of IT systems availability, reliability, sustainability and response times; and,
- strengthening our policies regarding physical and information security and increasing employee awareness and knowledge of security issues.

Through the effective delivery of internal services, we have also contributed to the achievement of our strategic outcome. Our performance against our Expected Results is described in detail throughout the rest of this chapter.

Expected Result – Sound strategic direction, financial and treasury management

✓ **Demonstrate excellence in oversight and management leadership**

Our legislation, the *Canada Customs and Revenue Agency Act*, established a unique governance structure for the CRA, which has three components: a Minister; a Board of Management to oversee human resources, financial and administrative authorities; and a Commissioner, accountable for the day-to-day administration of the human resources and administrative authorities.

Working within this governance structure, the Board of Management provides strategic oversight in the CRA's direction and administration. In 2004-2005, the Board's actions significantly enhanced our organization through the following:

- the approval of the CRA Injury and Illness Policy;
- the approval of the CRA Employment Equity Strategic Direction;
- the approval of a range of corporate governance instruments, including the media relations policy and emergency communications guidelines; and
- the approval of the CRA's funding proposal for cost-recovery initiatives.

As a result of the Board's interest in performance reporting, the Corporate Business Plan and the Annual Report have become our key planning and reporting documents. Together, these documents facilitate accountability at all managerial levels.

Section 89 of the *Canada Customs and Revenue Agency Act* requires Parliament to undertake a review of the legislation five years after November 1, 1999, the date when it came into force. To support the parliamentary review, we prepared a submission to the House of Commons Committee on Finance, entitled *The Canada Customs and Revenue Agency: The First Five Years – Setting the Foundation for Tax and Benefit Administration in the 21st Century*. This report describes the impact of the legislation on the CRA's operations and the quality of its services.

Overall, the report concludes that we have achieved our objectives of a more efficient and effective administration and a closer relationship with the provinces and territories. The report also concluded that the transformation of our human resource and administrative regimes has enabled us to improve our service to Canadians.

As a demonstration of our commitment to transparency, Annual Reports and Summaries of the Corporate Business Plan are available on the Internet (see 'Schedule D').

✓ **Reflecting modern comptrollership principles, demonstrate excellence in financial stewardship, including sound cash and financial and non-financial information management**

Modern Comptrollership is a set of management reforms that focuses on results and value for money. The CRA has been active in promoting modern comptrollership by maintaining an intranet site that links the four key indicators or "pillars" underpinning the concept, with day-to-day business methods. To build comptrollership capacity and expertise, we provide training to executives and managers.



Strengthening financial management is a key priority at the CRA. In 2004-2005, the CRA spent \$3,051 million, about 5.4% less than our budget of \$3,226 million. The CRA's 2004-2005 financial expenditures remained relatively stable, increasing by some \$105 million, or about 3.6%, over 2003-2004. Over the past years, we have introduced and implemented various Investment Plan initiatives and reviews aimed at improving efficiency. These measures are contributing to savings in terms of operating expenditures. Part of the CRA's resource management strategy is to limit administrative overhead spending, where possible, and to reallocate funding to program priorities.

The CRA strives to optimize the use of funds to mitigate risk to program delivery. In 2004-2005, as a result of our internal financial review sessions, we reallocated funds from lower to higher priorities in support of program delivery. We identified a package of expenditure reduction initiatives, contributing to the Government of Canada's expenditure review exercise; the CRA's expenditure reduction obligations total \$438.9 million over the next five years.

To contribute to our sound cash management objective, we strive to deposit funds as quickly as possible. For 2004-2005, for tax funds, 94.6% of the volume of receipts (representing 98.1% of the value of all tax funds) were deposited within the 24-hour window. This is a slight decline in performance from 2003-2004, which can be attributed to the impact of the CRA labour disruption in 2004. Excluding the period of labour disruption, the 2004-2005 performance for cash deposits performance was slightly better than that in 2003-2004.

In 2004-2005, enhancements were made to the CRA's Performance Measurement Program System (PMPS) which facilitates our focus on performance results. The system is used to record performance data against targets and report these on a quarterly basis to senior management for their review, providing an enhanced ability to take the required corrective action. Though much progress has been made, more work is needed

to set remaining targets, and establish additional clear and concrete performance measures.

Improve financial management controls and systems to be responsive to the needs of internal and external stakeholders

As part of the government-wide priority to establish a new framework for results reporting and management, the CRA developed a new Program Activity Architecture (PAA). This structure will be used as a basis to more clearly link resource utilization to the results of our program activities. The CRA's activity-based costing methodology will add costing accuracy to provide an end-to-end causal link between resources and results.

In 2004-2005, we increased the reliability and efficiency of our revenue ledger system, which is used to record revenues owed by and due to taxpayers. We strengthened our electronic controls and monitoring to respond to the Auditor General of Canada's concerns about financial control weaknesses.

The Corporate Administrative System (CAS) is our primary expenditure management system. In its 2005 report, the Office of the Auditor General of Canada indicated that additional action is required to achieve the desired results in terms of optimizing electronic security, monitoring and control features of CAS. In response, the CRA initiated a full review of the framework guiding electronic access. Access adjustments resulting from this review, including those identified by the Auditor General, will be implemented in the coming months.

Our internal audit and evaluation function supports our strategic goals by providing reviews to senior management concerning the adequacy of our systems and controls. The most notable review this year was the National Audit of Contracting Processes, which led to the introduction of a four-point action plan to enhance risk management in contracting. Among the new control measures implemented was an instrument that strengthened the delegation of

procurement authority; reduced delegations to program officials, a requirement that all contracts over \$1 million be reviewed by senior management committee; and centralized procurement in common service/commodity areas, such as training.

Expected Result – Enhanced human resources management, which contributes to a knowledgeable and skilled workforce in the right place at the right time

- ✓ **The workforce is knowledgeable, skilled and representative**

To ensure that our employees receive the right training at the right time, the CRA provides a blend of learning solutions including classroom training, on-the-job training, e-learning and coaching. To provide employees with the flexibility to learn anytime and anywhere, for the second year, we renewed our partnership with Campusdirect, a library of online courses available to employees. In 2004-2005, the employee subscribership rate for this service increased by 30%. Our most recent data, from 2003-2004, indicate that, for 94% of the completed courses, users reported that the course met their learning objectives. To further develop a skilled and knowledgeable workforce, we provided an average of nine days of training to employees, and an average of seven days of training to managers.

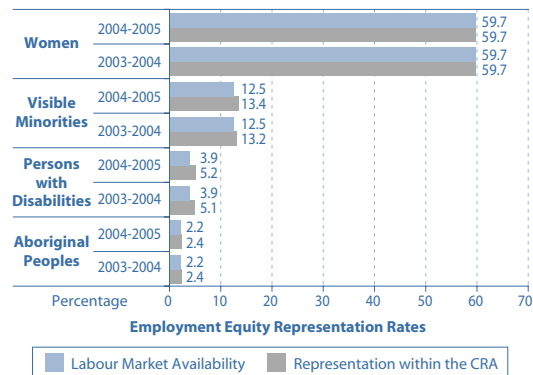
Based on a needs analysis, we designed an enhanced leadership program with two key learning components. The first is a core program for newly appointed managers, piloted this past year. The second is a continuing development program for experienced managers, now under development and scheduled to be implemented in 2005-2006.

For 2004-2005, we received a “Good” rating on the inaugural Report Card from the Office of the Commissioner of Official Languages. The report card

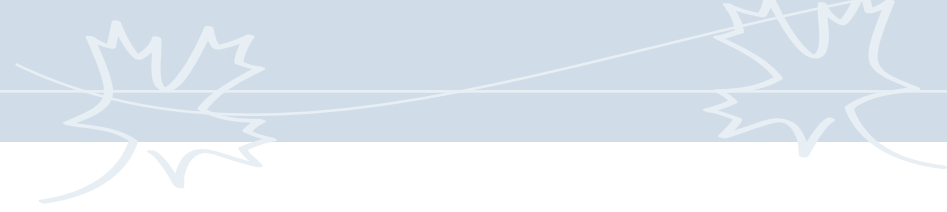
mentioned three strengths: effective complaint resolution and follow-up procedures; the use of an accountability framework, action plan and reporting mechanism that place importance on official languages; and the Quality Management System – Official Languages, which promotes the use of both languages in the workplace and has become a best practice in the federal Public Service. At the same time, the report card noted weaknesses in the active offer of services, and in the quality and availability of services in the minority language. To improve performance in these areas, reminders about the active offer of services were distributed to employees serving the public.

The CRA is recognized for its policies and best practices in successfully creating an inclusive work environment and achieving employment equity goals. In 2004-2005, we continued to demonstrate solid representation results on a national level for all four designated groups (Women, Visible Minorities, Persons with Disabilities, and Aboriginal Peoples), surpassing or equalling the labour market availability of these groups (see Figure 37). In 2004-2005, for the third consecutive year, we exceeded our internal performance target with a 28% representation rate for visible minorities in management development programs.

Figure 37 Employment Equity: Representation of Designated Groups within the CRA (as of March 31, 2004)



Data quality: Good



✓ **CRA workplace policies and practices support workforce well-being and sustainability**

The CRA supports the well-being of its employees and strives to improve the working environment through ongoing programs such as the Employee Assistance Program, Employment Equity Program and Recognition Program. As well, we have an Office of Dispute Management to support managers and employees in preventing and resolving workplace conflicts through the use of Alternative Dispute Resolution (ADR). We continue to be recognized across the federal Public Service as a leader in ADR. Although our most recent data are from 2003-2004, we believe our results show that we are on the right track with using ADR as a course of action for CRA employees. In 2003-2004, there was a 39% increase in the number of interventions, compared with the previous year.

With the increasing levels of retirement eligibility in the CRA management and executive communities, succession planning is important to us. We continue to develop a corporate approach to succession planning for our executive cadre, where we have identified key positions along with possible successors, their readiness for promotion and their development needs. Our management development programs are used to select and develop high potential employees. In 2004-2005, for the second consecutive year, about 80% of the graduates of management development programs were working at or above their target levels.

There is also evidence that the CRA continues to be an employer of choice:

- the CRA maintains a high retention rate, which has consistently been over 96% for the past three years;
- the CRA Employee Survey (last administered in 2002)²⁴, found that the majority of respondents agreed with the statements “My organization is a

good place to work” and “I am strongly committed to making my organization successful”; and

- the CRA is a leader in creating an inclusive work environment and consistently achieves its employment equity goals.


In 2003, to support our renewed business direction and address the sustainability of our workforce, we developed a workforce change strategy. The strategy assists with managing the human resource impacts of business changes, such as the Government-wide expenditure review and the insourcing of work from other government departments and other levels of government.

A working group was established, which continues to address issues and promote horizontal, integrated and strategic human resource planning to manage the ongoing change process. As an example, in 2004-2005, our human resource function developed a strategy for integrating Social Development Canada’s collections employees into the CRA.

✓ **Continue to implement the HR Strategy, which includes the HR Reform and Renewal (HRR&R) initiative and the results of the “Taking Stock and Moving Forward” review**

In 1999, the CRA developed a Human Resources Reform and Renewal (HRR&R) strategy to modernize HR in the CRA in order to respond in a timely and effective manner to the changing needs of the business. This new regime and modernization agenda have not yet been fully completed. Our “Taking Stock and Moving Forward” review reported in June 2004 that significant progress had been made to develop the new regime. The review recommended some improvements in our HR regime to effectively support the CRA.

24. The CRA Employee Survey, conducted every three years, is administered by Statistics Canada. In 2002, the survey’s response rate was about 60%.



Of note, the review recommended improvements in the area of Competency-Based Human Resources Management system (CBHRM) to deal with delays and facilitate comprehensive implementation. To address these issues, an Integration Project Team focused on identifying gaps in the framework, developing a blueprint to address them, and establishing a clear vision for the CBHRM.

-
- ✓ **Deliver ongoing HR activities, and complete the implementation of competency-based Staffing, Competencies, Classification, and Compensation Initiatives**
-

This past year, the CRA continued to develop and improve our Pre-Qualification Process (PQP) for staffing, emphasizing the most frequently staffed positions, where efficiency gains will have the greatest impact—for example, jobs in auditing, program administration and information technology. The expectations for this program have not yet been fully realized. Significant work remains to be done to increase the effectiveness and efficiency of pre-qualification processes across the CRA, and plans are in place to address the weaknesses in this area.

We are working at improving the process and the technology that supports our staffing, in response to recommendations made in a September 2004 internal audit and program evaluation. In 2004-2005, plans were made to introduce “*eResourcing*” and replace the internal CRA Careers website by 2007; this will automate many of the staffing-related administrative transactions. The *eResourcing* solution will allow applicants to manage their applications online, managers to access applications online, and our human resource function to automate the pre-screening of education, area of selection, time of submission and language.

In 2004-2005, as part of our plan to modernize employee compensation services, we consolidated our regional and local compensation offices into two Compensation Client Service Centres, one in Ottawa and the other in Winnipeg. The Winnipeg site is expected to be operational in 2005-2006. As well, we implemented self-serve technology to help employees and managers administer time and activity transactions, as well as to help meet our sustainable development commitments. In response to concerns from employees, the speed of the system portal has been increased, information in the self-service tutorials has been updated, and the availability of support services from change agents has been extended.

In 2004-2005, we completed a study to move forward with the streamlining of our classification program. The Agency Classification Standard (ACS) conversion project will allow us to use one standard instead of the 16 classification standards currently in use. This conversion to the new standard will be a major undertaking for the CRA, since it will apply to about 20,000 employees. It is expected that the conversion process will begin in 2006.

In 2004-2005, after a brief labour disruption, the CRA reached a four-year collective agreement with the Public Service Alliance of Canada (PSAC). In compliance with the *Public Service Staff Relations Act*, we continued negotiations with the Professional Institute of the Public Service of Canada (PIPSC), successfully reaching a four-year agreement in July 2005.

It is the CRA’s goal to optimize union-management relations and workplace wellness by creating a partnership between management and unions, based on respect, understanding and co-operation in managing conflict through the use of alternative dispute resolution. We are proceeding with the national implementation of an alternative dispute resolution model that builds on the success of the CRA Atlantic Union-Management initiative.

Expected Result – Demonstrate excellence in the provision of internal services

✓ Deliver high standards of IT systems availability, reliability and sustainability

In support of program delivery, in 2004-2005, our IT function implemented numerous releases for tax, benefits, customs, appeals and charities systems. Once again, high levels of availability were achieved, meeting service level targets for the multiple national systems critical to the delivery of services to the Canadian public.

An asset management plan is now in place to provide for the ongoing renewal of our distributed infrastructure.

In 2004-2005, we received a Government Technology Exhibition and Conference (GTEC) gold medal for the Service Availability Improvements project. Other GTEC gold medals for IT excellence included the Collaborative Senior Portal and the Secure Channel Project.

✓ Meet current and future business needs using appropriate IT solutions

Our IT function continues to support more than 300 applications that are critical to the delivery of services to Canadians. For example, the IT function undertook the following:

- started the implementation of the Managed Distributed Environment to reduce the number of computing assets requiring maintenance;
- supported a computing environment in more than 450 staffed CRA and CBSA locations, including data centres processing 1.7 million transactions per hour, seven mainframe computers, and approximately 2,000 servers for some 54,000 employees (including the CBSA);

- provided systems security protection and responded to security events;
- implemented the self-service functionality within the Corporate Administrative System (CAS); and
- prepared the preliminary infrastructure for a corporate decision-support solution, the Agency Data Warehouse—a key component of our collections and compliance business transformation visions.

✓ Enhance internal service standards for client-focused service

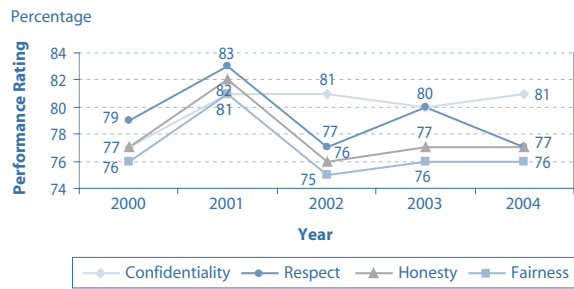
Internal service standards are used to assist senior management in managing our business with more precision. In 2004-2005, our finance and administration function developed and published a suite of national internal service and operational standards for several key areas, including accounts payable, contracting, forms, personnel security screening and travel claims processing. Meanwhile, our legal services function acknowledged most requests for legal opinion within two days. Work is still required, however, to develop service standards for other key internal service delivery areas. Many internal service standards and targets are included in our Performance Measurement Program System. Quarterly reporting against service standards facilitates improved CRA business management.

✓ Protect confidentiality of client information, and strengthen key security policies and practices

The success of the CRA's relationship with Canadians is based to a considerable extent on trust. We believe that confidentiality, respect, honesty and fairness are key factors in maintaining that trust. Our annual survey for 2004²⁵ (see Figure 38) found that 81% of Canadians agreed that "the information that Canadians provide to the CRA is treated confidentially."

25. See footnote on page 29 for further information regarding the CRA's Annual Survey.

Figure 38 The CRA Maintains Public Trust



Data quality: Good

The CRA takes very seriously its obligations to protect taxpayer confidentiality and makes every effort to safeguard the security and confidentiality of client information. We work with lead agencies within the Government of Canada, specifically the RCMP and the Communications Security Establishment.

The CRA recognizes that maintaining the security of our facilities and our information systems is an ongoing process. In 2004-2005, we revised many aspects of our security program in order to further enhance the protection of our facilities and information systems. For example, we revised our policies governing physical and information security. As part of the National Facilities Security Review, we rated the security of our facilities against a risk assessment scorecard. The results were published in a report, which concluded that 136 of our 139 facilities were “satisfactory in most respects” or above. Based on this review, the CRA invested \$1.5 million in significant upgrades to facilities security including closed circuit television technology, exterior motion sensing, access card upgrades, and strengthening to doors, windows and fencing, as well as other safeguard measures.

In 2004-2005, the number of break-ins to CRA premises declined significantly from the previous year. We believe that at no time was client information jeopardized.

To protect against external and internal threats to our systems, the CRA launched an IT security modernization program to examine and update

electronic security capabilities. Work is underway in such domains as encryption, intrusion defence, public key infrastructure, and consolidated user administration. As well, the Privileged User Risk Management program and standard was introduced in 2004-2005 to improve access controls to CRA information systems and limit or reduce the risks associated with privileged user accounts. To determine and react to vulnerabilities, we conduct Threat and Risk Assessments on all of our line of business applications. As a result of conducting over 225 of these assessments in 2004-2005, we believe our security measures safeguard the confidentiality of client information, though the need to enhance security never ends.

In February 2005, the Office of the Auditor General issued an audit report, entitled “Managing Government: Financial Information”, which examined internal financial control systems. In this report, the Auditor General expressed concerns about the CRA’s financial systems controls and identified some weaknesses. In response to the Auditor General’s concerns, we developed Agency-wide system access profile catalogues and conducted a review of how system access profiles are administered. Plans were made for the development of position-based employee system access, with implementation in 2005-2006. Many other safeguards are in place to ensure that client information is protected.

A comprehensive Security Training and Awareness Program Strategy was implemented to increase employee awareness and knowledge of security issues and policies, with over 9,000 employees receiving training last year. In addition, we developed emergency communications guidelines.

The CRA believes that confidentiality of client information is well protected across the Agency, however, we continue to work to further enhance our facilities and systems in order to protect the confidentiality of client information.

✓ **Respond to requests for information within legislated time requirements**

The CRA demonstrated its transparency to Canadians by complying with the *Access to Information Act*. The Information Commissioner of Canada's annual review gave the CRA an "A" grade. This exceeded our internal performance target, and marked an improvement from the "B" grade received last year.

We were awarded the highest attainable grade, signifying ideal compliance.

From 2004 to 2005, we experienced an increase of approximately 12% in the number of *Access to Information Act* requests and approximately 7% in the number of *Privacy Act* requests received. This year, we responded to about 94% of access to information requests and about 92% of privacy requests within the timeframes required by the two *Acts*. Overall, we exceeded our 90% internal performance target.



Conclusion by the Commissioner

I am pleased to report that we have followed through on our commitments set out in the Corporate Business Plan and have met our strategic objective: compliance with Canada's tax laws and the effective delivery of benefit and other programs and services.

The Canada Revenue Agency was created as a unique and innovative experiment in public administration. As the Commissioner, I am accountable to the Minister for all program matters and to the Board of Management for administrative matters. Five years after its creation, this unique structure now provides the groundwork for an effective and efficient system that allows the Canada Revenue



Agency to manage tax programs and distribute benefits on behalf of other levels of government. These client governments choose to take advantage of our services because we offer an integrated, economical and effective way to secure their revenue base and administer services. The Canada Revenue Agency has achieved improved productivity, realizing the vision of those who believed that it was possible to bring together the best of what the public and the private sectors have to offer.

Collecting taxes and administering financial benefits require a high level of trust and integrity. Taxpayers trust us with their money, and client governments trust that we will administer programs well on their behalf. In 2004-2005, we collected nearly \$305 billion dollars and distributed close to \$12.5 billion. This meant that we processed more than 1.5 million transactions per hour, handled more than 22 million public enquiries, recorded over 24 million tax-related visits to our website, and were in direct contact with 25.5 million individuals and businesses during the year.

None of this would have been possible without the dedication and hard work of our skilled employees. Their collective knowledge will continue to enable us to provide innovative and efficient services to individuals and businesses on behalf of the Government of Canada, other levels of government and First Nations communities.

In tabling this report to Parliament, I would like to extend my sincere thanks to all of my co-workers, managers and union leaders who have made the Agency's successes possible.

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

Michel Dorais
Commissioner
Canada Revenue Agency





**AUDITOR GENERAL'S ASSESSMENT
of Performance Information in the
2004-2005 Annual Report to Parliament**

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

Purpose and Scope

The *Canada Customs and Revenue Agency Act* requires that the Auditor General of Canada periodically assess the fairness and reliability of the information in the Agency's annual report about its performance with respect to the objectives established in its corporate business plan.

The Canada Customs and Revenue Agency has reported its performance in its 2004-2005 Annual Report to Parliament. My assessment covers the performance information in that report, excluding the letters from the Minister, Chair, and the Commissioner. It also excludes the schedules following the report, except for Schedule C, Overall Performance against Service Standards. My assessment does not cover the financial statements or the additional information that resides on CCRA's Web site.

The performance information in the annual report is the responsibility of Agency management. My responsibility is to provide an assessment of the fairness and reliability of the performance information in the annual report. To do so, I assessed the performance information against the criteria for fairness and reliability that are described in Annex 2. My assessment was conducted to a review level of assurance and was made in accordance with Canadian generally accepted standards for review engagements. Accordingly it consisted primarily of enquiry, analytical procedures, and discussion related to the performance information supplied to me by the Agency. An assessment to a review level of assurance does not constitute an audit, and consequently I do not express an audit opinion on the Agency's performance information. I did not assess or comment on the Agency's actual performance.

Conclusion

Based on my review, nothing has come to my attention that causes me to believe that the Agency's performance information is not, in most significant respects, fair and reliable using the criteria described in Annex 2. The key findings of my assessment, organized by these criteria, are presented in Annex 1.

The Agency continues to make improvements to its report. At the same time, further improvements are necessary and the Agency recognizes this. In particular, more of the performance expectations need to be clear, concrete, and measurable and the Agency needs to put more focus on reporting significant outcome-oriented results.

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
26 September 2005

Summary assessment by criteria

The following presents the key findings of my assessment, organized according to the criteria used to assess the fairness and reliability of performance reports (see Annex 2). Overall, nothing came to my attention that causes me to believe that the report is not, in most significant respects, fair and reliable. During the review I identified a number of improvements that the Agency has made to its report, and I found other areas where further improvement is needed.

1. Relevant

The overall performance reporting framework has been stabilized. The performance reporting framework includes the Agency's mission and strategic outcome as well as expected outcomes, expected results, and performance expectations for each business line. This framework allows the reader to conclude how well the Agency has performed against its strategic outcome and to conclude how well each business line has performed against its expected outcomes. In each of the past four years, the Agency has improved its performance reporting framework by making significant changes to it. However, these changes made it difficult for the reader to compare actual results reported in the Annual Report with the expectations set out in the corporate business plan. This year the framework has been stabilized and is generally in accordance with the Corporate Business Plan for 2004-2005 to 2006-2007.

More needs to be done to focus on significant results. In some key areas, significant outcome-oriented results are reported. For example, overall levels of compliance for filing, registration, and remittance are discussed, and this information links directly with the Agency's strategic outcome. However, in other cases, the Agency reports too many activity- and process-type results or results of limited significance. The number of these types of results often outweighs the number of significant and outcome-oriented results that are reported. For example, although improved from prior years, much of the discussion in the Appeals business line deals with activities and production statistics rather than showing that Canadians received an impartial and responsive review of contested decisions. As the Agency continues its efforts to enhance its performance information, it should ensure that it focuses on reporting only accomplishments that are significant and outcome-oriented.

2. Meaningful

More performance expectations need to be clear, concrete, and measurable. As indicated in previous assessments, performance expectations should be clear, concrete, and measurable. As well, they need to be clearly linked to the expected results they are meant to support. Some of the current performance expectations meet these requirements while others do not. For example, service standards are clear, concrete, and measurable; and the reader can easily determine whether they have been met. However, other performance expectations simply represent ongoing activities or the continuation of initiatives.

The report contains good trend information. The Agency presents good information showing trends so the reader can understand how performance has changed over time. The information is often presented in graphs covering four years, usually with a discussion of why results have changed. Where performance gaps exist, actions planned to improve performance are generally indicated.

Results information relating to the Corporate Management and Direction business line needs improvement.

The information in the Corporate Management and Direction (CMD) business line would be better provided by integrating it into the other business lines. The expected outcome for CMD is, “Internal services enable business lines to maximize performance and operations.” Yet, there is little discussion of the impact CMD has had in helping the other business lines achieve their objectives.

3. Attributable

The report discusses the role of key partners. The report contains a description of other entities such as financial institutions and other government departments that help the Agency attain its results. The Agency also continues to disclose the extent to which source deductions by employers contribute to taxpayer compliance.

More could be done to link reported results to the Agency’s actions. The contribution of many of the Agency’s programs in achieving the reported results is not sufficiently clear. While I recognize there are challenges, the Agency should continue working to provide as much information as possible on the extent to which the actual results achieved are attributable to its own actions.

4. Accurate

There is no reason to believe that the performance information in the annual report is not accurate.

Based on my review, nothing came to my attention that would indicate that the performance information was not supported by appropriate corroborative data sources and other evidence. As in prior years, the “Resource Spending” amounts for each business line are determined on an appropriation (modified accrual) basis of accounting. They are not the same as those amounts provided in the Agency’s financial statements, which are prepared on an accrual basis of accounting and have been audited. Once again I encourage the Agency to report its spending information on an accrual basis in the future.

5. Balanced

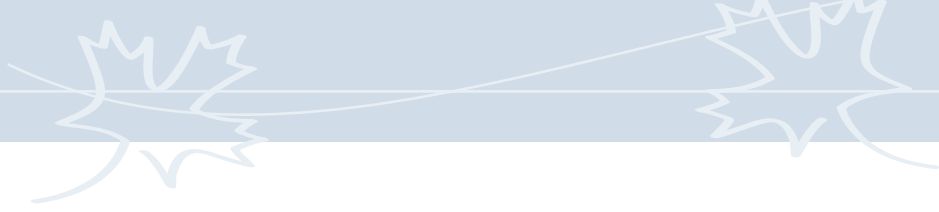
The report is reasonably balanced. All aspects of the Agency’s mandate are included in the report. The Agency describes problems and challenges it has faced, and discusses situations in which performance did not meet objectives. Balance could be enhanced by including a summary of performance improvement priorities, as was done in 2003-2004 and by improving the analysis where expectations are “mostly met”.

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

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. Two key issues were addressed: Has the Agency reported on its performance with respect to its objectives? Is that information fair and reliable? The performance information is fair and reliable if it enables Parliament and the public to judge how well the organization or program is performing against the objectives it set out to accomplish.

- Relevant** The performance information reports in context, tangible, and important accomplishments against objectives and costs.
- Meaningful** The performance information tells a clear performance story, describing expectations and benchmarks against which performance is compared.
- Attributable** The performance information demonstrates, in a reasonable fashion, why the program has made a difference.
- Accurate** The performance information adequately reflects the facts, to an appropriate level of accuracy.
- Balanced** A representative yet clear picture of the full range of performance is presented, which does not mislead the reader.

More information on the criteria is available on our Web site at www.oag-bvg.gc.ca/domino/other.nsf/html/200310frpi_e.html



Schedules

Schedule A – Agency Organization

Board of Management

Connie I. Roveto

Chair, Board of Management
President
Cireny Management
Toronto, Ontario

Camille Belliveau

Senior Consultant (self-employed)
Shediac, New Brunswick

Esmail Bharwani

Barrister & Solicitor
Miller Thomson LLP
Calgary, Alberta

L. Bernice Buckle

Small Business Owner/Operator (retired)
Corner Brook, Newfoundland and Labrador

Raymond Desrochers

Partner
BDO Dunwoody LLP Chartered Accountants
Winnipeg, Manitoba

André Gingras

André Gingras et Associés inc.
Montréal, Quebec

James J. Hewitt

Corporate Director
Penticton, British Columbia

Linda Ivany

Corporate Director
Halifax, Nova Scotia

Howard A. Leeson

Professor of Political Science
University of Regina
Regina, Saskatchewan

James L. MacPhee

Partner
Grant Thornton LLP Chartered Accountants
Montague, Prince Edward Island

Rod Malcolm

Chartered Accountant
Iqaluit, Nunavut

James R. Nininger

Corporate Director
Ottawa, Ontario

Stephen E. Rudin

Executive Director
Alzheimer's Society of Canada
Toronto, Ontario

Brock A. Smith

Public Affairs Consultant
Toronto, Ontario

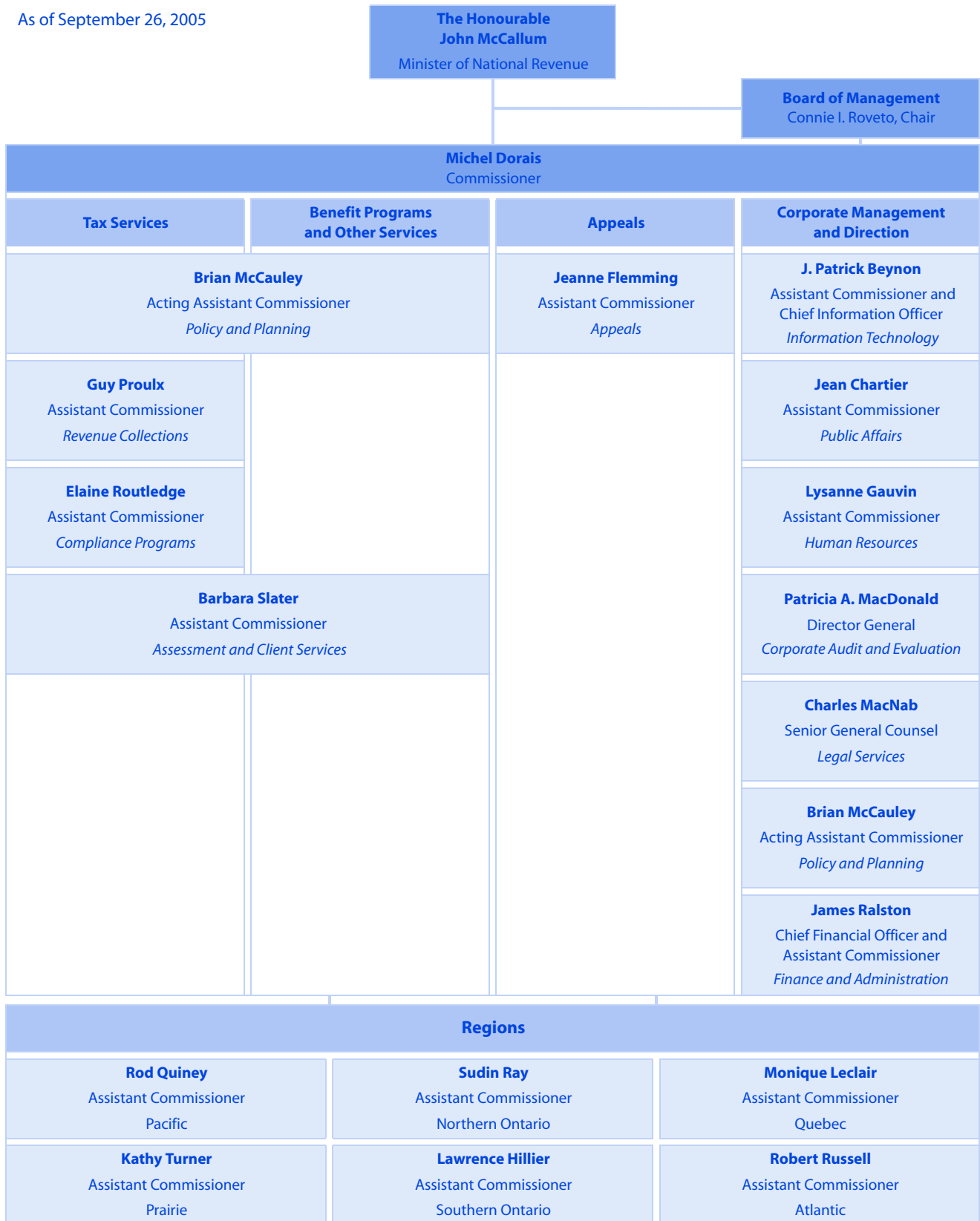
Michel Dorais

Commissioner
Canada Revenue Agency
Ottawa, Ontario

As of September 26, 2005

Agency Management

As of September 26, 2005



Schedule B – Government-wide Reporting

To meet the Government's commitment to accountability to Parliament that was expressed in *Results for Canadians*, the Treasury Board Secretariat (TBS) requires that we report progress and achievements on certain management policies and on specific major and government-wide initiatives. The initiatives and policies identified below are addressed throughout this annual report. More detailed information for some of these initiatives is available at the Web links listed in 'Schedule D' on page 83.

Asset Management Plan (Material management—moveable goods)

The CRA reports to TBS on the life-cycle management process for the moveable goods (i.e., cars, computers, technology infrastructure, etc.) in our Asset Management Plan via Resource Review Reporting. We have contained our immediate operating pressures, and by so doing, have maintained our allocations for future strategic investments and key asset replacements. This is facilitated with the controls set out in our renewed Budget and Expenditure management framework. See Table 8.2 on page 150 for more information on the CRA's Asset Management Plan.

Government Online

The Government Online (GOL) initiative is the Government of Canada's commitment to make government more accessible to all Canadians, improve online service, and build trust and confidence in doing business online. The Public Works and Government Services Canada report *Government On-Line 2005* acknowledged our achievements, making mention of CRA online services, such as "My Account" and new services for business. It also notes that over 40% of individual returns are electronically filed.

In its report titled *Leadership in Customer Service: New Expectations, New Services*, the consulting firm Accenture noted that the CRA is transforming the way government delivers services through its involvement in the use of "information and communication technology to enhance Canadians' access to improved client-centred, clustered services, anytime, anywhere in the official language of their choice."

Service Improvement in the CRA

The CRA is a leader in the government-wide Service Improvement Initiative. Key service objectives include developing annual service improvement plans utilizing the Common Measurements Tool to measure client satisfaction, and adopting, publishing, and reporting on service standards. The CRA's vision for service improvement is outlined in the Future Directions Initiative, while the Corporate Business Plan sets out strategies and implementation priorities for realizing service improvements. 'Schedule C' on page 78 shows our overall performance against service standards. See the website listed in 'Schedule D' on page 83 for more detail on the CRA's plan for service improvement, performance against service standards, and client satisfaction (results of our 2004 Annual Survey²⁶).

Sustainable Development

In the first year of its 2004-2007 Sustainable Development Strategy, the CRA completed almost 90% of the 46 commitments it made for year one of the strategy. Information on sustainable development and performance results can be found on the website listed in 'Schedule D' on page 83.

26. See footnote on page 29 for further information regarding the CRA's Annual Survey.

Travel Policy

The Treasury Board Secretariat Travel Policy, dated October 1, 2002, contains provisions for efficient and economical travel procedures. The following table outlines the major policy provision differences

between the TB and CRA travel policies. Overall, the CRA has not incurred additional costs with the implementation of its own Travel Policy.

Key policy differences – Treasury Board and CRA

Policy provision	TB travel directive	CRA travel policy
Meal and incidental allowances	<ul style="list-style-type: none"> Incidental expense allowance is \$17.30 per day Reduced to 75% at Day 31 when occupying corporate, apartment hotel, or private accommodation 	<ul style="list-style-type: none"> Incidental expense allowance is \$17.50 per day Reduced to 75% as of Day 61 and to 50% as of Day 121 in travel status (if period known at the outset, reduced rate to be applied from Day 1)
Reimbursement of actual cost of a meal (up to the applicable meal allowance) within the Headquarters area	<ul style="list-style-type: none"> When reimbursement of meal expenses is clearly reasonable and justifiable as a direct result of an employee's duties 	<ul style="list-style-type: none"> At the manager's discretion, in situations specified in the Policy, and in certain exceptional circumstances
Reimbursement for distances driven within the Headquarters Area	<ul style="list-style-type: none"> All distances necessarily driven on government business travel within the HQ via the most practical, direct, and safe road routes 	<ul style="list-style-type: none"> Return distance between the workplace and the point of call
Reimbursement of Interac fees on personal access cards	<ul style="list-style-type: none"> No provision 	<ul style="list-style-type: none"> For withdrawals of cash as reasonably required on the trip

User Fees Act

It is the CRA's policy to charge fees for services that provide identifiable recipients with direct benefits. The only exception to this is when overriding public policy or the program objectives would be compromised. Section (7) of the *User Fees Act* requires that every Minister table a report on user fees in effect to Parliament annually, on or before December 31 following the end of each fiscal year.

A summary of the CRA's three user fees under this Act as well as brief descriptions of the program, the type of fee, the authority to charge the fee, and the consultation, analysis and client redress mechanism that are currently in place for each initiative can be found in the financial tables of this report (see Table 7 on page 145).

Response to Parliamentary Committees, Audits, and Evaluations for 2004-2005

The following tables outline the CRA's responses to reports by Parliamentary committees and by the Auditor General in 2004-2005. They also list the internal and external audits and evaluations of the CRA that were published in the past year.

Responses to Parliamentary committee reports

There were no Parliamentary committee reports requiring a response from the CRA in 2004-2005

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

Responses to Auditor General reports

Canada Revenue Agency—Resolving Disputes and Encouraging Voluntary Disclosures
www.oag-bvg.gc.ca/domino/reports.nsf/html/20041106ce.html

Implementation of the National Initiative to Combat Money Laundering
www.oag-bvg.gc.ca/domino/reports.nsf/html/20041102ce.html

External audits

There were no external audits of the CRA conducted in 2004-2005

Internal audits and evaluations

2002-2003 Selected Fiscal Year-End Procedures	Long-Term Leave Management (Québec)
Agency Review Project – Administrative Reform and Renewal (evaluation)	Management of Accounts Receivable (review)
Agency Review Project – Governance (evaluation)	MOU on Exchange of Information with HRDC
Agency Review Project – Human Resources Regime (evaluation)	Non-Capital Asset Management (Southern Ontario)
Cash Management Tax Follow Up	Occupational Health and Safety (multi-regional)
Contracting Processes	Partnership with the Nova Scotia WCB (Atlantic)
Controls over Client Confidentiality (Atlantic)	Regional Strategic Priorities (Atlantic)
Informatics Technology Continuity Planning	Remote Management (Québec)
Information Exchange MOU with the RCMP	Risk Management in the Underground Economy Initiative (Atlantic)
Information Received from the Province of PEI	Surrey Tax Centre Business Returns Division Management Framework (Pacific)
IT Management Framework (Atlantic)	Sustainable Development
IT Security 5-Year Review and Follow Up	T1 Reassessment Reversals (multi-regional)
Investigations Directorate	Voluntary Disclosures Program
Leads Management and Workload Development	

For further information on audits and evaluations please visit: www.tbs-sct.gc.ca/rma/database/newdeptview_e.asp?id=114 under the heading '2004-2005'.

Schedule C – Overall Performance against Service Standards

Service standards in the Canada Revenue Agency support our program administration and facilitate Canadians' compliance with tax and benefits legislation, thereby contributing to our expected outcomes. Service standards are the cornerstone of the CRA's performance management system. For our clients, service standards represent the CRA's public commitment of the level of service that they can reasonably expect to encounter.

Management sets targets that represent the percentage or degree of expected attainment of an established standard based on operational realities and infrastructure, historical performance, degree of complexity of the work, and Canadians' expectations. Standards for front-end processing, for example, generally have shorter timeframes and/or higher targets, while those requiring greater review and analysis have lengthier time standards and/or lower targets. Performance that drops significantly below targets signals to managers that remedial action is necessary.

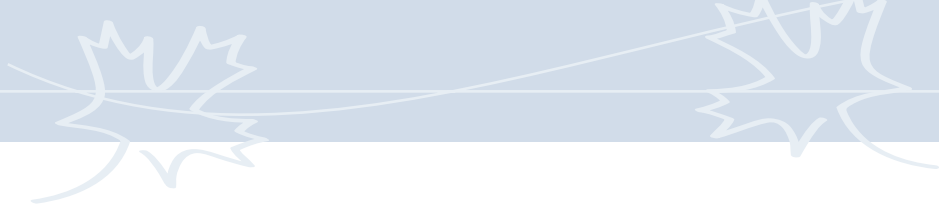
Meeting our service standards targets demonstrates that the organization is efficient and responsive to client needs. This helps establish credibility in our operations and contributes to increasing the level of confidence that Canadians can place in government.

As well as being responsive to clients, service standards help to establish the necessary conditions for compliance. For example, the Agency's ability to provide information or seek clarification of client information in a timely, predictable way alleviates client frustration that can lead to client error or delay decisions. It has long been our belief that by facilitating compliance, we enhance it.

Overall, we significantly improved our service delivery performance in 2004-2005, meeting or mostly meeting our service standards targets 88% of the time as compared to 73% last year.

More detailed information on Service Improvement in the CRA is available on our website at www.cra.gc.ca/servicestandards.

Service	Service standard	Results 2002-2003	Results 2003-2004	Results 2004-2005
Tax Services – Client				
1. Counter-service wait time	20 minutes (except during peak periods)	82% ✗	81% ✗	90% ✗ (see note)
		Target: 100%		
2. Processing visitor GST/HST rebate applications	4-6 weeks	95% ✓	98% ✓	99% ✓
		Target: 100%		Target: 95%
3. Responding to client requested adjustments (T1)	8 weeks	9 weeks ✗	5 weeks ✓	6 weeks ✓ (see note)
		Target: 100%		
4. Problem Resolution Program	Acknowledged within 48 hrs.	83% ✗	94% ✗	98% ✓ (see note)
		Target: 100%		
5. Problem Resolution Program	Resolution/client contact within 15 days	100% ✓	94% ✗	97% ✓ (see note)
		Target: 100%		
6. Processing fairness requests related to accounts receivable and trust accounts programs	4-6 weeks	92% ✓	90% ✓	90% ✓ (see note)
		Target: 90%		
Legend	✓ Met or exceeded target	☑ Target mostly met (at least 95%)	✗ Target not met	New or modified service standard



Service	Service standard	Results 2002-2003	Results 2003-2004	Results 2004-2005
7. Providing Statements of Arrears (SOA) for corporations	Mailed by the end of the month	83% ✗	67% ✗	63% ✗ (see note)
		Target: 95%		
8. Providing Statements of Interim Payments (SIP) to corporations on a monthly basis	Mailed by the 18 th of the month	70% ✗	61% ✗	49% ✗ (see note)
		Target: 95%		
9. Charities – response to telephone enquiries	Within 60 seconds	Not applicable	Not available	90% ✓
		Target: 85%		
10. General telephone enquiries – respond to calls in queue	Within two minutes	Not applicable	Not applicable	81% ✓ (see note)
		Target: 80%		
11. Business telephone enquiries – respond to calls in queue	Within two minutes	Not applicable	Not applicable	81% ✓ (see note)
		Target: 80%		
12. Advance income tax rulings to taxpayers	Within 60 days	60.3 days ✓	57 days ✓	62 days ✓
		Target: 100%		
13. Technical interpretations to taxpayers	Within 90 days	78 days ✓	82 days ✓	75 days ✓
		Target: 100%		
14. Applications to register pension plans	Deemed registration within 60 days	77% ✗	78% ✗	88% ✓
		Target: 85%		
15. Applications to register pension plans	Complete review in 180 days	89% ✓	91% ✓	89% ✓
		Target: 85%		
16. Amendments to registered pension plans	9 months	79% ✓	78% ✓	84% ✓
		Target: 80%		
17. Termination of registered pension plans	One year	89% ✓	77% ✗	88% ✓
		Target: 85%		
18. Retirement savings plans (applications to register, amend, or terminate)	Within 60 days	64% ✗	89% ✓	97% ✓
		Target: 80%		
19. Retirement income funds (applications to register, amend, or terminate)	Within 60 days	66% ✗	90% ✓	95% ✓
		Target: 80%		
20. Education savings plans (applications to register, amend, or terminate)	60 days	71% ✗	92% ✓	93% ✓
		Target: 85%		
21. Actuarial valuation reports	9 months	73% ✗	72% ✗	81% ✓
		Target: 80%		
22. Deferred income plans – Response to telephone enquiries	Within 2 working days	100% ✓	100% ✓	100% ✓ (see note)
		Target: 100%		
23. Deferred income plans – Response to written enquiries	Within 60 days	60% ✗	64% ✗	69% ✗
		Target: 80%		
Legend	✓ Met or exceeded target	☑ Target mostly met (at least 95%)	✗ Target not met	New or modified service standard

Executive Summary

Performance by Business Line

Tax Services

Benefit Programs and Other Services

Appeals

Corporate Management and Direction

Schedules

Service	Service standard	Results 2002-2003	Results 2003-2004	Results 2004-2005
24. Deferred Profit Sharing Plans – registration	180 days	Not applicable	Not applicable	85% (see note) ✓
		Target: 80%		
25. Deferred Profit Sharing Plans – amendments or termination	270 days (9 months)	Not applicable	Not applicable	82% (see note) ✓
		Target: 80%		

Tax Services – Returns processing				
26. Processing T1 individual income tax returns (paper)	4-6 weeks	Under 4 weeks ✓	Under 4 weeks ✓	Under 4 weeks ✓
		Target: 4 weeks		
27. Processing T1 individual income tax returns (EFILE, TELEFILE, NETFILE)	2 weeks	Under 2 weeks ✓	Under 2 weeks ✓	Under 2 weeks ✓
		Target: 2 weeks		
28. Processing T3 trust returns	Within 4 months	77% ✗	72% ✗	97% ✓
		Target: 95%		
29. Processing GST/HST returns	21 days	96% ☑	97% ✓	98% ✓
		Target: 100%	Target: 95%	
30. Processing T2 corporation income tax returns	75% in 50 days	75% ✓	76% ✓	82% ✓
		Target: 75% in 50 days		
	90% in 90 days	91% ✓	93% ✓	96% ✓
		Target: 90% in 90 days		

Tax Services – Review				
Claims – SR&ED tax incentives				
31. Refundable claims – combined target (unaudited and audited)	120 days	93% ✓	95% ✓	93% ✓
		Target: 90%		
32. Non-refundable claims – combined target (unaudited and audited)	365 days	89% ☑	92% ✓	94% ✓
		Target: 90%		
33. Claimant-requested adjustments to refundable claims	240 days	93% ✓	95% ✓	95% ✓
		Target: 90%		
34. Claimant-requested adjustments to non-refundable claims	365 days	88% ☑	94% ✓	94% ✓
		Target: 90%		
Claims – Video and film tax credits				
35. Refundable claims – unaudited	60 days	94% ✗	96% ✓	94% ✓
		Target: 100%	Target: 90%	
36. Refundable claims – audited	120 days	87% ✗	93% ✓	95% ✓
		Target: 100%	Target: 90%	
Legend	✓ Met or exceeded target	☑ Target mostly met (at least 95%)	✗ Target not met	New or modified service standard



Service	Service standard	Results 2002-2003	Results 2003-2004	Results 2004-2005
Benefits				
37. Processing CCTB applications	End of second month after month in which application is received	98% ✓	99% ✓	99% ✓ (see note)
		Target: 98%		
38. Account maintenance/Responding to written enquiries	End of second month after month in which enquiry is received	Not applicable	98% ✓	99% ✓ (see note)
		Target: 98%		
39. Validation and control. Results of review	60 days	Not applicable	92% ✓	98% ✓ (see note)
		Target: 90%		
40. Taxpayer Representative Identification System (TRIS)	Processing of T1013s within five days of receipt during non-peak periods and 20 days during peak periods	Not applicable	Not applicable	50% (not representative, see note) ✗
		Target: 90%		
Appeals				
41. 30-day first contact letter for objections, disputes, and appeals	30 days	87% ✓	89% ✓	90% ✓ (see note)
		Target: 85%		
Legend	✓ Met or exceeded target	☑ Target mostly met (at least 95%)	✗ Target not met	New or modified service standard

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 calendar days.

Standard 1: DQ: The standard does not apply during peak periods. Peak periods are from 10:30 am to 1:00 pm daily, and from 8:15 am to 5:00 pm, March 1 to April 30.

Standard 3: 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.

Standards 4 and 5: DQ: The results represent TSO offices only, not Tax Centres.

Standard 6: DQ: The result is based on an estimate.

Standards 7 and 8: V: Performance results can be attributed in part to labour disruptions. We are implementing a plan to improve these results.

Standards 10 and 11: DQ: These are new standards and historical data is not available. During the six weeks of the fall 2004 labour disruptions with fewer phone lines staffed, we believe that we mostly met these standards. We have excluded these results, because they do not fairly represent the reduced level of service available to Canadians during this period.

Standard 22: DQ: Information is based on a manual count of employee reports.

Standards 24 and 25: DQ: These are new standards and historical data is not available.

Standards 37, 38, 39 and 40: DQ: Information is based on a sampling.

Standard 40: V: Sampling was conducted immediately following labour disruption. Due to the unusual backlog, the performance is not considered representative.

Standard 41: 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.

As indicated in the above table, in 2004-2005 we successfully implemented and met four new service standards and revised the target downward to 95% for GST/HST Visitor Rebate Applications – expectations set out in the 2004-2005 Corporate Business Plan.

The following tables provide an update on service standards under development from the 2004-2005 to 2006-2007 Corporate Business Plan. During the past year, it was also decided through the 2005-2006 to 2007-2008 Corporate Business Plan to lower the target for counter service in 2005-2006 to 90% to reflect the evolving counter service strategy and to discontinue development of the service standard for Disability Tax Credit since this activity is done as part of normal T1 processing.

New Service Standards and Targets for 2005-2006

		Target
Tax Services	Timeliness of delivery of T1 packages to clients (under review)	tbd
	New statistical services User fees – New legislative reporting requirement	tbd

Adjustments to Existing Service Standards for 2005-2006

Tax Services	Counter service wait times – target lowered to 90%
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Service Standards under Development in 2005-2006

Tax Services	Responding to correspondence related to general and business enquiries 'Change My Return' via 'My Account' Responding to enquiries regarding GST/HST rulings Charities – processing of applications for charitable registration Charities – response to written enquiries Technical telephone enquiry service Processing Excise – Other Levies returns
Benefit Programs and Other Services	Canada Child Tax Benefit – telephone service

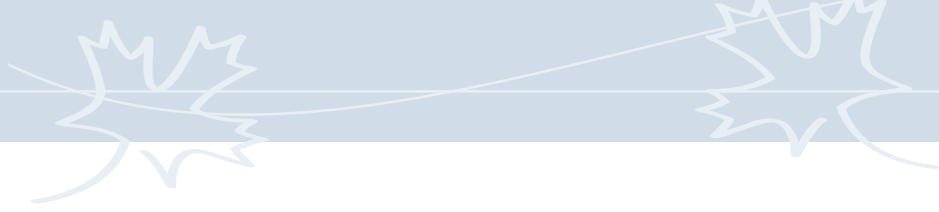
Schedule D – Key URLs for Additional Information

CRA Websites	
2003-2004 Annual Report	www.cra.gc.ca/agency/annual/2003-2004/menu-e.html
2004-2005 to 2006-2007 Corporate Business Plan	www.cra-arc.gc.ca/agency/business_plans/2004/menu-e.html
Board of Management biographies	www.cra.gc.ca/agency/board/biographies-e.html
Canada Child Tax Benefit	www.cra-arc.gc.ca/benefits/cctb/menu-e.html
CRA Commissioner's biography	www.cra.gc.ca/agency/commissioner/menu-e.html
CRA: The First Five Years	www.cra-arc.gc.ca/agency/review/2005/menu-e.html
CRA E-services (Government Online)	www.cra.gc.ca/eservices/gol/menu-e.html
E-commerce Technical Information Bulletin	www.cra.gc.ca/E/pub/tp/itnews-25/itnews-25-e.pdf
External (User) Charging Revenues	www.cra.gc.ca/users
Minister of National Revenue	www.cra.gc.ca/agency/minister/menu-e.html
Fairness Provisions	www.cra.gc.ca/agency/fairness/fair-prov-e.html
GST/HST credit	www.cra-arc.gc.ca/benefits/gsthst/menu-e.html
Interactive Information Service	www.cra-arc.gc.ca/tax/individuals/topics-index/menu-e.html
Information for Newcomers to Canada	www.cra-arc.gc.ca/tax/nonresidents/individuals/newcomer-e.html
National Child Benefit	www.cra.gc.ca/benefits/ncb-e.html
Service Improvement in CRA	www.cra.gc.ca/servicestandards
Sustainable Development	www.cra.gc.ca/agency/sustainable/menu-e.html
SR&ED Publications	www.cra.gc.ca/taxcredit/sred/publications-e.html
Voluntary Disclosure Program	www.cra.gc.ca/agency/fairness/vdp-e.html

Related Websites	
Accenture E-Government Report	www.accenture.com/xdoc/en/industries/government/gove_egov_value.pdf
Access to Information Act	http://laws.justice.gc.ca/en/A-1/
Canadian Border Services Agency	www.cbsa.gc.ca
Citizenship and Immigration Canada	www.cic.gc.ca
Department of Finance Canada	www.fin.gc.ca
Department of Justice Canada	www.justice.gc.ca
Government of Canada	www.canada.gc.ca
Government Online initiative	www.gol-ged.gc.ca
House of Commons	www.parl.gc.ca
Human Resources and Skills Development Canada	www.hrsdc.gc.ca
Management, Resources and Results Structure	www.tbs-sct.gc.ca/rma/mrrs-sgrg_e.asp
Privacy Act	http://laws.justice.gc.ca/en/P-21/
Social Development Canada	www.sdc.gc.ca
Treasury Board Secretariat	www.tbs-sct.gc.ca
Voluntary Sector Initiative	www.vsi-isbc.ca

Schedule E – Glossary

Abandoned Calls	Telephone enquiries in which clients who get into the automated call distributor hang-up before reaching an agent. Hang-ups result from the queue voice message providing the caller with sufficient information, or the caller not wanting to wait any longer.
Accrual Accounting	The method by which revenues and expense transactions are recorded for the period in which they are considered to have been earned and incurred.
Caller Accessibility	A measure of the percentage of callers who are connected to our telephone service and reach the voice message.
Cancellation	The reversal of a penalty or interest that has already been assessed.
Compliance	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.
Consolidated Revenue Fund	The Canadian Government bank account that must be used by all departments and agencies. All deposits and all payments must be credited or charged to the Consolidated Revenue Fund through the Receiver General.
Dispute	General term to designate a dispute, objection, or appeal to the Minister made by or on behalf of a client, related to a CRA decision.
Eligible/Entitled	Meets the requirements to qualify to receive a specific payment/credit
Enforcement	Actions taken by the CRA to identify and correct cases of non-compliance.
Entitlement	The amount due to an entitled person for a specific period.
Expected Outcome	The CRA has identified five intermediate-level expected outcomes that provide a measure of our success in achieving our strategic outcomes. Each of our business lines contributes to one or more of these outcomes.
Expected Results	Clear and measurable statements of what the CRA expects to achieve over the planning period, against which our performance will be assessed and reported.
Fairness Provisions	Legislation introduced in the early 1990s that provides relief (e.g., forgiveness of interest and penalties) to clients in specific circumstances beyond their control.
Fiscal Impact	Total fiscal impact is additional tax identified through our compliance activities and includes federal and provincial tax (excluding Québec), federal tax refund offset or reduced, interest and penalties, and present value of future tax assessable.
Governance	A comprehensive term that denotes the institutions and processes by which people are governed.
Modified Cash Accounting	A method of recording expenses and revenues, that includes payables or receivables at year-end—even though cash may not have been exchanged.
Non-workable File	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 of appeals for an opinion.
Output	The actual activities, products, or services produced by carrying out a program or an initiative.
Performance	How well an organization, program, etc., is achieving its planned results measured against expected results.
Risk	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 a systematic approach to setting the best course of action under uncertainty by identifying, assessing, understanding, acting on, and communicating risk issues.



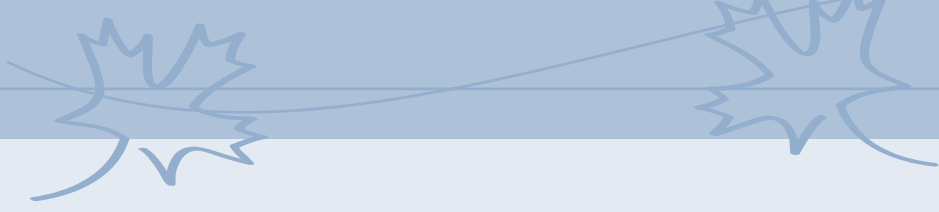
Service Standard	A public statement about the level of performance the CRA is committed to, and that Canadians can reasonably expect to encounter.
Strategic Outcome	This outcome describes the difference an organization is mandated to make that provide long-term benefits to Canadians.
Tax on Income (TONI)	The method by which provinces and territories define the tax rate schedules that they will apply directly to taxable income.
Underground Economy	Economic activity that is neither reported or recorded. Thus payment of due taxes is avoided
Voluntary Disclosure Program	Provides clients with the opportunity to correct any past errors or omissions, and to report, without penalty, their tax obligations to the CRA.
Waiver	When penalties or interest have not yet been charged, a decision is made not to charge the amount, either at the client's request or at the CRA's own initiative.
Write-offs	Uncollectable 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.

- Executive Summary
- Performance by Business Line
- Tax Services
- Benefit Programs and Other Services
- Appeals
- Corporate Management and Direction
- Schedules

Schedule F – Acronyms and Abbreviations

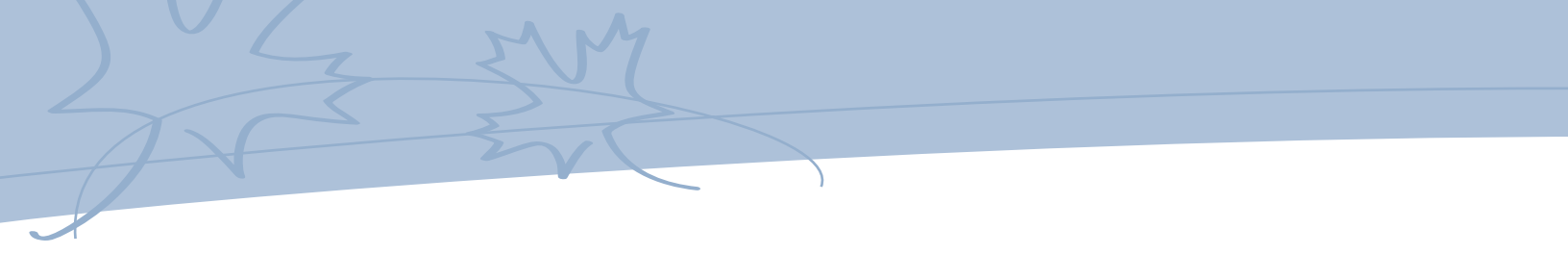
ACS	Agency Classification Standard
ADR	Alternate Dispute Resolution
AR	Annual Report
ATIA	Access to Information Act
BoM	Board of Management
CAS	Corporate Administrative Systems
CBHRM	Competency Based Human Resources Management
CBSA	Canada Border Services Agency
CRA	Canada Revenue Agency
CCTB	Canada Child Tax Benefit
CIAT	Inter-American Centre of Tax Administrations
CMD	Corporate Management and Direction
CBP	Corporate Business Plan
CPP	Canada Pension Plan
CPRS	Contract Payment Reporting System
CSE	Communications Security Establishment
CSA	Children's Special Allowances
CSIS	Canadian Security Intelligence Service
DTC	Disability Tax Credit
EAP	Employee Assistance Program
EE	Employment Equity
EI	Employment Insurance
ESS	Employee Self Service
EX	Executive Group
FINTRAC	Financial Transactions and Reports Analysis Centre of Canada
FIS	Financial Information Strategy
FTE	Full-Time Equivalent
FTP	File Transfer Protocol
GST	Goods and Services Tax
GTEC	Government Technology Exhibition
HR	Human Resources
HRSDC	Human Resources & Skills Development Canada
HRR&R	Human Resources Reform and Renewal
HST	Harmonized Sales Tax

IT	Information Technology
ITB	Information Technology Branch
JITSIC	Joint International Tax Centre Information Center
MDE	Managed Distributed Environment
MG	Management Group
MOU	Memorandum of Understanding
MRRS	Management, Resources and Results Structure
MSS	Manager Self Service
NCB	National Child Benefit
NSTR	Nova Scotia Taxpayer Refund
OAG	Office of the Auditor General of Canada
OECD	Organization for Economic Cooperation and Development
PA	Privacy Act
PAA	Program Activity Architecture
PATA	Pacific Association of Tax Administrators
PIPSC	Professional Institute of the Public Service of Canada
PQP	Pre-Qualification Process
PRAS	Planning Reporting Accountability & Structure
PSAC	Public Service Alliance of Canada
RCMP	Royal Canadian Mounted Police
SR&ED	Scientific Research and Experimental Development
SAI	Service Availability Improvements
SDC	Social Development Canada
SD	Sustainable Development
SM	Senior Management
T1	Income Tax and Benefit Return
T2	Corporation Income Tax Return
T4	Statement of earnings and employer deductions
TSO	Tax Services Office
VDP	Voluntary Disclosures Program



Financial Statements

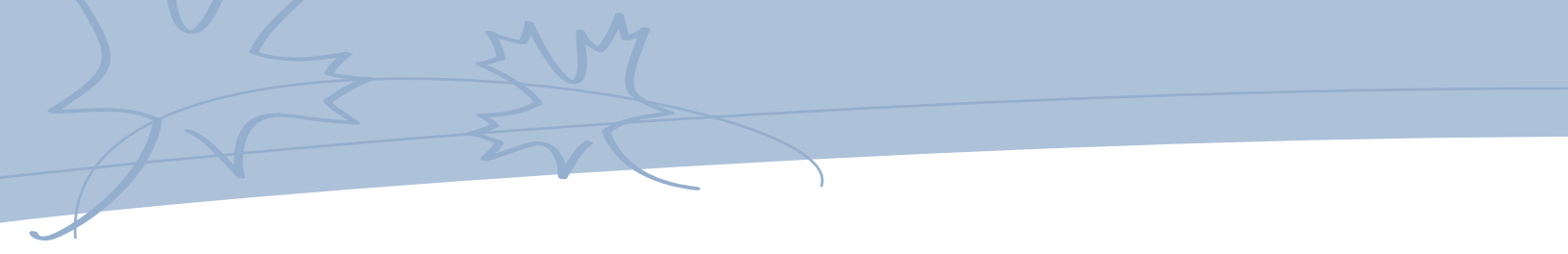






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Statement of Management Responsibility

We have prepared the accompanying financial statements of the Canada Customs and 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.

The Agency's management is responsible for the integrity and objectivity of data in these financial statements. To assure objectivity and freedom from bias, these financial statements have been approved by the Agency's Audit Committee on behalf of 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.

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. To fulfill its accounting and reporting responsibilities, management maintains sets of accounts, which provide a record of the Agency's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the Agency's annual report is consistent with these financial statements.

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

Approved by:

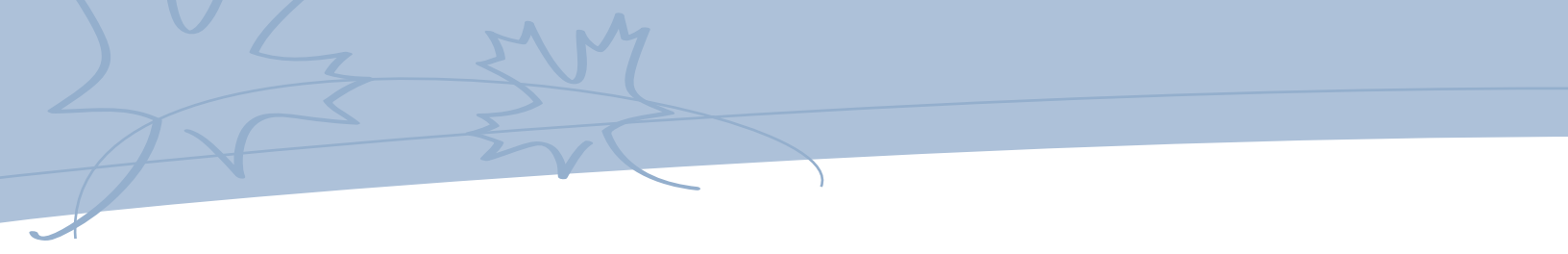


Michel Dorais
Commissioner



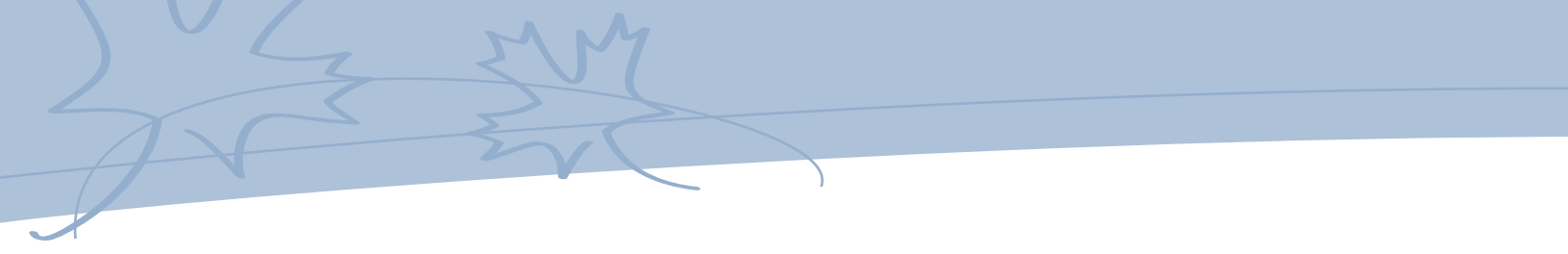
James Ralston
Chief Financial Officer and Assistant
Commissioner, Finance and Administration

Ottawa, Ontario
August 31, 2005





Audited Financial Statements – Agency Activities





Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

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

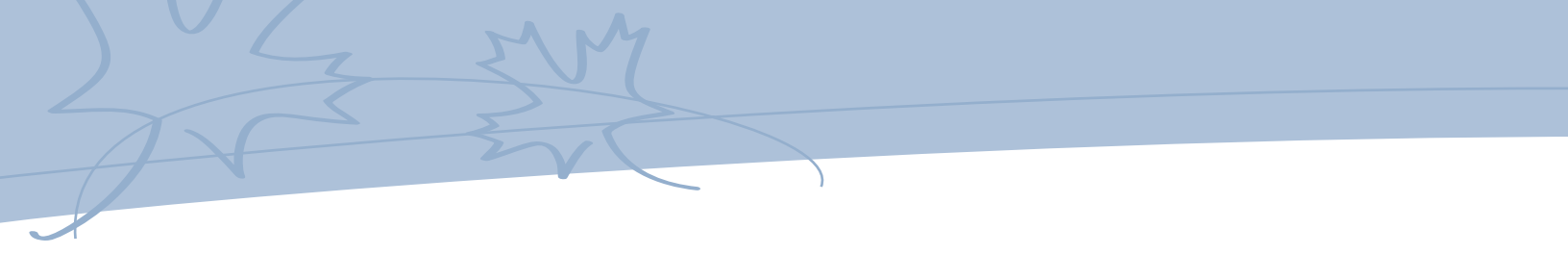
I have audited the statement of financial position – Agency Activities of the Canada Customs and Revenue Agency as at March 31, 2005 and the statements of operations, net liabilities and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. My 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 Customs and Revenue Agency as at March 31, 2005 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 31, 2005



Statement of Financial Position – Agency Activities

as at March 31
(in thousands of dollars)

	2005	2004 <small>(restated – Note 3)</small>
ASSETS		
Financial assets		
Cash	132	147
Due from the Consolidated Revenue Fund	284,034	168,491
Accounts receivable (Note 7)	120,078	36,579
	404,244	205,217
Non-financial assets		
Prepaid expenses	10,283	7,185
Consumable supplies	3,422	5,054
Property and equipment (Note 9)	290,628	222,751
	304,333	234,990
TOTAL	708,577	440,207
LIABILITIES		
Accrued employee salaries and benefits	106,766	67,714
Accounts payable and accrued liabilities	216,332	118,399
Vacation pay and compensatory leave	124,946	87,677
Capital lease obligations (Note 13)	475	3,281
Employee severance benefits (Note 16)	372,472	352,557
Other liabilities	221	283
	821,212	629,911
Net liabilities (Note 8)	(112,635)	(189,704)
TOTAL	708,577	440,207

Contingent liabilities (Note 12) and commitments (Note 14)

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

Approved by:



Michel Dorais
Commissioner



Connie I. Roveto
Chair, Board of Management

Statement of Operations – Agency Activities

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

	2005	2004
CONTINUING OPERATIONS		
Non-tax revenue (Note 5)		
Tax services	125,709	145,581
Benefit programs and other services	23,088	6,534
Appeals	8,761	11,559
Corporate management and direction	112,733	37,410
Total non-tax revenue	270,291	201,084
Expenses (Note 6)		
Tax services	2,493,080	2,293,399
Benefit programs and other services	97,378	91,690
Appeals	112,024	102,179
Corporate management and direction	842,173	773,419
Total expenses	3,544,655	3,260,687
Net cost of continuing operations	3,274,364	3,059,603
TRANSFERRED OPERATIONS (Note 3)		
Customs operations non-tax revenue (Note 5)	–	12,930
Customs operations expenses (Note 6)	–	881,456
Net cost of transferred operations	–	868,526
Net cost of operations	3,274,364	3,928,129

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

Statement of Net Liabilities – Agency Activities

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

	2005	2004
Net liabilities at beginning of year	(189,704)	(222,065)
Net cost of operations	(3,274,364)	(3,928,129)
Net cash provided by Government of Canada	2,808,320	3,597,281
Services provided without charge by other government agencies and departments (Note 11)	427,570	545,262
Change in Due from the Consolidated Revenue Fund	115,543	(51,872)
Net liabilities at the end of year as originally reported	(112,635)	(59,523)
Net assets transferred to the Canada Border Services Agency (Note 3)	-	(130,181)
Net liabilities at end of year – As restated (Note 8)	(112,635)	(189,704)

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

Statement of Cash Flow – Agency Activities

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

	2005	2004
Operating activities		
Net cost of operations	3,274,364	3,928,129
Items not affecting cash		
Amortization of property and equipment	(43,585)	(37,850)
Net loss on disposal/write-off of property and equipment	(789)	(4,409)
Services provided without charge by other Government agencies and departments (Note 11)	(427,570)	(545,262)
Change in financial assets other than Due from the Consolidated Revenue Fund	83,484	12,557
Change in non-financial assets other than property and equipment	1,466	(2,284)
Change in liabilities other than capital lease obligations	(194,107)	61,977
Cash used in operating activities	2,693,263	3,412,858
Investing activities		
Acquisition of property and equipment	112,277	181,996
Change in capital lease obligations	2,806	2,687
Proceeds from disposal of property and equipment	(26)	(260)
Cash used in investing activities	115,057	184,423
Net cash provided by Government of Canada	2,808,320	3,597,281

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

Notes to the Financial Statements – Agency Activities

1. Authority and purpose

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

The Agency’s mandate is to provide support, advice, and services when:

- (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 Aboriginal 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 Aboriginal 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 Travelers Security Charge Act*, the *CCRA Act*, the *Children’s Special Allowances Act*, Part V.1 of the *Customs Act*, the *Excise Act*, the *Excise Tax Act* (including GST/HST except for GST/HST on imported goods), the *Excise Act, 2001*, the *Income Tax Act*, and others.

Originally, the mandate of the Agency was to support the administration and enforcement of tax, customs, and trade legislation as well as other related legislation. As a result of the creation of the Canada Border Services Agency (CBSA), 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*. Accordingly, effective March 31, 2004, revenues, expenses, assets and liabilities relating to customs operations are now reported by the CBSA (see Note 3 for more details).

In delivering its mandate, the Agency operates under the following business lines:

- (a) Tax Services: Assesses and collects taxes on behalf of federal, provincial (except Quebec) and territorial governments, and promotes compliance with Canada’s tax laws.
- (b) Benefit Programs and Other Services: 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.
- (c) Appeals: Provides clients an impartial review of their disagreements with CCRA decisions involving tax, customs, employment insurance, Canada Pension Plan, and trade administration issues. It manages the Voluntary Disclosure Program and coordinates initiatives relating to the fairness of Agency programs.
- (d) Corporate Management and Direction: Provides the following internal services: financial, administration, information technology, human resources, communications, legal, internal audit, and program evaluations.

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, utilized in running the organization and in most part, financed by parliamentary appropriations. The financial statements – Administered Activities include those revenues and expenses which 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 *Canada Customs and Revenue Agency 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. Appropriations provided to the Agency do 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 in value from the same items recognized on a government funding basis.

(b) Expense recognition

All expenses are recognized when goods and services are received.

(c) 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.

(d) Consumable supplies

Consumable supplies consist of forms and publications. The cost of consumable supplies is charged to operations in the period in which the items are used.

(e) Property and equipment

All costs of \$10,000 or more incurred by the Agency to acquire and develop property and equipment (including leasehold improvements) are capitalized and amortized over the useful lives of the assets. Similar items under \$10,000 are expensed and are disclosed as equipment purchases in Note 6. The capitalization of software and leasehold improvements has been done on a prospective basis from April 1, 2001. Amortization of property and equipment is done on a straight-line basis over the estimated useful lives of assets as follows:

Asset	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
Capital leases and leasehold improvements	Term of the lease

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

(f) Services provided without charge by other government departments

Estimates of amounts for services provided without charge by other government departments are included in expenses. Those amounts include:

- (i) accommodation provided by Public Works and Government Services Canada;

- (ii) employer's contributions to the health insurance plan and employee benefit plan provided by Treasury Board;
- (iii) legal services provided by Justice Canada;
- (iv) audit services provided by the Office of the Auditor General of Canada;
- (v) workers' compensation benefits provided by Human Resources and Skills Development Canada; and
- (vi) payroll services provided by Public Works and Government Services Canada.

(g) Net cash provided by Government of Canada

The Agency operates within the Consolidated Revenue Fund (CRF). The CRF 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.

(h) Due from the Consolidated Revenue Fund (CRF)

Due from the CRF represents the amount of cash that the Canada Customs and Revenue 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.

(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. Vacation pay liabilities payable on cessation of employment are Agency obligations that are normally funded through future years' appropriations.

(j) 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. This amount is 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. The Agency is not currently required 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 cost of 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.

(k) 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.

(l) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Employee severance benefits, contingencies, and the useful life of property and equipment are the most significant items where estimates are used. Actual results could differ from the current estimates. The estimates are reviewed periodically and, as adjustments become necessary, they are reported in the Statement of Operations in the period in which they become known.

3. Transferred operations

As a result of the creation of the Canada Border Services Agency (CBSA) on December 12, 2003, all assets and liabilities relating to customs operations and falling under CBSA responsibility were transferred to the CBSA as of March 31, 2004. The information required to segregate the customs operations assets and liabilities was not available at the time that the 2004 financial statements were prepared. Consequently, in this year's financial statements, the statement of financial position as at March 31, 2004 has been restated to reflect the transfer of customs operations assets and liabilities to CBSA, and to present the 2004 statement of financial position on a basis comparable to the 2005 presentation. As a result of transferring net assets for a total of \$130,181,000 to CBSA, CCRA's net liabilities as at March 31, 2004 were increased by the same amount.

The following table presents the impact of the transfer of assets and liabilities to CBSA as at March 31, 2004.

	As previously reported	Transferred to CBSA	As restated
	(in thousands of dollars)		
ASSETS			
Financial assets			
Cash	318	171	147
Due from Consolidated Revenue Fund	214,353	45,862	168,491
Accounts Receivable	38,051	1,472	36,579
	<u>252,722</u>	<u>47,505</u>	<u>205,217</u>
Non-financial assets			
Prepaid expenses	7,427	242	7,185
Consumable supplies	9,043	3,989	5,054
Property and equipment	469,440	246,689	222,751
	<u>485,910</u>	<u>250,920</u>	<u>234,990</u>
TOTAL	<u>738,632</u>	<u>298,425</u>	<u>440,207</u>
LIABILITIES			
Accrued employee salaries and benefits	87,232	19,518	67,714
Accounts payable and accrued liabilities	144,663	26,264	118,399
Vacation pay and compensatory leave	106,929	19,252	87,677
Capital lease obligations	3,281	-	3,281
Employee severance benefits	454,267	101,710	352,557
Other liabilities	1,783	1,500	283
	<u>798,155</u>	<u>168,244</u>	<u>629,911</u>
Net assets/(liabilities)	(59,523)	130,181	(189,704)
TOTAL	<u>738,632</u>	<u>298,425</u>	<u>440,207</u>

4. Parliamentary appropriations¹

The Agency receives most of its funding through 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 net cost of operations to total Parliamentary appropriations used

	2005	2004
	(in thousands of dollars)	
Net cost of operations	3,274,364	3,928,129
Expenses not requiring use of current-year appropriations:		
Amortization of property and equipment	(43,585)	(37,850)
Adjustment to prior years' accruals	5,640	3,350
Consumable supplies	(1,632)	(494)
Loss on disposal/write-off of property and equipment	(815)	(4,652)
Services provided without charge by other government departments (Note 11)	(427,570)	(545,262)
Other	(79,810)	10,056
	<u>(547,772)</u>	<u>(574,852)</u>
Asset acquisitions funded by current-year appropriations:		
Property and equipment	114,184	149,014
Prepaid expenses	3,098	(1,790)
	<u>117,282</u>	<u>147,224</u>
Net changes in future funding requirements:		
Employee severance benefits	(19,915)	(12,352)
Vacation pay and compensatory leave	(37,269)	41,101
Accrued employee salaries and benefits	(21,384)	–
Other	–	(886)
	<u>(78,568)</u>	<u>27,863</u>
Non-tax revenue (Note 5):		
Non-tax revenue available for spending	89,933	30,921
Non-tax revenue not available for spending	32,211	36,346
	<u>122,144</u>	<u>67,267</u>
Total Parliamentary appropriations used	<u>2,887,450</u>	<u>3,595,631</u>

¹ Comparative information for 2004 includes results relating to the operations transferred to the Canada Border Services Agency.

(b) Reconciliation of Parliamentary appropriations voted to Parliamentary appropriations used

	2005	2004
	(in thousands of dollars)	
Parliamentary appropriations – voted:		
Vote 1– CCRA operating expenditures	2,507,830	3,203,020
Less: Relief for Heating Expense payments ¹	(676)	(7,788)
Vote 5 – CCRA contributions	161,234	137,270
Statutory contributions to employee benefits plans	375,931	454,476
Amounts available for spending per section 60 of the <i>CCRA Act</i> ²	20,190	30,951
Spending of proceeds from disposal of surplus Crown assets	123	482
Other statutory expenditures	1,008	1,528
	<u>3,065,640</u>	<u>3,819,939</u>
Less:		
Appropriations available for future years ² :		
Operating	(135,135)	(199,606)
Contributions	(33,726)	(17,343)
Appropriation lapsed ²	(9,329)	(7,359)
	<u>(178,190)</u>	<u>(224,308)</u>
Total Parliamentary appropriations used	<u>2,887,450</u>	<u>3,595,631</u>

¹ In accordance with the division of activities for financial reporting purposes outlined in Note 2, the ex-gratia Relief for Heating Expense payments, which were authorized through Vote 1 – CCRA (Operating expenditures), are reported as a federal administered expense on the Statement of Administered Expenses.

² Pursuant to section 60(1) of the *Canada Customs and Revenue Agency Act (CCRA 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.



5. Non-tax revenue

	2005	2004
	(in thousands of dollars)	
Non-tax revenue credited to Vote 1 – CCRA (Operating expenditures)		
Fees for collecting Employment Insurance premiums (from HRSDC)	76,080	77,933
Fees for collecting Canada Pension Plan contributions (from SDC)	72,067	68,814
	<u>148,147</u>	<u>146,747</u>
Non-tax revenue available for spending		
Administration fees – provinces and territories	16,054	22,574
Services fees	70,528	1,949
Ruling fees	1,840	1,946
Border Canada/United States programs	–	952
Miscellaneous spendable revenue	1,511	3,500
	<u>89,933</u>	<u>30,921</u>
Non-tax revenue not available for spending		
Recovery of employee benefit costs for collecting activities (from HRSDC and SDC)	30,939	25,921
Administration fees – Provinces and Territories ¹	80	2,094
Services fees ¹	–	1,934
Border Canada/United States programs ¹	–	764
Lease and use of public property	185	560
Miscellaneous non-tax revenue	1,007	5,073
	<u>32,211</u>	<u>36,346</u>
TOTAL NON-TAX REVENUE	<u>270,291</u>	<u>214,014</u>
Non-tax revenue as presented on the Statement of Operations:		
Non-tax revenue from continuing operations	270,291	201,084
Non-tax revenue from transferred operations	–	12,930
TOTAL NON-TAX REVENUE	<u>270,291</u>	<u>214,014</u>

¹ Effective December 12, 2003, non-tax revenue relating to customs operations was not available for spending.

6. Expenses

	2005	2004
	(in thousands of dollars)	
Personnel		
Salaries	1,830,588	2,193,264
Other allowances and benefits (including employee future benefits described in Note 16)	818,447	918,694
	2,649,035	3,111,958
Accommodation	210,003	250,080
Transportation and communications	148,686	173,691
Professional and special services	144,081	183,545
Transfer payments (Note 15)	127,508	119,927
Equipment purchases	74,974	46,605
Repair and maintenance	73,715	89,233
Amortization of property and equipment	43,585	37,850
Materials and supplies	37,201	49,209
Other services	20,495	38,380
Equipment and other rentals	6,973	10,838
Advertising, printing and related services	6,723	6,280
Other expenses	852	19,285
Loss on disposal/write-off of property and equipment	815	4,652
Utilities	9	610
TOTAL EXPENSES	3,544,655	4,142,143
Expenses as presented on the Statement of Operations:		
Expenses from continuing operations	3,544,655	3,260,687
Expenses from transferred operations	–	881,456
TOTAL EXPENSES	3,544,655	4,142,143

7. Accounts receivable

	2005	2004
	(restated – Note 3)	
	(in thousands of dollars)	
Accounts receivable – Government of Canada departments and agencies	115,454	30,167
Accounts receivable – External to the Government of Canada	979	1,810
Advances to employees	1,891	1,914
Salaries	1,775	2,750
Other	42	37
	120,141	36,678
Less: Allowance for doubtful accounts	(63)	(99)
	120,078	36,579

8. Net liabilities

Net liabilities represent the excess of the liabilities relating to Agency activities over its assets.

Included in the liabilities are \$514,414,000 (\$440,234,000 as at March 31, 2004), which represent transactions incurred by the Agency in providing services that will require future funding. Significant components of the future funding requirements amounts are employee severance benefits, vacation pay and compensatory leave, and accrued employee salaries and benefits. These amounts are expected to be funded by appropriations in future years as they are paid.

9. Property and equipment

Asset Class	(in thousands of dollars)					
	Opening costs as at April 1, 2004	Net additions for the year ended March 31, 2005	Closing costs at March 31, 2005	Accumulated amortization as at March 31, 2005	Net book value as at March 31, 2005	Net book value as at March 31, 2004 (restated – Note 3)
Machinery, equipment and furniture	14,440	448	14,888	10,301	4,587	2,802
Vehicles and other means of transportation	1,599	548	2,147	1,084	1,063	584
Software (purchased and in-house developed and/or in development)	177,780	51,491	229,271	29,381	199,890	170,116
Information technology equipment including capital leases (Note 13)	151,713	50,553	202,266	117,178	85,088	49,249
Total	345,532	103,040	448,572	157,944	290,628	222,751

The costs of assets under construction or development, which are not amortized, are \$90,809,000 in software and \$742,000 in information technology equipment as at March 31, 2005 (\$44,794,000 and \$1,277,000 respectively as at March 31, 2004).

10. Board of Management

Pursuant to the *Canada Customs and Revenue Agency 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 \$940,000 (2004 – \$811,000) and are included in the net costs of operations. This includes payments to the Board of Management, secretariat staff personnel expenses, travel, and other expenses.

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 enters into transactions with these entities in the normal course of business and on normal trade terms applicable to all individuals and enterprises. Also, during the year, the Agency received services, which were obtained without charge from other government departments as presented in part (a).

(a) Services provided without charge by other government departments:

During the year, the Agency received accommodation and professional services without charge from other government departments and agencies. Employer's health insurance plan contributions, employee benefit plans and workers' compensation benefits were also provided by other government departments without charge. Significant services provided without charge have been recognized in the Agency's Statement of Operations as follows:

	2005	2004
	(in thousands of dollars)	
Accommodation	210,003	250,080
Employer's contribution to the health insurance plan and employee benefit plans	162,603	216,794
Legal services	49,051	69,461
Audit services	2,300	4,700
Workers' compensation benefits	2,053	2,327
Payroll services	1,560	1,900
	427,570	545,262

(b) Payables and receivables outstanding at year-end with related parties:

	(restated – Note 3)	
Accounts receivable – From other government agencies and departments	115,454	30,167
Accounts payable – To other government agencies and departments	20,506	13,726

12. Contingent liabilities

The Agency is a defendant in certain cases of pending and threatened litigation which arose in the normal course of operations. The total determinable amount of claims has been estimated at \$14,843,000 (\$9,350,000 as at March 31, 2004). The current best estimate of the amount likely to be paid in respect of these claims and potential claims would be recorded in Other liabilities.

The contingencies for contaminated sites as at March 31, 2004 have been transferred to the Canada Border Services Agency.

13. Capital lease obligations

The Agency has entered into agreements to rent information technology equipment under capital leases with a cost of \$9,708,000 and accumulated amortization of \$9,118,000 as at March 31, 2005 (\$9,690,000 and \$6,559,000 respectively as at March 31, 2004). The obligations for the upcoming years include the following:

	2005	2004
	(in thousands of dollars)	
2004-2005	–	2,906
2005-2006	480	480
Total future minimum lease payments	480	3,386
Less: imputed interest (3.81% – 6.17%)	5	105
Balance of obligations under capital leases	475	3,281

14. Commitments

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 services/goods are received. Significant commitments that can be reasonably estimated are as follows:

	2006	2007	2008	2009	2010 and thereafter	Total
	(in thousands of dollars)					
Operating leases	972	892	742	185	17	2,808
Total	972	892	742	185	17	2,808

15. Transfer payments

	2005	2004
	(in thousands of dollars)	
Contributions to the Province of Quebec in respect of the joint administration costs of federal and provincial sales taxes	127,173	119,855
Contribution to the Canadian Home Builders' Association to support the "Get It in Writing!" consumer information campaign	335	72
	127,508	119,927

16. Employee future benefits

(a) Pension benefits

The Agency and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully 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:

	2005	2004
	(in thousands of dollars)	
Agency's contributions	275,539	340,015
Employees' contributions	116,239	118,791

(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:

	2005	2004
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	352,557	441,915
Cost for the year	41,568	33,611
Benefits paid during the year	(21,653)	(21,259)
Accrued benefit obligation at the end of year as originally reported	372,472	454,267
Liabilities transferred to the Canada Border Services Agency	–	(101,710)
Accrued benefit obligation at the end of year – As restated	372,472	352,557

17. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation used in the current year.

Management Discussion and Analysis² in Support of Audited Financial Statements

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 December 12, 2003 Federal announcement creating the separate Canada Border Services Agency (CBSA) had the greatest impact on resources available to CCRA in 2004-2005. After transferring resources to CBSA, two other factors, namely increased spending on revenue generation and higher salary costs owing to contract settlements, impacted CCRA.

Analysis of Net Cost of Operations (Based on Financial Statements)

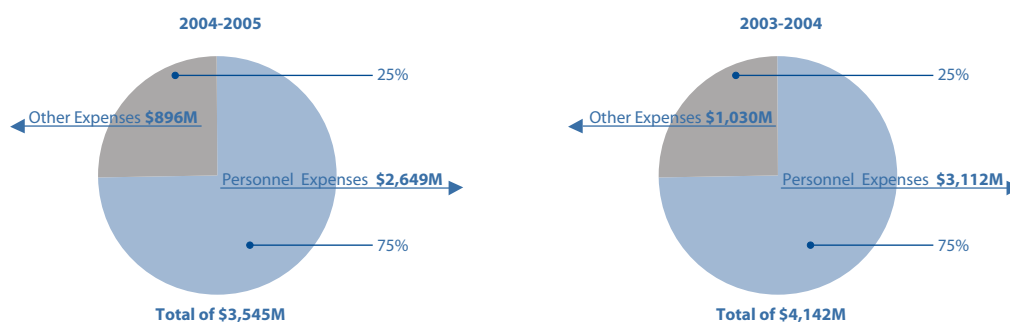
The CCRA's 2004-2005 net cost of operations decreased by \$654M or 17% from 2003-2004. Agency expenses totalled \$3,545 million in 2005 and \$4,142 million in 2004 (see Note 6 of the Financial Statements – Agency Activities for the breakdown of Personnel and Other Expenses). When adjusting for the receipt of Non-Tax Revenue of \$270 million in 2005 and \$214 million in 2004, the Net Cost of Operations becomes:

(in thousands of dollars)	2005	2004
Personnel Expenses	2,649,035	3,111,958
Other Expenses	895,620	1,030,185
Total Expenses	3,544,655	4,142,143
Less: Non-Tax Revenue	270,291	214,014
Net Cost of Operations	3,274,364	3,928,129

The Agency's expenses, as detailed in the Statement of Operations, are made up of approximately 75% in personnel expenses (salaries, other allowances and benefits) and 25% in other expenses, as illustrated in Figure 39. Much of the other expenses are linked to personnel expenses (e.g., travel for auditors, computers, accommodation, furniture replacement, etc.) and therefore personnel expenses are the primary drivers for the Agency. A number of factors had a significant impact on personnel expenses in 2004-2005. These include the transfer of approximately 11,000 employees to the Canada Border Services Agency (CBSA), as well as the impact of a new collective agreement with the Public Service Alliance of Canada and a provision for an agreement with the Professional Institute of the Public Service of Canada.

Other expenses decreased by 13% or \$135 million. Much of this decrease can be attributed to the transfer of \$131 million to CBSA.

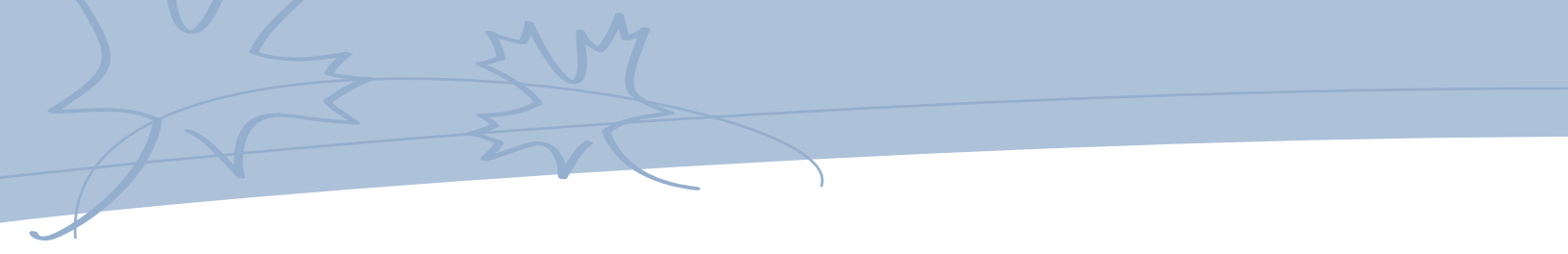
Figure 39 Total Expenses



² Unaudited



Audited Financial Statements – Administered Activities





AUDITOR'S REPORT

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

I have audited the statement of administered assets and liabilities of the Canada Customs and Revenue Agency as at March 31, 2005 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 Customs and Revenue Agency as at March 31, 2005 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 31, 2005

Statement of Administered Assets and Liabilities

as at March 31
(in thousands of dollars)

	2005	2004 <small>(Restated – Note 3)</small>
ADMINISTERED ASSETS		
Cash on hand	4,220,931	4,234,075
Amounts receivable from taxpayers (net of allowance for doubtful accounts of 5,740,687 in 2005 and 7,337,909 in 2004) (Note 4)	52,529,564	47,000,377
TOTAL ASSETS	56,750,495	51,234,452
ADMINISTERED LIABILITIES		
Amounts payable to taxpayers (Note 5)	35,623,915	33,017,509
Amounts payable to provinces (Note 6)	131,896	83,635
Deposit accounts (Note 7)	40,197	34,217
	35,796,008	33,135,361
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (Note 8)	20,954,487	18,099,091
TOTAL LIABILITIES	56,750,495	51,234,452

Contingent liabilities (Note 9)

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

Approved by:



Michel Dorais
Commissioner



Connie I. Roveto
Chair, Board of Management

Statement of Administered Revenues

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

	2005	2004
Federal administered revenues		
Income Tax Revenues		
Personal and trust	98,621,957	93,143,364
Corporate	29,955,402	27,430,779
Non-resident	3,560,166	3,142,187
	<u>132,137,525</u>	<u>123,716,330</u>
Other Taxes and Duties		
Goods and Services Tax (GST) (Note 10)	9,012,237	9,776,378
Energy taxes	5,008,177	4,907,112
Other Excise taxes and duties	4,456,868	4,621,281
Air Transportation Security Charge	383,201	409,559
	<u>18,860,483</u>	<u>19,714,330</u>
Total Tax Revenues	150,998,008	143,430,660
Employment Insurance Premiums	17,654,806	17,900,359
Interest, penalties and other revenues (Note 11)	3,141,467	2,972,493
Revenues Administered on behalf of the Government of Canada	<u>171,794,281</u>	<u>164,303,512</u>
Provision for doubtful accounts (Note 4)	(966,854)	(1,958,722)
Interest expense	(601,280)	(939,268)
Net Revenues Administered on behalf of the Government of Canada	<u>170,226,147</u>	<u>161,405,522</u>
Provincial, Territorial Governments and First Nations administered revenues		
Income Tax Revenues		
Personal and trust	38,433,560	34,954,094
Corporate	3,060,183	2,755,684
	<u>41,493,743</u>	<u>37,709,778</u>
Harmonized Sales Tax (HST)	735,342	903,401
Other Revenues (Note 12)	195,447	185,628
Revenues Administered on behalf of Provincial, Territorial Governments and First Nations	<u>42,424,532</u>	<u>38,798,807</u>
Net Revenues Administered on behalf of the Canada Pension Plan (Note 13)	<u>28,940,881</u>	<u>28,028,399</u>
Total Net Administered Revenues before customs activities	<u>241,591,560</u>	<u>228,232,728</u>
Net Revenues related to customs activities (Note 3)	<u>-</u>	<u>24,228,805</u>
Total Net Administered Revenues	<u>241,591,560</u>	<u>252,461,533</u>

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

Statement of Administered Expenses and Recoveries

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

	2005	2004
Federal administered expenses		
Child tax benefits	8,687,760	8,061,931
Children's special allowances	159,366	147,424
Relief for heating expenses	5,562	6,855
Federal administered recoveries		
Old Age Security benefits	(745,144)	(718,107)
Employment Insurance benefits	(154,276)	(114,374)
Net Expenses Administered for the Federal Government	7,953,268	7,383,729
Provincial and Territorial administered expenses		
Family benefit programs	226,781	263,466
Nova Scotia taxpayer refund program	5,537	72,703
Sales tax credits	45,456	38,074
Net Expenses Administered for Provinces and Territories	277,774	374,243
Total Net Administered Expenses	8,231,042	7,757,972

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

Statement of Administered Cash Flows

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

	2005	2004
Total Net Administered Revenues	241,591,560	252,461,533
Less provincial revenues paid directly to provinces:		
Revenues administered for Nova Scotia workers' compensation (Note 12)	(189,466)	(181,586)
Provincial sales tax on tobacco and alcohol	-	(51,472)
Less Total Net Administered Expenses	(8,231,042)	(7,757,972)
Change in administered assets and liabilities:		
Decrease (Increase) in cash on hand	13,144	(527,267)
Increase in amounts receivable from taxpayers net of allowance for doubtful accounts	(5,529,187)	(4,356,358)
Increase (Decrease) in amounts payable to taxpayers	2,606,406	(530,826)
Increase (Decrease) in amounts payable to provinces	48,261	(73,579)
Increase in deposit accounts	5,980	10,039
Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada	230,315,656	238,992,512
Consisting of:		
Cash deposits to the Consolidated Revenue Fund	304,824,772	313,303,719
Cash refunds/payments from the Consolidated Revenue Fund	(74,509,116)	(74,311,207)
Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada	230,315,656	238,992,512

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



Notes to the Financial Statements – Administered Activities

1. Authority and purpose

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

The Agency’s mandate is to provide support, advice and services when:

- (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 Aboriginal governments to administer a tax.

The Agency collects revenues, including income and sales taxes, Canada Pension Plan contributions, and Employment Insurance premiums, administers tax legislation, delivers a number of social benefit programs to Canadians for the federal government, as well as for provincial, territorial, and Aboriginal 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 Travelers Security Charge Act*, the *Canada Customs and Revenue Agency Act*, the *Children’s Special Allowances Act*, Part V.1 of the *Customs Act*, the *Excise Act*, the *Excise Tax Act* (including the Good 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*, and others.

Originally, the mandate of the Agency was to support the administration and enforcement of tax, customs, and trade legislation as well as other related legislation. As a result of the creation of the Canada Border Services Agency (CBSA) 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*. Accordingly, as of March 31, 2004 all revenues, expenses, assets, and liabilities relating to customs operations are reported by the CBSA (see Note 3 for more details).

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.

2. Summary of significant accounting policies

For financial reporting purposes, the activities of the Agency are reported as: Administered Activities and Agency Activities. Administered Activities are those revenues and expenses which are administered for someone other than the Agency, such as the federal government, a province or territory, or another group or organization. The financial statements – Agency Activities include those operational revenues and expenses, which are managed by the Agency, utilized in running the organization and in most part, financed by Parliamentary appropriations. 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 *CCRA 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 taxes are recognized as revenue when the taxpayer has earned and received the income producing the tax. This is done by determining income earned 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.

Revenues for the fiscal year are based on actual amounts assessed/reassessed at the time of preparation of the financial statements and estimates of income tax, CPP contributions and EI premiums not yet assessed/reassessed. The vast majority of these estimates are based on cash payments received at the time of preparation of the financial statements that relate to the fiscal year ended March 31 that have not been assessed or that are awaiting reassessment. Actual results may differ significantly from these estimates. The difference will be recorded in the fiscal year in which the actual assessment/reassessment is completed. 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 loss 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) GST and HST, and Excise taxes and duties:

The determination of these revenues is based on the taxes and duties assessed, and estimates of amounts not yet assessed that relate to the fiscal year ended March 31. These estimates are based on cash payments received at the time of preparation of the financial statements that relate to the fiscal year ended March 31 that have not been assessed.

For the Goods and Services Tax (GST) and Harmonized Sales Tax (HST) on domestic goods and services, revenue is recognized at the time of the sale of goods or the provision of services. Revenue is 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 (see Note 10 for more details).

For Excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Act*. For Excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act*.

(iii) Other revenue recognition:

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 forgiven 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. However, such amounts are included in revenues when assessed.

(b) Expenses

(i) Interest expense:

The Agency incurs interest expenses as a result of late refund payments. These are in large part due to the resolution of long standing corporate tax cases which have been appealed and which are resolved in favour of the taxpayer. The refund payment includes interest accrued since the tax in dispute was initially paid. Accrued interest is recognized when the liability for the related tax case is recognized. The Agency does not estimate these amounts in advance.

(ii) Administered expenses:

Expenses relating to the child tax benefits, the children's special allowances, and the provincial and territorial administered expenses are recorded in the year to which they relate.

(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 includes amounts received in CCRA offices or by CCRA 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 for payment 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. 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 tax and interest assessed, 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 reported. Estimates are used to record tax revenues and the related amounts receivable and payable. Actual results could differ from the current estimates. 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. Transferred Operations

With the creation of the Canada Border Services Agency (CBSA), as described in Note 1, the customs activities are no longer administered by CCRA. Consequently, all the assets and liabilities relating to customs activities including GST and HST on imports were transferred to CBSA.

The previously reported Statement of Administered Assets and Liabilities as at March 31, 2004 has been restated as shown in the table below to present the effect of this transfer.

	As previously reported	Transferred to CBSA	As restated
	(in thousands of dollars)		
ADMINISTERED ASSETS			
Cash on hand	6,136,765	(1,902,690)	4,234,075
Amounts receivable from taxpayers	47,953,395	(953,018)	47,000,377
TOTAL ASSETS	54,090,160	(2,855,708)	51,234,452
ADMINISTERED LIABILITIES			
Amounts payable to taxpayers	33,039,710	(22,201)	33,017,509
Amounts payable to provinces	87,742	(4,107)	83,635
Deposit accounts	38,172	(3,955)	34,217
	33,165,624	(30,263)	33,135,361
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others	20,924,536	(2,825,445)	18,099,091
TOTAL LIABILITIES	54,090,160	(2,855,708)	51,234,452

The following table presents the details of the net revenues related to customs activities reclassified in the 2004 Statement of Administered Revenues.

	2004
	(in thousands of dollars)
Federal Government Taxes and Duties related to customs activities	
Goods and Services Tax (GST)	19,552,904
Customs import duties	2,887,025
Other Excise taxes and duties	209,040
Energy taxes	44,881
Interest, penalties, and other revenues	37,712
Less: Provision for bad debts and interest expense	(20,094)
	22,711,468
Provincial, Territorial Governments and First Nations Revenues related to customs activities	
Harmonized Sales Tax (HST)	1,465,865
Other revenues	51,472
Total Net Revenues related to customs activities	24,228,805

4. Amounts receivable from taxpayers

Amounts receivable from individuals, employers, and non-residents taxpayers include income taxes, Canada Pension Plan contributions, Employment Insurance premiums and related interest and penalties receivable.

	2005			2004
				(Restated – Note 3)
	Gross	Allowance for Doubtful Accounts	Net	Net
(in thousands of dollars)				
Individuals, Employers, and Non-Residents	42,492,858	(3,615,237)	38,877,621	34,262,824
Corporations	6,968,542	(847,333)	6,121,209	5,181,666
Goods and services tax (GST) and Excise taxes and duties	8,808,851	(1,278,117)	7,530,734	7,555,887
Total	58,270,251	(5,740,687)	52,529,564	47,000,377

Details of the allowance for doubtful accounts are as follows:

	Allowance for Doubtful Accounts	Provision for Doubtful Accounts	Write-Offs	Allowance for Doubtful Accounts
	April 1, 2004			March 31, 2005
	(Restated – Note 3)			
(in thousands of dollars)				
Individuals, Employers, and Non-Residents	(4,403,160)	(861,350)	1,649,273	(3,615,237)
Corporations	(1,215,631)	(36,517)	404,815	(847,333)
Goods and services tax (GST) and Excise taxes and duties	(1,719,118)	(165,230)	606,231	(1,278,117)
Total	(7,337,909)	(1,063,097)	2,660,319	(5,740,687)

The restated allowance for doubtful accounts of \$7,337 million reported above excludes \$260 million for the portion of the allowance relating to the amounts receivable transferred to CBSA. The provision of \$1,063 million reported above includes an amount of \$967 million charged against revenues administered on behalf of the federal government (see Note 2 (e)) and \$96 million charged against revenues administered on behalf of the Canada Pension Plan (see Note 13).

5. Amounts payable to taxpayers

	2005	2004
	(Restated – Note 3)	
	(in thousands of dollars)	
Individuals, Employers, and Non-Residents	20,244,053	18,646,295
Corporations	8,724,475	8,238,969
Goods and services tax (GST) and Excise taxes and duties	6,655,387	6,132,245
Total	35,623,915	33,017,509

6. Amounts payable to provinces

These are amounts under the Agency's administrative responsibility that are payable directly to a province and consist primarily of amounts payable to Quebec. 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.

7. Deposit accounts

The Agency receives refundable deposits to ensure compliance with various regulations.

	2005	2004 (Restated – Note 3)
	(in thousands of dollars)	
Balance, beginning of year	34,734	31,107
Net transactions during the year	7,154	3,627
Balance, end of the year	41,888	34,734
Less: Securities held in trust	(1,691)	(517)
Net deposit accounts	40,197	34,217

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*.

8. Net amount due to the Consolidated Revenue Fund

The net cash deposited in the Consolidated Revenue Fund (CRF) of the Government of Canada includes all amounts collected 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 net amount due to the CRF on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet collected and/or deposited in the CRF) and other administered liabilities payable by the Agency out of the CRF. The change in the net amount due to the CRF during the fiscal year is presented in the table below:

	2005	2004 (Restated – Note 3)
	(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	18,099,091	15,446,545
Total net administered revenues	241,591,560	252,461,533
Less provincial revenues paid directly to provinces:		
Revenue administered for Nova Scotia workers' compensation (Note 12)	(189,466)	(181,586)
Provincial sales tax on tobacco and alcohol	–	(51,472)
Total net administered expenses	(8,231,042)	(7,757,972)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	(230,315,656)	(238,992,512)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year before customs activities	20,954,487	20,924,536
Less net amount due to CRF related to customs activities (Note 3)	–	(2,825,445)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year	20,954,487	18,099,091

9. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are under objection or are being appealed to the Tax Court, the Federal Court of Canada or the Supreme Court of Canada. As at March 31, 2005, an amount of \$9,537 million was under objection at the Agency level (\$7,553 million for 2004 excluding \$62 million for customs activities) and an amount of \$1,360 million was being appealed to the courts (\$974 million for 2004 excluding \$12 million for customs activities). The Agency has recorded a provision of \$51 million for 2005 in amounts payable to taxpayers (\$53 million for 2004) to reflect the estimated amount of objections or appeals that are considered likely to be lost and that can be reasonably estimated.

10. GST revenues

The Goods and Services Tax (GST) reported on the Statement of Administered Revenues is net of Input Tax Credits (ITC) and rebates administered by the Agency. It does not include GST revenues on imported goods of \$21,909 million in 2005 (\$19,553 million in 2004) which are now administered and reported by the Canada Border Services Agency (CBSA) as of April 1, 2004. The Agency continues to have 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:

	2005	2004
	(Reclassified – Note 3)	
	(in thousands of dollars)	
GST revenues net of ITCs and rebates	12,321,750	12,939,218
Less: GST quarterly tax credits	(3,309,513)	(3,162,840)
GST net revenues	9,012,237	9,776,378

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 also has the authority to waive and forgive the interest and penalties that have been charged or 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.

	2005	2004
	(Reclassified – Note 3)	
	(in thousands of dollars)	
Gross interest and penalties	4,113,966	3,495,364
Less interest and penalties waived under authority of the:		
<i>Income Tax Act</i>	(929,585)	(496,946)
<i>Excise Tax Act</i>	(48,694)	(42,023)
	(978,279)	(538,969)
Net interest and penalties	3,135,687	2,956,395
Other revenues	5,780	16,098
Interest, penalties, and other revenues	3,141,467	2,972,493

12. Other Revenues administered for Provincial, Territorial Governments and First Nations

	2005	2004
		(Reclassified – Note 3)
	(in thousands of dollars)	
First Nations Sales Tax and GST	5,981	4,042
Nova Scotia workers' compensation	189,466	181,586
Total	195,447	185,628

13. Net Revenues administered on behalf of the Canada Pension Plan

	2005	2004
	(in thousands of dollars)	
Contributions	28,924,563	27,921,241
Interest and penalties	112,561	126,541
Provision for doubtful accounts	(96,243)	(19,383)
CPP net revenues	28,940,881	28,028,399

14. Related party transactions

The Agency deposits all monies collected to the Consolidated Revenue Fund. The Department of Finance makes payments out of the Consolidated Revenue Fund 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. Canada Pension Plan contributions, net of overpayments refunded by the Agency and Old Age Security benefit recoveries are credited to Social Development Canada (SDC) which administers these programs through the Canada Pension Plan Account and the Old Age Security Account. Employment Insurance premiums are credited to Human Resources and Skills Development Canada (HRSDC) which administers this program through the Employment Insurance Account.

The Agency also collects certain accounts receivable for the Canada Border Services Agency (CBSA) under Part V.I of the *Customs Act*. These receipts are deposited directly in the Consolidated Revenue Fund on behalf of CBSA.

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 Consolidated Revenue Fund, declared to the Agency, and are included in the GST revenues.

15. Comparative figures

Comparative figures have been reclassified to conform with the presentation used in the current year.

Management Discussion and Analysis³ in Support of Audited Financial Statements

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 CCRA 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.

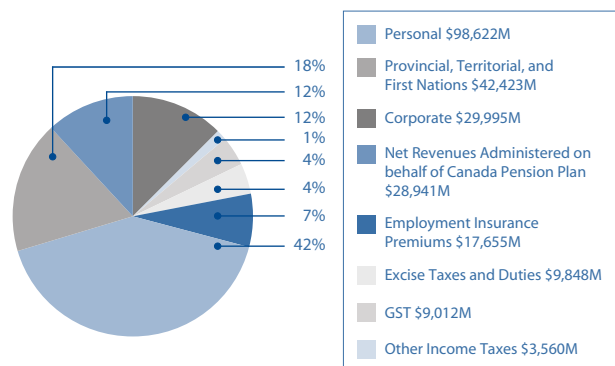
Analysis of Revenue Administered on Behalf of the Federal Government of Canada

Federal income tax revenues were \$8.4 billion higher in 2004-2005 than in 2003-2004. Personal and trust income tax revenues increased \$5.5 billion, while corporate income tax revenues increased \$2.5 billion. Non-resident income tax revenues increased \$418 million. The increase in personal income tax revenues is due to gains in employment and labour income. The corporate income tax revenue increase results from higher corporate profits in 2004, particularly in the manufacturing sector.

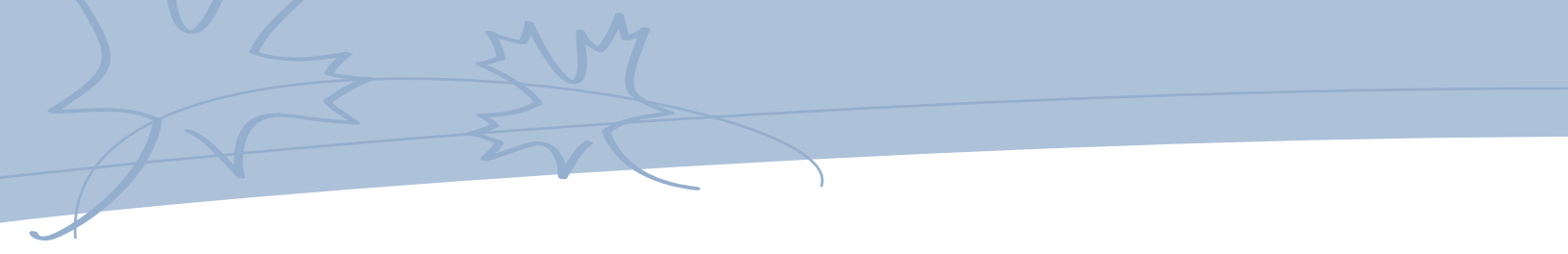
There was a decrease of \$854 million in other taxes and duties. GST revenues declined \$764 million due to increased rebates to municipalities as a result of Budget 2004 amendments to the *Excise Tax Act*. When including GST on imports, which is now reported by CBSA, there is an increase of \$1.6 billion in GST revenue. The remaining taxes and duties were \$90 million lower, mainly attributable to increased fuel production, offset by decreased tobacco revenue as a result of slightly lower tobacco production.

Employment insurance premiums decreased \$246 million as the reduction in premiums more than offset the increase in the number of people employed.

Figure 40 Revenues 2004-2005



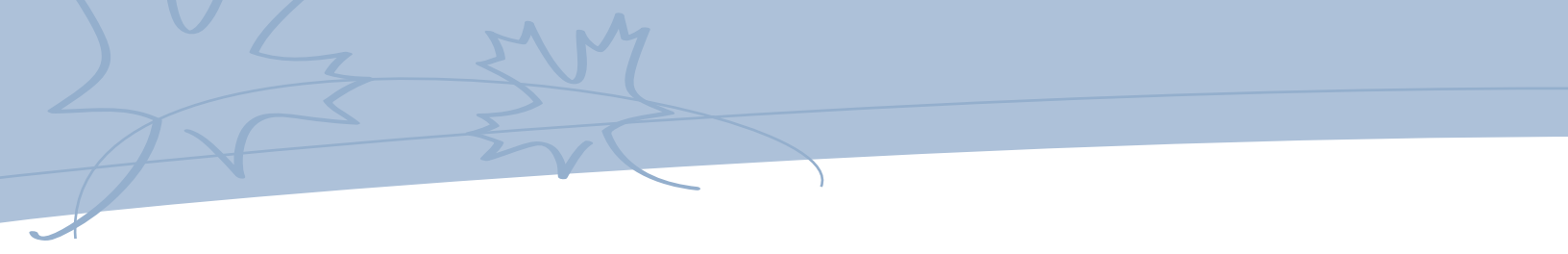
³ Unaudited





**Unaudited Supplementary
Financial Information**





Financial Performance Information – Parliamentary Appropriations

Introduction

This section of the *CCRA Annual Report to Parliament 2004-2005* provides the details of the Agency's Resource Management performance for purposes of reporting to Parliament on the use of appropriations in 2004-2005. This complements the information provided in the spending profile sections under each business line and satisfies the reporting requirements set for departmental performance reports.

Financial reporting methodologies

The CCRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and the CCRA 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 CCRA 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 98 includes certain items such as services provided by other government departments. Other items, such as capitalized assets, are excluded from the financial statements but included here. A detailed reconciliation by business line can be found on Table 10, page 153.

CCRA financial information

Activities of the Agency

	2004-2005 (in thousands of dollars)
Main Estimates	\$3,232,151
Planned Spending	\$3,188,703
Final Authorities	\$3,225,681
Actual Spending	\$3,050,977

The Financial Statements – Agency Activities report \$2,887.4 million as total Parliamentary appropriations used (Note 4 b, page 106 shows the reconciliation to the net cost of operations). Two other items reported in the Financial Statements – Administered Activities are added to make up the total actual spending of \$3,051 million reported in this section where the modified cash accounting approach is used: the Children's Special Allowance, \$159.4 million; and the Relief for Heating Expenses, \$4.2 million.

Overview

For 2004-2005, Parliament had approved planned spending for the CCRA in the amount of \$3,232.2 million through the Main Estimates, as shown in CCRA's *2004-2005 to 2006-2007 Corporate Business Plan*. A carry-forward from 2003-2004 of unused funds accounts for an additional \$217.6 million in authorities, of which \$106.5 million was transferred to the Canada Border Services Agency (CBSA). In addition, \$156.6 million in corporate services authorities were transferred to CBSA subsequent to the Main Estimates.

Other increases include: \$74.6 million for collective agreements, mainly due to the agreement signed with PSAC December 10, 2004 (previous contract expired November 2003); Tax Rules for Registered Charities represented an additional \$10.2 million; the 2003 Omnibus Submission increased funding by \$5.5 million; Government On-Line, \$5 million; and Money Laundering (CCRA portion) provided another \$2 million. Offsetting these increases, the CCRA returned \$24.8 million in funding to the Treasury Board pending the approval of the Offshore Trusts Initiative legislation. The Agency also contributed an additional \$12 million to the \$1B Government Reallocation Exercise (bringing the total to \$31 million in 2004-2005). Finally, a net decrease of \$21.5 million is comprised mainly of an Employee Benefit Plan rate reduction offset by Maternity and Severance. This resulted in a total approved planned spending of \$3,225.7 million for 2004-2005, representing an in-year decrease of 0.2% over the original Main Estimates.

Actual spending for the CCRA totalled some \$3,051 million resulting in \$174.7 million unexpended at year-end. After removing \$9.3 million (reversal of payments to Justice Canada), and \$33.7 million related to Vote 5, Contribution to the Ministère du Revenu du Québec, the remaining \$131.7 million in operating funds is available for use by the organization in 2005-2006. This lapse represents 4.3% of the final authorities of 3,055.5 million (after adjusting for the Justice and Contribution authorities).

The \$131.7 million carry forward to 2005-2006 will be used to offset operating pressures such as: enhancements to existing Agency investment projects, \$34 million; enhancements to tax integrity (compliance strategy) \$36.5 million; horizontal initiatives meant to improve service to Canadians (Government On-Line, National Collections Call Centre), \$6 million; business sustainability projects, \$14.4 million; initiatives related to trust and integrity such as Security Modernization, \$8 million; etc.

Revenues administered by the Agency

Net revenues administered by the CCRA totalled some \$241.6 billion, a decrease of 4.3% from the \$252.5 billion administered in 2003-2004. However, removing the \$24.2 billion in revenues associated with customs related activities from the 2003-2004 revenues, leads to tax related revenues of \$228.2 billion for an increase of \$13.4 billion or 5.9%.

	2003-2004	2004-2005
	(in thousands of dollars)	
Federal Government	161,405,522	170,226,147
Provincial, Territorial Governments and First Nations	38,798,807	42,424,532
Canada Pension Plan	28,028,399	28,940,881
Sub-total	228,232,728	241,591,560
Net revenues related to customs activities	24,228,805	
Total	252,461,533	241,591,560

Financial Performance Tables

Introduction

The following tables provide financial information about the performance of the Agency during the 2004-2005 fiscal year. The tables compare Main Estimates and Planned Spending, as shown in the *2004-2005 Report on Plans and Priorities* with total authorities at year end and actual expenditures for the fiscal year.

It should be noted that where tables display historical information, the 2002-2003 data for CCRA includes the Canada Border Services Agency (CBSA). Although the former Customs Branch could be isolated, a large proportion of the associated costs would have to be split arbitrarily. For 2003-2004 and 2004-2005, however, the CBSA resources are excluded from the CCRA numbers.

The information is presented at the Agency level, the business line level and by functional branch; as well as by authority and type of revenue and expense.

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Table 1 Comparison of Planned to Actual Spending (including FTE)

(in thousands of dollars)	2002- 2003 Actual	2003- 2004 Actual ¹	2004-2005			
			Main Estimates	Planned Spending ²	Total Authorities	Actual ¹
Tax Services	2,074,575	1,938,441	2,027,733	2,073,911	2,101,886	2,019,813
Benefit Programs and Other Services ³	217,207	243,397	259,884	259,884	233,029	222,709
Appeals	93,531	83,332	88,803	91,796	91,463	79,767
Customs Services	660,680	–	–	–	–	–
Corporate Management and Direction	778,911	680,668	855,731	763,112	799,303	728,688
Total	3,824,904	2,945,838	3,232,151	3,188,703	3,225,681	3,050,977
Total	3,824,904	2,945,838	3,232,151	3,188,703	3,225,681	3,050,977
Less:						
Non-Tax Revenues						
Respendable Revenue – Pursuant to CCRA Act	37,366	22,899	31,199	19,089	20,190	20,190
Non-Respendable Revenue ⁴	30,432	1,960,195		1,796,539	2,582,917	2,582,917
Plus:						
Cost of services provided without charge	506,613	448,956		475,554	423,872	423,872
Net Cost of Agency	4,263,719	1,411,700		1,848,629	1,046,446	871,742
Full-Time Equivalents	47,479	37,323		38,312	39,627	36,368

¹ Includes the TBS directed reversal of payments made to Justice Canada during the fiscal year (\$7.1 million in 2003-2004, and \$9.3 million in 2004-2005).

² Includes the transfer of Corporate services to CBSA.

³ Includes Relief for Heating Expenses (a relief program announced in 2000) in the amounts of \$12.6 million in 2002-2003 and \$7.2 million in 2003-2004. The \$4.2M expended in 2004-2005 is shown in Corporate Management and Direction.

⁴ Starting in 2003-2004 includes Penalties and Interest which were previously shown under Tax Revenues.

Table 2 Use of Resources by Business Line

2004-2005 (Budgetary in thousands of dollars)							
Business Lines	Operating	Voted Grants & Contributions	Subtotal: Gross Voted Expenditures	Statutory Grants and Contributions	Total Gross Expenditures	Less: Responsible Revenues ¹	Total Net Expenditures
Tax Services							
Main Estimates	1,984,115	143,726	2,127,841	–	2,127,841	100,108	2,027,733
<i>Planned Spending</i>	2,034,033	143,726	2,177,759	–	2,177,759	103,848	2,073,911
Total Authorities	2,028,011	161,234	2,189,245	–	2,189,245	87,359	2,101,886
<i>Actual Spending</i>	1,979,664	127,508	2,107,172	–	2,107,172	87,359	2,019,813
Benefit Programs and Other Services							
Main Estimates	101,264	–	101,264	159,000	260,264	380	259,884
<i>Planned Spending</i>	101,264	–	101,264	159,000	260,264	380	259,884
Total Authorities	91,154	–	91,154	159,366	250,520	17,491	233,029
<i>Actual Spending</i>	80,834	–	80,834	159,366	240,200	17,491	222,709
Appeals							
Main Estimates	95,205	–	95,205	–	95,205	6,402	88,803
<i>Planned Spending</i>	98,198	–	98,198	–	98,198	6,402	91,796
Total Authorities	98,878	–	98,878	–	98,878	7,415	91,463
<i>Actual Spending</i>	87,182	–	87,182	–	87,182	7,415	79,767
Corporate Management and Direction							
Main Estimates	891,573	–	891,573	–	891,573	35,842	855,731
<i>Planned Spending</i>	798,954	–	798,954	–	798,954	35,842	763,112
Total Authorities	835,185	–	835,185	–	835,185	35,882	799,303
<i>Actual Spending</i>	764,570	–	764,570	–	764,570	35,882	728,688
Total Main Estimates	3,072,157	143,726	3,215,883	159,000	3,374,883	142,732	3,232,151
<i>Total Planned Spending</i>	3,032,449	143,726	3,176,175	159,000	3,335,175	146,472	3,188,703
Total Authorities	3,053,228	161,234	3,214,462	159,366	3,373,828	148,147	3,225,681
Total Actual Spending	2,912,250	127,508	3,039,758	159,366	3,199,124	148,147	3,050,977

¹ Includes only Revenues Credited to Vote 1, i.e. related to the administration of work for CPP and EI.

Table 3 Voted and Statutory Items

Vote	2004-2005 (in thousands of dollars)			
	Total Main Estimates	Total Planned Spending	Total Authorities ¹	Actual
Canada Customs and Revenue Agency				
1 Operating expenditures	2,449,124	2,429,881	2,507,829	2,366,851
5 Contributions	143,726	143,726	161,234	127,508
(S) Minister of National Revenue – Salary and motor car allowance	70	70	68	68
(S) Spending of revenues received through the conduct of its operations pursuant to section 60 of the <i>Canada Customs and Revenue Agency Act</i> ²	31,199	19,089	20,190	20,190
(S) Contributions to employee benefits plans	449,032	436,937	375,932	375,932
(S) Children's Special Allowance payments	159,000	159,000	159,366	159,366
(S) Spending of proceeds from the disposal of surplus Crown Assets			123	123
(S) Court Awards			935	935
(S) Collection Agency Fees			4	4
Total Agency	3,232,151	3,188,703	3,225,681	3,050,977

¹ For more details on the authorities approved after the Main Estimates, see Table 3 a).

² The revenues generated by the CBSA (\$12M) were removed from spendable revenues.

Table 3 a) 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)
2004-2005 Main Estimates	3,232,151
Carry Forward from 2003-2004	217,625
Transfer of Corporate Services to CBSA	(169,046)
Transfer to CBSA (Carry Forward)	(106,373)
TB Levy for \$1B Government Reallocation	(9,000)
Tax Rules for Registered Charities	11,341
Collective Agreements	8,528
Money Laundering (CCRA portion)	2,034
Transfer of Crown Corporation Secretariat	838
Other	605
Planned Spending (RPP)	3,188,703
Collective Agreements (PSAC, Executive Cadre, Terminable Allowance)	67,499
TB Levy for \$1B Government Reallocation	(3,000)
New Initiatives:	
2004 Omnibus Submission	5,519
Government-on-line	5,062
Campaign Tax Filing	3,550
Campaign Tax Filing – Regional Tailoring	1,590
Advertising reserve	(3,544)
Other Adjustments:	
Reduction to rates – Employee Benefit Plans	(61,105)
Offshore Trusts Funding returned to TB	(24,776)
Maternity/Severance	43,656
Responsible Revenue Adjustment	1,101
Court Awards	935
Children's Special Allowance Adjustment	366
Crown Asset Disposal	123
Collection Agency Fees	4
Other Adjustments	(2)
Total Authorities at year-end	3,225,681

Table 4 Net Cost of Agency

	2004-2005 (in thousands of dollars)
Total Actual Spending	3,050,977
Plus:	
Services received without charge	
Accommodations provided by Public Works and Government Services Canada (PWGSC)	210,003
Contributions covering employer's share of employee's insurance premiums and expenditures paid by Treasury Board Secretariat ¹	158,905
Salary and associated expenditures of legal services provided by Justice Canada	49,051
Audit services provided by the Office of the Auditor General	2,300
Worker's Compensation coverage provided by Social Development Canada	2,053
Payroll Services provided by Public Works and Government Services Canada (PWGSC)	1,560
Total Services Received Without Charge	423,872
Less:	
Non-Tax Revenues	
Responsible Revenue – Pursuant to CCRA Act	20,190
Other Revenue	2,582,917
Total Non-Tax Revenues	2,603,107
2004-2005 Net Cost of Agency	871,742

¹ Represents 8% of the Personnel actuals on a modified cash basis.

Table 5 Sources of Responsible and Non-Responsible Non-Tax Revenue

By virtue of its mandate, the CCRA is responsible for collecting tax revenue; these are described earlier in the Audited Financial Statements – Administered Activities. The CCRA 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)	Actual 2002-2003	Actual 2003-2004	2004-2005		
			Planned Revenues	Total Authorities	Actual
Business Line					
Tax Services	116,530	124,878	118,074	103,184	103,184
Benefit Programs and Other Services ¹	4,182	6,068	4,227	21,302	21,302
Appeals	6,352	6,912	6,402	7,415	7,415
Customs Services	12,392				
Corporate Management and Direction	40,772	32,270	36,858	36,559	36,559
Total	180,228	170,128	165,561	168,460	168,460
Detail of Responsible Non-Tax Revenue Pursuant to the CCRA Act					
Refunds of previous year's expenditures	4,600	1,434	852	470	470
Sales of goods and services					
Rights and privileges					
Brokers licence fees	384	–	–	–	–
Customs warehouse fees	1,176	–	–	–	–
Other	677	–	–	–	–
Service of a regulatory nature					
Ruling fees	1,837	2,097	2,200	1,881	1,881
Border Canada /United States Programs	1,791	–	–	–	–
Other	1,288	101	335	486	486
Services of a non-regulatory nature					
Administration of provincial programs	23,555	19,823	15,880	16,999	16,999
Special services fees	1,736	–	–	–	–
Others	1,457	1,375	568	1,186	1,186
Sales of goods and Information Products		80	80	92	92
Other fees and charges	27	43	40	40	40
Sub-total	38,528	24,953	19,955	21,154	21,154
Less: Amounts Recovered on behalf of OGDs	1,162	2,054	866	964	964
Total Responsible Revenue Pursuant to Section 60 of the CCRA Act (cash receipts)²	37,366	22,899	19,089	20,190	20,190
Proceeds from the disposal of surplus Crown assets³		482		123	123
Revenues credited to Vote 1					
Canada Pension Plan administration work	64,929	68,814	68,539	72,067	72,067
Employment Insurance administration work	77,933	77,933	77,933	76,080	76,080
Total Revenues credited to Vote 1	142,862	146,747	146,472	148,147	148,147
Total Responsible Revenue	180,228	170,128	165,561	168,460	168,460

¹ Total Authorities reflect a better matching of CPP/EI revenues to where the work occurs i.e., CPP/EI Eligibility Determination.

² Based on a full cash accounting method.

³ In previous years, proceeds from the disposal of Crown assets were reported in non-responsible revenue.

Table 5.2 Non-Respendable Non-Tax Revenue

(in thousands of dollars)					
Business Line	Actual 2002-2003	Actual 2003-2004 ¹	2004-2005		
			Planned Revenues	Total Authorities	Actual
Tax Services	1,788,850	1,942,891	1,784,585	2,566,468	2,566,468
Benefit Programs and Other Services	64	67	67	3,652	3,652
Appeals	4,342	5,252	5,252	3,058	3,058
Customs Services	15,516				
Corporate Management and Direction	7,119	6,739	6,739	9,739	9,739
Total	1,815,891	1,954,949	1,796,643	2,582,917	2,582,917
Detail of Non-Respendable Non-Tax Revenue					
Refunds of previous years expenditures					
Adjustments to prior years payables	3,865	1,775	1,775	5,171	5,171
Sales of goods and services					
Rights and privileges					
Duty free shops	826				
Sundries				142	142
Public building and property rental					
Lease and use of public property	637	497	497	166	166
Services of a regulatory nature					
Other	9	14	14	(34)	(34)
Service of a non-regulatory nature					
Administration of provincial programs		70			
Special service fees		37			
Other fees and charges					
Recovery of employee benefits	24,056	25,921	25,921	29,975	29,975
Deferred Revenues	88	(81)	(81)	(3)	(3)
Other	396	3,564	3,564	964	964
Miscellaneous					
Interest and penalties earned on revenues					
Personal Income Tax	1,594,806	1,841,239	1,594,806	1,789,686	1,789,686
Corporations	734,632	826,133	734,632	976,934	976,934
GST/HST, Customs Import Duties, Excise and Air Travellers Security Charge	415,812	186,101	409,790	375,039	375,039
Interest paid on Refunds					
Personal Income Tax	(111,652)	(85,493)	(111,652)	(67,832)	(67,832)
Corporations	(846,019)	(804,433)	(846,019)	(495,792)	(495,792)
GST/HST, Customs Import Duties, Excise and Air Travellers Security Charge	(28,179)	(50,245)	(28,179)	(37,656)	(37,656)
Other					
Court Fines	9,340	8,796	8,593	9,040	9,040
Investigations Seizures	5,538				
Port seizures	9,152				
Administration Charge dishonored payment instrument	2,721	2,952	2,721	7	7
Interest earned on non-tax revenue – Other	11	17	17	21	21
Miscellaneous	(192)	(2,244)	(192)	(3,263)	(3,263)
Other	44	329	332	352	352
Total Non-Respendable Non-Tax Revenue	1,815,891	1,954,949	1,796,539	2,582,917	2,582,917

¹ Non-respendable revenues have been restated to align with the Public Accounts.

Table 6 Resource Requirements by Functional Organization and Business Line

2004-2005 (in thousands of dollars)					
Organization	Tax Services	Benefit Programs and Other Services	Appeals	Corporate Management and Direction	Organization Total
Executive Offices					
Main Estimates	-	-	-	5,365	5,365
Planned Spending	-	-	-	5,072	5,072
<i>Total Authorities</i>	-	-	-	6,264	6,264
Actual Spending	-	-	-	5,728	5,728
AC, Policy and Planning Branch					
Main Estimates	216,990	5,367	-	2,207	224,564
Planned Spending	242,897	5,367	-	4,393	252,657
<i>Total Authorities</i>	266,090	-	-	8,751	274,841
Actual Spending	222,200	-	-	7,753	229,953
AC, Assessment and Client Services Branch					
Main Estimates	484,382	216,411	-	-	700,793
Planned Spending	498,012	216,411	-	-	714,423
<i>Total Authorities</i>	579,722	234,745	-	-	814,467
Actual Spending	558,461	219,366	-	-	777,827
AC, Revenue Collections Branch					
Main Estimates	408,745	18,334	-	-	427,079
Planned Spending	411,053	18,334	-	-	429,387
<i>Total Authorities</i>	446,640	23,148	-	-	469,788
Actual Spending	438,359	22,931	-	-	461,290
AC, Compliance Programs Branch					
Main Estimates	802,044	-	-	-	802,044
Planned Spending	816,650	-	-	-	816,650
<i>Total Authorities</i>	777,652	-	-	-	777,652
Actual Spending	766,178	-	-	-	766,178
AC, Appeals Branch					
Main Estimates	-	-	94,331	-	94,331
Planned Spending	-	-	97,324	-	97,324
<i>Total Authorities</i>	-	-	98,878	-	98,878
Actual Spending	-	-	87,194	-	87,194
ACs, Regional Operations					
Main Estimates	37,471	-	-	-	37,471
Planned Spending	35,648	-	-	-	35,648
<i>Total Authorities</i>	32,899	-	-	-	32,899
Actual Spending	32,664	-	-	-	32,664
AC, Public Affairs Branch					
Main Estimates	110,110	-	-	-	110,110
Planned Spending	107,264	-	-	-	107,264
<i>Total Authorities</i>	48,920	-	-	-	48,920
Actual Spending	46,190	-	-	-	46,190
AC, Corporate Audit and Evaluation Branch					
Main Estimates	-	-	-	12,265	12,265
Planned Spending	-	-	-	10,361	10,361
<i>Total Authorities</i>	-	-	-	11,614	11,614
Actual Spending	-	-	-	11,200	11,200

2004-2005 (in thousands of dollars)

Organization	Tax Services	Benefit Programs and Other Services	Appeals	Corporate Management and Direction	Organization Total
AC, Finance and Administration Branch					
Main Estimates	8,524			287,055	295,579
Planned Spending	6,387			256,183	262,570
Total Authorities	39,982	-	-	207,489	247,471
Actual Spending	41,195	-	-	184,548	225,743
AC, Human Resources Branch					
Main Estimates				152,612	152,612
Planned Spending				143,271	143,271
Total Authorities	-	-	-	149,516	149,516
Actual Spending	-	-	-	130,145	130,145
AC, Information and Technology Branch					
Main Estimates	43,752	12,894	233	266,369	323,248
Planned Spending	44,025	12,894	233	215,026	272,178
Total Authorities	-	-	-	444,145	444,145
Actual Spending	-	-	-	424,324	424,324
Corporate Accounts					
Main Estimates	15,823	7,258	641	165,700	189,422
Planned Spending	15,823	7,258	641	164,648	188,370
Total Authorities	(2,660)	2,541		7,406	7,287
Actual Spending	1,925	(2,097)	(12)	872	688
Revenues Credited to the Vote					
Main Estimates	(100,108)	(380)	(6,402)	(35,842)	(142,732)
Planned Spending	(103,848)	(380)	(6,402)	(35,842)	(146,472)
Total Authorities	(87,359)	(17,491)	(7,415)	(35,882)	(148,147)
Actual Spending	(87,359)	(17,491)	(7,415)	(35,882)	(148,147)
Total Agency Main Estimates	2,027,733	259,884	88,803	855,731	3,232,151
Total Agency Planned Spending	2,073,911	259,884	91,796	763,112	3,188,703
Total Agency Authorities	2,101,886	242,943	91,463	799,303	3,235,595
Total Agency Actual Spending	2,019,813	222,709	79,767	728,688	3,050,977

Table 7 User Fees**Table 7.1 a) Advance Income Tax Ruling Fees**

A. User Fee	Advance Income Tax Ruling Fees	
Fee Type	Regulatory (R)	
Fee Setting Authority	<i>Financial Administration Act – 19(b)</i>	
Date Last Modified	April 1990	
2004-2005		
Forecast Revenue (\$000)	\$2,000	
Actual Revenue (\$000)	\$1,881	
Full Cost (\$000)	\$1,881	
Performance Standard ¹	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, the client is contacted and the delay is discussed.	
Performance Results ¹	Actual 2004-2005 results: 62 days	
Planning Years	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
2005-2006	\$2,000	\$2,000
2006-2007	\$2,000	\$2,000
2007-2008	\$2,000	\$2,000
Sub-total:	\$6,000	\$6,000
B. Other Information: N/A		

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 results, if provided, is not legally subject to *UFA* section 5.1 regarding fee reduction for failed performance.

Table 7.1 b) Advance Income Tax Ruling Fees

A. External Fee	Advance Income Tax Ruling Fees
Service Standard ¹	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, the client is contacted and the delay is discussed.
Performance Results ¹	Actual 2004-2005 results: 62 days
Stakeholder Consultation	Client satisfaction questionnaires were sent out to all advance income tax ruling clients for a 2-year period from October 2002 through October 2004. We also conducted a client satisfaction measurement for other aspects of our service. Clearly, the most satisfied group of clients we have are our advance income tax rulings clients whereby responding clients from this group indicated a satisfaction rate in excess of 95%.
B. Other Information: N/A	

¹ As established pursuant to the Policy on Service Standards for External Fees:

- Service standards may not have received Parliamentary review;
- Service standards may not respect all performance standard establishment requirements under the *User Fees Act (UFA)* (e.g., international comparison; independent complaint address);
- Performance results are not legally subject to *UFA* section 5.1 regarding fee reduction for failed performance.

Table 7.2 a) Taxation Statistical Analyses and Data Processing Fee

A. User Fee	Taxation Statistical Analyses and Data Processing Fee	
Fee Type	Regulatory (R)	
Fee Setting Authority	<i>Financial Administration Act – 19 (b)</i>	
Date Last Modified	1992	
2004-2005		
Forecast Revenue (\$000)	\$35	
Actual Revenue (\$000)	\$21	
Full Cost (\$000)	\$21	
Performance Standard ¹	Provide statistical data to taxpayers within an average of 30 calendar days of receipt of all essential information.	
Performance Results ¹	Satisfaction surveys were sent to all clients and responses received indicated that the clients were very satisfied with our services.	
Planning Years	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
2005-2006	\$35	\$35
2006-2007	\$35	\$35
2007-2008	\$35	\$35
Sub-total:	\$105	\$105
B. Other Information: N/A		

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 results are not legally subject to *UFA* section 5.1 regarding fee reduction for failed performance.

Table 7.2 b) Taxation Statistical Analyses and Data Processing Fee

A. External Fee	Taxation Statistical Analyses and Data Processing Fee
Service Standard ¹	Provide statistical data to taxpayers within an average of 30 calendar days of receipt of all essential information.
Performance Results ¹	Satisfaction surveys were sent to all clients and responses received indicated that the clients were very satisfied with our services.
Stakeholder Consultation	Effective April 2003, a client satisfaction survey was created for external clients. Client feedback is recorded in a system and is monitored for trends.
B. Other Information: N/A	

¹ As established pursuant to the Policy on Service Standards for External Fees:

- Service standards may not have received Parliamentary review;
- Service standards may not respect all performance standard establishment requirements under the *User Fees Act (UFA)* (e.g., international comparison; independent complaint address);
- Performance results are not legally subject to *UFA* section 5.1 regarding fee reduction for failed performance.

Table 7.3 a) Access to Information Processing Fees

A. User Fee	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 Act</i>	
Date Last Modified	1992	
2004-2005		
Forecast Revenue (\$000)	\$40	
Actual Revenue (\$000)	\$40	
Full Cost (\$000)	\$40	
Performance Standard ¹	Framework under development by TBS. http://lois.justice.gc.ca/en/a-1/8.html	
Performance Results ¹	Statutory deadlines met 94% of the time	
Planning Years	Forecast Revenue (\$000)	Estimated Full Cost (\$000)
2005-2006	\$40	\$40
2006-2007	\$40	\$40
2007-2008	\$40	\$40
Sub-total:	\$120	\$120
B. Other Information: It is the CCRA's practice to waive reproduction fees where the total amount owing per request is less than 25\$.		

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 results, if provided, is not legally subject to *UFA* section 5.1 regarding fee reduction for failed performance.

Table 7.3 b) Access to Information Processing Fees

A. External Fee	Fees charged for the processing of access requests filed under the <i>Access to Information Act</i>
Service Standard ¹	Framework under development by TBS. More information: http://lois.justice.gc.ca/en/a-1/8.html
Performance Results ¹	Statutory deadlines met 94% of the time
Stakeholder Consultation	The service standard is established by the <i>Access to Information Act</i> and the <i>Access to Information Regulations</i> . Consultations with stakeholders were undertaken for amendments done in 1986 and 1992
B. Other Information: It is CCRA's practice to waive reproduction fees where the total amount owing per request is less than \$25.	

¹ As established pursuant to the Policy on Service Standards for External Fees:

- Service standards may not have received Parliamentary review;
- Service standards may not respect all performance standard establishment requirements under the *User Fees Act (UFA)* (e.g., international comparison; independent complaint address);
- Performance results are not legally subject to *UFA* section 5.1 regarding fee reduction for failed performance.

Table 8 Details on Project Spending**Table 8.1 Projects – Investment Plan**

(in thousands of dollars)					2004-2005			
Investment Plan Initiatives/ Functional Business Line	Function	Actual 2001-2002	Actual 2002-2003	Actual 2003-2004	Planned FTEs	Planned Spending	Actual FTEs	Actual Spending
Tax Services								
GOL Phase 1	A&CS	12,882	2,118					
GOL Phase 3	A&CS		13,162	15,067	23	1,889	23	1,889
GOL Phase 4	A&CS				53	4,701	25	1,977
Integrated Revenue Collections	RCB	326	1,551	4,630	45	8,000	43	6,700
T1 Matching Redesign	A&CS	665	1,219	346				
T3 Automation	A&CS	986	508					
Call Centre Enhancements	RCB		155	214	9	2,310		
Business Services Investment Envelope	A&CS							
OLAS / OLP	A&CS	12,105	14,978	4,836	11	750	11	750
Business Number Registry	A&CS		1,902	1,068				
GST/HST Redesign	A&CS		7,404	25,187	407	33,998	407	32,098
T2 Development	A&CS		1,833	144	3	180	3	180
Information Returns Redesign	A&CS		1,255	963				
Debit Cards (TSO)	A&CS		906	405				
E-file Modernization	A&CS		3,406	1,540				
Remittance Image Archiving & Retrieval	A&CS			2,500	8	4,337	8	4,337
Business Integration and System Support	CPB		1,941	2,477	75	7,250	75	5,281
Sub-total – Tax Services		26,964	52,338	59,377	634	63,415	595	53,212
Appeals								
Fairness System Review	Appeals	240	104	135	34	2,265	30	2,041
Sub-total – Appeals		240	104	135	34	2,265	30	2,041
Customs								
Customs Action Plan	Customs	20,800	28,700					
G11 Replacement	Customs		500					
Public Security Envelope (Nexus, EPPS)	Customs		8,200					
Sub-total – Customs		20,800	37,400	0	0	0	0	0
Corporate Management and Direction								
Activity Based Costing (ABC)	F&A	270	300	360				
Administrative Reform and Renewal (ARR)	F&A	3,540	5,700	1,734	3	5,552	3	2,052
Balanced Scorecard	F&A	2,903	6,638	3,487	20	2,473	14	2,073
FIS	F&A	5,664	8,490	2,923	55	4,661	51	2,449
Horizontal Reviews	F&A		100	1,000				
Agency Classification Standard (ACS)	HR	613	570	782	8	900	8	900
HR Resourcing	HR	2,374	1,800	1,386	8	354		
Compensation Service Delivery Renewal (Pay Comp/ESS/MSS)	HR			7,005	138	22,944	60	12,944
HR Operational Tracking (CAS Org Position Mgt)	HR		536	1,632	5	400	2	135
CAS Stabilization	ITB	1,400	2,500					
CAS Upgrade	ITB	3,450	1,650					
Business Intelligence BI/DS	ITB		3,208	2,017		23		23
IT Infrastructure Envelope (SAI, E-Comm, DCR)	ITB							
Data Centre Recoverability	ITB	2,011	6,612	12,068	17	11,471	17	9,471
E-Comm Infrastructure	ITB		712	11,825	27	2,900	27	2,900
Service Availability	ITB	5,884	8,799	8,600		6,800		6,800
Sub-total – Corporate Management and Direction		28,109	47,615	54,819	281	58,478	182	39,747
Total all Business Lines		76,113	137,457	114,331	949	124,158	807	95,000
Amount available for carry forward to 2005/2006							205	29,158

Table 8.2 Projects – Asset Management Plan

The following table details the Asset Management Plan by asset class; the actual expenditures reported for 2001-2002 and 2002-2003 include the Customs Branch; 2003-2004 and 2004-2005 do not include any resources related to the Canada Border Services Agency.

(in thousands of dollars) Asset Class	Actual 2001-2002	Actual 2002-2003	Actual 2003-2004	2004-2005	
				Planned Spending	Actual Spending
Real Property Capital	24,045	23,840			
Real Property O&M	26,745	21,787	26,983	15,279	9,983
Vehicles	4,031	1,702	180	382	683
Contraband	345	3,060			
Laboratory	292	845			
PASS	1,615	1,556			
IT Infrastructure	62,987	109,323	76,188	106,020	117,260
IT End User	10,350	23,762	17,847	23,938	25,176
Other Initiatives	1,200	1,200		950	
Total	131,610	187,075	121,198	146,569	153,102

Table 9 Details on Transfer Payment Programs**Table 9.1 Children's Special Allowance Payments (CSA) (Statutory)**

Start Date: Aug. 28, 1995 *	End Date: Ongoing	Total Expenditures: \$954,966 thousands (year to date including 2004-2005)				
Description of Transfer Payment Program: Tax-free monthly payments made to agencies and foster parents who are licensed by provincial or federal governments to provide for the care and education of children under the age of 18 who physically reside in Canada and who are not in the care of their parents. CSA payments are equivalent to Canada Child Tax Benefit payments. CSA payments are governed by the <i>Children's Special Allowances Act</i> which provides that this allowance be paid out of the Consolidated Revenue Fund.						
Objective(s), expected result(s) and outcomes: the Canada Customs and Revenue Agency's expected outcome states that eligible families and individuals receive timely and correct benefit payments contributing to the integrity of the income security system. In this context, the specific objective of the CSA is to ensure that children in care receive their rightful share of entitlements. According to the <i>CSA Act</i> , the CSA payments "shall be applied exclusively toward the care, maintenance, education, training or advancement of the child in respect of whom it is paid."						
Achieved results or progress made: Monthly payments were made to 292 agencies on behalf of 55,818 children. Payments were issued on schedule, no delays were reported.						
	Actual Spending 2002-2003	Actual Spending 2003-2004	Planned Spending 2004-2005	Total Authorities 2004-2005	Actual Spending 2004-2005	Variance Planned/ Actual
Business Line	(in thousands of dollars)					
Benefit Programs and Other Services						
Total Grants	134,498	147,424	159,000	159,366	159,366	-366
Total Contributions						
Total Other Transfer Payments						
Total Business Line	134,498	147,424	159,000	159,366	159,366	-366
Total TPP	134,498	147,424	159,000	159,366	159,366	-366
Comment on variance: N/A						
Significant Evaluation Findings and URL to Last Evaluation: N/A						

* Responsibility for Children's Special Allowance Statutory Vote Payment was transferred effective August 28, 1995 from Human Resources Development Canada (P.C. Order 1995-342).

Table 9.2 Contributions to the Province of Quebec for the joint administration costs of federal and provincial sales taxes (Voted)

Start Date: April 18, 1991	End Date: Ongoing	Total Expenditures: \$1,359,401 thousands (year to date including 2004-2005)				
Purpose of Transfer Payment: Canada had recommended to Parliament legislation to establish a tax under Part IX of the <i>Excise Tax Act</i> to be known as the Goods and Services Tax (GST) replacing the existing sales tax imposed under the <i>Excise Tax Act</i> . Canada offered the provinces the administration of the GST within the territory of their province on condition that they harmonize their provincial tax to GST. Quebec agreed to this proposal and recommended to the Parliament of Québec legislation to amend its consumption tax base in order to make it substantially comparable with the GST tax base, subject to Québec's constitutional powers.						
Under the GST Agreement, Quebec administers the GST within its territory in compliance with national standards, with specific terms and conditions signed by both the CCRA and the Ministère du Revenu du Québec (MRQ). The MRQ receives a compensation not exceeding what Canada would incur if the GST were administered by the CCRA. Compensation is calculated annually according to a formula agreed upon in the GST agreement.						
Objectives, expected results and outcomes: The GST agreement was entered into by Canada and Québec with a common desire to: Minimize duplication in the joint administration of the GST and the QST; Reduce the costs related to such administration; Ensure the protection of the revenue of both governments; Facilitate compliance with the GST and the QST; Provide a high level of service to the public.						
Achieved results or progress made: All goals were met as planned and within budget.						
	Actual Spending 2002-2003	Actual Spending 2003-2004	Planned Spending 2004-2005	Total Authorities 2004-2005	Actual Spending 2004-2005	Variance Planned/ Actual
Business Line	(in thousands of dollars)					
Tax Services						
Total Grants						
Total Contributions	109,307	119,855	160,900	160,900	127,173	33,727
Total Other Transfer Payments						
Total Business Line	109,307	119,855	160,900	160,900	127,173	33,727
Total TPP	109,307	119,855	160,900	160,900	127,173	33,727
Comment on variance: The agreement sets out a financial formula which determines the amount of the payment that the Government of Canada must pay. The payment is calculated based on actual costs incurred, subject to the formula, which is based on the number of GST registrants; the productivity achieved by the Agency in the rest of the country; and the average salary rate in Québec's Ministère du revenu. The joint total administration costs are shared on a 50/50 basis.						
Significant Evaluation Findings and URL to Last Evaluation: N/A						

Table 10 Reconciliation to the Statement of Operations – Agency Activities by Business Line

(in thousands of dollars)	2004-2005				
	Tax Services	Benefit Programs and Other Services	Appeals	Corporate Management & Direction	Total Agency
Actual Net Expenditures – Performance Report ¹	2,019,813	222,709	79,767	728,688	3,050,977
Add:					
Services provided without charge by other government departments	317,729	13,217	14,488	82,136	427,570
Employee severance benefits (Change in liability)	14,799	616	675	3,826	19,916
Vacation pay and compensatory leave (Change in liability)	29,200	1,214	1,331	5,524	37,269
Accrued employee salaries and benefits	15,890	661	725	4,108	21,384
Amortization of capital assets	15,489	892	38	27,181	43,600
Loss on disposal of capital assets	1,515			(700)	815
Consumable supplies				1,632	1,632
Other – MOU with CBSA				70,528	70,528
Other	264	(27)	7,781	1,264	9,282
Less:					
Capital assets acquisitions	(8,100)	(1)	(16)	(106,083)	(114,200)
Adjustment to prior year accruals	(995)	(28)	(180)	(4,437)	(5,640)
Prepaid expenses	117			(3,215)	(3,098)
Relief for heating expenses				(4,161)	(4,161)
Children's Special Allowance		(159,366)			(159,366)
Other non-tax revenues (except Revenues credited to Vote 1)	(38,350)	(5,597)	(1,346)	(76,851)	(122,144)
Total Net Cost of Operations – Agency Activities²	2,367,371	74,290	103,263	729,440	3,274,364

¹ Actual expenditures, on a modified cash basis, are net of revenues credited to Vote 1 and include Children's Special Allowance of \$159,366 and Relief for heating expenses of \$4,161 in thousands of dollars.

² Net Cost of Operations (Expenses less Non-tax revenue) from the 'Statement of Operations – Agency Activities' on page 98 is presented on the accrual basis of accounting.

If you need more information, e-mail us at annual.report@ccra-adrc.gc.ca or write to:

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