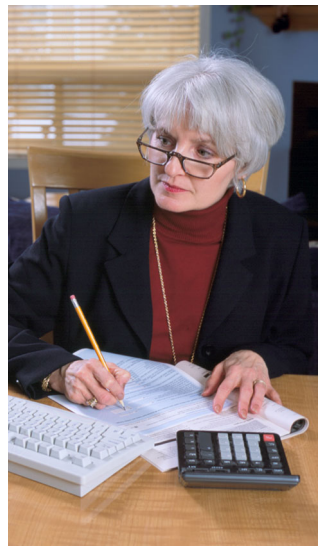


Canada Revenue Agency Annual Report to Parliament 2007-2008



RC4425 EREV08



Canada Revenue Agency

Agence du revenu du Canada

Canada 

About the CRA

Who we are

The Canada Revenue Agency (CRA) administers the *Income Tax Act* and other taxes and is the principal revenue collector in the country. We also distribute benefit payments to millions of Canadians.

We strive to ensure that Canadians:

- pay their required share of taxes;
- receive their rightful share of entitlements; and
- are provided with an impartial and responsive review of contested decisions.

Our foundation of trust

Building our foundation of trust is critical to achieving our mandate. Canadians respect our integrity and professionalism. Our respect and co-operation are the basis for our dealings with all Canadians and will guide us forward.

Trust begins with CRA's values that reflect our principles and beliefs and guide our behaviour and practices. These values are integrity, professionalism, respect, and co-operation.

Our role in Canada's tax and benefit systems

A well-functioning tax and benefit system is essential to a healthy economy, a sustainable infrastructure, and a strong democracy.

Some of the tax revenue we collect is redistributed to taxpayers by us in the form of benefit payments or tax credits. Other tax revenue is provided to our federal, provincial, territorial, and First Nations government clients to finance their programs and services for Canadians.





2007-2008 CRA in Perspective

Our Mission

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

Our Promise

Contributing to the well-being of Canadians and the efficiency of government by delivering world-class tax and benefit administration that is responsive, effective, and trusted.

Our Vision

The CRA is the model for trusted tax and benefit administration, providing unparalleled service and value to its clients, and offering its employees outstanding career opportunities.

2007-2008 Highlights

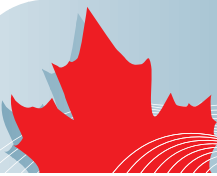
- We achieved filing compliance rates of 92.5% for individuals, and 95.5% for employers.
- We achieved a remittance compliance rate of 93.2% for individuals, who make up the majority of Canada's revenue base.
- We now administer 77 benefit programs and services for provinces, territories, and other government clients, including the Ontario Child Benefit.
- Benefit recipients received 99.99% of their payments on time.

Areas for improvement

- We face a challenge in increasing both filing and remittance compliance among corporations.
- Levels of reporting non-compliance by individual filers who report key tax credits and deductions not subject to third party reporting remain high.
- Overall results against our service standards exhibit a slight downward trend.

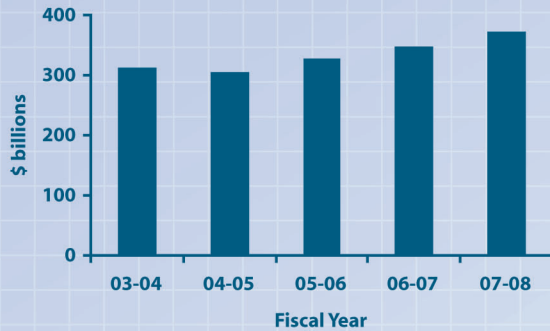
The CRA identifies areas where improvements are required, and addresses them through various strategies and initiatives. In pursuing improved results, we balance our work to deliver changes with the requirement to maintain the integrity of our current program delivery systems.



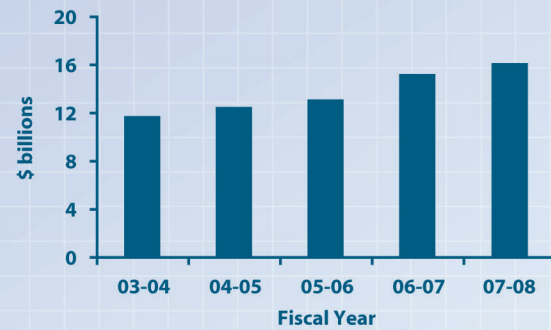


5 Year Snapshot 2003-2004 to 2007-2008

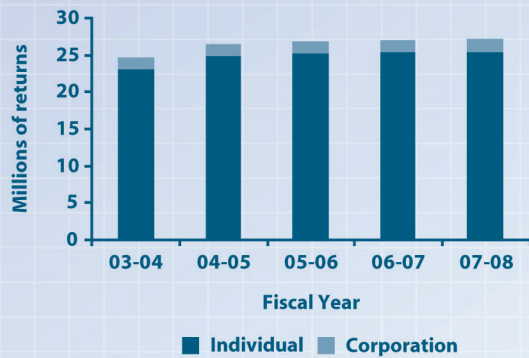
Total cash collected



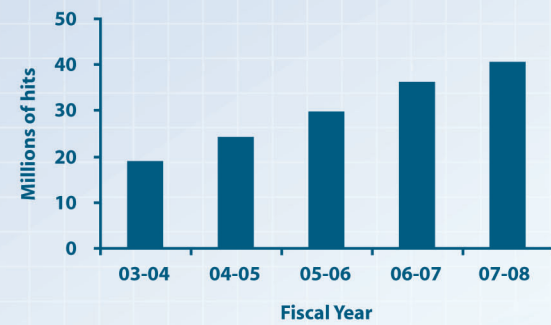
Total value of benefits payments



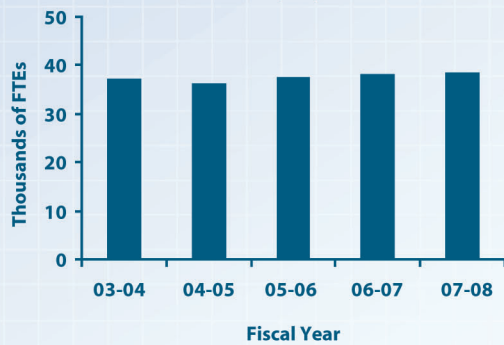
Number of individual and corporation tax returns processed



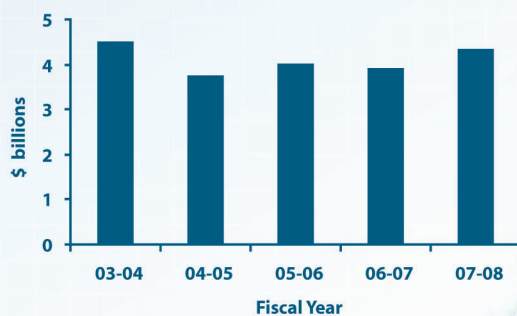
Number of CRA Web site hits



Number of full-time employees



CRA Total Spending



Message from the Minister



The Canada Revenue Agency (CRA) touches the lives of every Canadian, not only by collecting taxes, but by administering benefit programs on behalf of federal, provincial, and territorial governments. We are the single largest funding source for government programs and services. Our performance as an organization is key to maintaining the high levels of confidence in the government, its programs and services, and ensures that individuals and businesses are able to meet their obligations.

As a demonstration of our commitment to service and accountability, in 2007-2008, the CRA introduced the Taxpayer Bill of Rights, a service complaints process, and Canada's first Taxpayers' Ombudsman to respond to service concerns from the public. These steps will help maintain the high level of confidence that Canadians have in the CRA.

We made progress in actioning commitments to reduce the compliance burden for small and medium sized business, as identified in the *Report of the Canada Revenue Agency's Task Force on Small Business Issues*, published in April 2007. The CRA is committed to implementing all of the initiatives identified in this report and sustaining the focus on burden reduction in the years to come.

As Minister of National Revenue, I am proud of what we have accomplished over the past year to improve the social and economic well-being of Canadians, and I am confident that we will continue with our high level of service, accountability, and compliance in order to protect Canada's revenue base.

It is my privilege and honour to table the Canada Revenue Agency's Annual Report to Parliament 2007-2008.

A handwritten signature in black ink, reading "Jean-Pierre Blackburn". The signature is written in a cursive, flowing style.

The Honourable Jean-Pierre Blackburn, P.C., M.P.
Minister of National Revenue

Foreword by the Chair



As part of the CRA's unique governance structure, the Board of Management is responsible for overseeing the administration and organization of the CRA and the management of its resources, services, property, personnel, and contracts. The Board brings a forward-looking, strategic perspective to the CRA's operations and fosters sound management with private sector expertise and rigour.

In 2007-2008, the Board approved the Board of Management Oversight Framework, a key component of the CRA's governance regime and one that complements the Treasury Board of Canada Secretariat's Management Accountability Framework. The Board uses this new oversight framework to ensure that it meets its responsibilities under the *Canada Revenue Agency Act*. Using this framework, the Board undertakes a comprehensive annual review of CRA management processes and practices.

During my term as Chair of the Board of Management, I have seen the evolution of the CRA's business practices, emphasizing its commitment to service excellence to its clients and rewarding opportunities to its employees. As the CRA nears its first decade of existence, I am confident of the Board's continuing value and contribution to the future success of the organization.

In the past fiscal year, the Board of Management said farewell to one of its founding board members, Mrs. Bernice Buckle. We wish to thank Mrs. Buckle for her contribution to the Board since its inception in 1999. We also welcomed Mr. Robert Healey, FCA, to the Board of Management. Mr. Healey was a nominee of the province of Newfoundland & Labrador.

In February of this year, along with Commissioner Baker, I was proud to represent the CRA at the Conference Board of Canada/Spencer Stuart 2008 National Awards in Governance. At this awards ceremony, the CRA received an honourable mention in the public service category for its unique governance structure and practices.

On behalf of the CRA Board of Management, I am pleased to recommend this report to the Minister of National Revenue, the Honourable Jean-Pierre Blackburn, for tabling in Parliament.

A handwritten signature in black ink, appearing to read 'Connie I. Roveto'.

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

Canada Revenue Agency Annual Report to Parliament 2007-2008

Executive Summary	11
Our 2007-2008 Results	13
Achieving Our Tax Services Strategic Outcome	16
Achieving Our Benefit Programs Strategic Outcome	30
Our Program Activities	34
Taxpayer and Business Assistance (PA1).....	35
Assessment of Returns and Payment Processing (PA2)	41
Accounts Receivable and Returns Compliance (PA3).....	48
Reporting Compliance (PA4)	54
Appeals (PA5).....	61
Benefit Programs (PA6).....	65
The CRA Board of Management	71
Management Results	75
Service Standards in the CRA – Overall Results	81
Conclusion by the Commissioner	87
Schedules	89
Schedule A – The CRA Governance Structure	89
Schedule B – Other Items of Interest.....	92
Schedule C – Web Links for Additional Information.....	100
Schedule D – Glossary	101
Schedule E – Acronyms and Abbreviations.....	103
Financial Statements	105



Executive Summary

The CRA's mission is mirrored in its two tax strategic outcomes:

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

This Annual Report to Parliament assesses the extent to which we achieved these outcomes during the 2007-2008 fiscal year. On balance, our results show that we met both our strategic outcomes.

As the principal tax administrator for the Government of Canada, our primary responsibility is to protect Canada's revenue base. In 2007-2008, we collected almost \$372 billion on behalf of the Government of Canada, the provinces (except Quebec), the territories, and certain First Nations governments.

Our Tax Services strategic outcome measures gauge taxpayers' behaviour in meeting their tax obligations. In 2007-2008, the majority of Canadian individuals, businesses, and employers continued to meet their filing obligations. The percentage of taxable incorporated businesses that filed on time, however, continued its slight downward decline from 86.4% to 85.8%. We cannot provide filing compliance information on GST/HST returns at this time as comprehensive data from our GST/HST systems is not available.

Our remittance compliance measures reflect the degree to which taxpayers paid all taxes owed on or prior to their payment deadline. Remittance compliance by individuals continued to be high, while the number of employers who forwarded at-source deductions improved by over a percentage point from last year to 89.2%, reversing the slight downward trend of the past few years in this segment. Timely remittance compliance by corporations, however, continues to need improvement.

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

Our Tax Services strategic outcome measures, along with our overall positive performance against our expected results, lend support to our assessment that we promoted compliance with taxpayer obligations and that Canada's revenue base was protected.

In addition to our role as tax administrator, we are the delivery agent for various income-based benefits, credits, and other services that contribute directly to the economic and social well-being of Canadians. In 2007-2008, we issued 99.99% of these payments on time. We also leveraged our infrastructure to administer additional benefits, one-time payment programs, and other services on behalf of provinces, territories, and other federal departments. The results we achieved in 2007-2008 allow us to conclude that we met our Benefit Programs strategic outcome – namely, that eligible families and individuals receive timely and correct benefit payments.

The CRA is empowered with a unique governance regime that designates distinct responsibilities and accountabilities to our Minister, Board of Management, and Commissioner. In 2007-2008, the Treasury Board of Canada Secretariat's (TBS) assessment of the CRA's management performance (by means of their Management Accountability Framework) produced positive results. To complement the TBS framework and to support the Board in its oversight responsibilities, the Board of Management Oversight Framework was developed in 2007-2008 and the results were positive. The results of these two assessments provide Canadians with the assurance that management excellence is being achieved in the CRA.

Introduction

The Canada Revenue Agency (CRA) exercises its mandate within a framework of complex laws enacted by Parliament, as well as by provincial and territorial legislatures. The CRA collected almost \$372 billion in 2007-2008 on behalf of Canada, the provinces (except Quebec), the territorial governments, and First Nations governments. The CRA also delivers income-based benefits, credits, and other services that contribute directly to the economic and social well-being of Canadians. In short, no other public organization touches the lives of more Canadians on a daily basis than the CRA.

In addition to the administration of income tax and benefit programs, the CRA administers sales tax for three provinces and verifies taxpayer income levels

in support of a wide variety of federal, provincial, and territorial programs, ranging from student loans to health care initiatives. We also provide other services, such as the Refund Set-off Program, through which we aid other federal departments and agencies, as well as provincial and territorial governments, in the collection of debts that might otherwise become uncollectable.

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

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

Eligible families and individuals receive timely and correct benefit payments.

CRA Spending and Human Resources

	2007-2008		
	(in thousands of dollars)		
	Total Authorities	Actual Spending	Variance
Tax Services Strategic Outcome			
Taxpayers meet their obligations and Canada's revenue base is protected	4,175,023	4,042,396	132,627
Benefit Programs Strategic Outcome			
Eligible families and individuals receive timely and correct benefit payments	385,140	380,563	4,577
Total Spending	4,560,163	4,422,959	137,204

Full Time Equivalents (FTE)	2007-2008		
	Planned	Actual ¹	Variance
	38,756	38,356	400

¹ Full Time Equivalent (FTE) totals by program activity can be found at the end of the performance discussion for each program activity section.

Rating our results

We use qualitative and quantitative indicators to determine the results we achieved in terms of our strategic outcomes and expected results. Survey results, statistical sampling, and operational data support our assessments.

Results Ratings

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

Strategic results chain

The Canada Revenue Agency *Annual Report to Parliament 2007-2008* is a comprehensive reporting of our results established at various levels in a results chain.

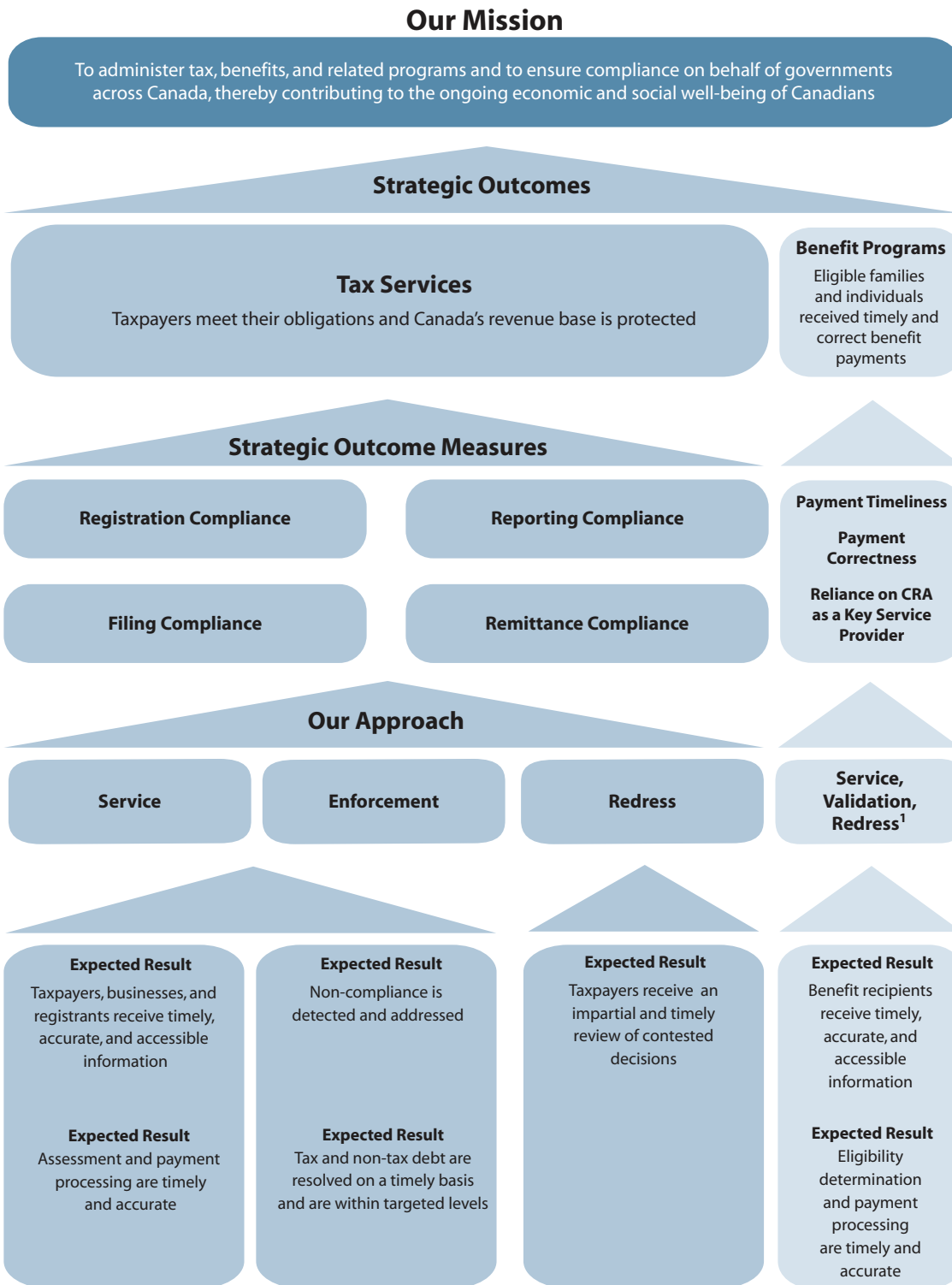
At the higher levels of the chain, it becomes challenging for us to directly demonstrate our influence. The lower part of the chain shows the expected results that we work toward in order to

We also rate our strategic results and those of our program activities in terms of whether the targets identified in our *Corporate Business Plan 2007-2008 to 2009-2010* were met, mostly met, or not met. The “Results Rating” table below defines these terms.

influence the achievement of our strategic outcomes. Building on our achievements against our expected results, we use our strategic outcome measures as indicators of Canadians’ behaviour to assess whether or not we met our strategic outcome.

Beginning on page 34, we assess each expected result for each of our Program Activities (PA) and rate our results against the key indicators and targets set out in the CRA’s *Corporate Business Plan 2007-2008 to 2009-2010*.

Strategic Results Chain



¹ As the number of benefits-related requests for redress is negligible, the workload is managed under Appeals (PA5).

Measures for each expected result can be found in the Program Activity section starting on page 34.

Achieving Our Tax Services Strategic Outcome

Our Goal

Our aim is to ensure that Canada's revenue base, which funds Canada's social and economic programs, is protected. We work to encourage taxpayers to comply with their obligations and to deter non-compliance.

Our Outcome

Our measures of compliance behaviour indicate that, overall, taxpayers continue to voluntarily comply with their obligations to file and register on time. In addition, our estimates of reporting non-compliance indicate that, for the majority of Canadians, the incidence and magnitude of this non-compliance is relatively low, though it is financially significant.

Our Challenge

We face challenges in influencing non-compliant individuals to correctly claim deductions and credits that are not subject to third-party reporting, and in influencing those corporations with tax owing to pay on time.



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

Virtually all public goods and services that enhance the quality of life of Canadians are funded by taxes. As Canada's principal tax administrator, the CRA plays a pivotal role in ensuring that Canada's revenue base is protected.

Canada's tax system is based on voluntary compliance and self-assessment, which, we believe, is the most cost-effective way to administer taxes. Taxpayers are expected to determine their own liability under the law and then pay the correct amount of tax, without our intervention. This means that taxpayers are required to do the following:

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

Non-compliance is the failure, for whatever reason, to meet any of these requirements.

Contribution of others

We acknowledge that a number of factors contribute to the strategic outcome that we seek to achieve. These factors include the support of a solid legislative foundation which contains, for example, provisions requiring employers to withhold and remit deductions at source, businesses to collect and remit GST/HST, and sanctions and penalties for non-compliance. Financial institutions assist us by providing convenient, accessible services for individuals and businesses to receive and deposit refunds and remit tax payments on time. The CRA also works closely with the Royal Canadian Mounted Police (RCMP), other law enforcement agencies, and the Financial Transaction and Reports Analysis Centre (FinTRAC) of Canada to combat money laundering, terrorist financing activities, and evasion of taxes or duties. Our efforts to achieve compliance are strengthened through our extensive partnerships with international organizations such as the Organisation for Economic Co-operation and Development (OECD), and the Inter-American Centre for Tax Administrators (Centro Interamericano de Administraciones Tributarias – CIAT).

Our Approach

We strive to minimize the compliance burden for taxpayers by streamlining administrative processes and providing quality service. Where individuals and businesses either unintentionally or intentionally fail to fully comply, we use a wide range of mechanisms to detect, correct, and deter non-compliance and to protect Canada's revenue base.

Central to how the CRA administers Canada's tax laws is our understanding of taxpayer attitudes and behaviours. We recognize that taxpayers' attitudes toward compliance with tax laws are influenced by many factors, including the public's perception of government, people's feelings about the fairness of Canada's tax regime, societal values, the economy, the growing complexity of tax issues, and people's ability to pay.

The CRA regularly monitors the environment in which it operates. This includes understanding social and technological trends, and shifts in public expectations, attitudes, and behaviours. Our understanding of these attitudes and behaviours helps shape how we administer Canada's tax laws through our threefold approach of service, enforcement, and redress.

Underpinning our approach is the use of risk management to identify current and emerging compliance threats to Canada's revenue base and to compliance in general. We seek to mitigate the greatest risks to compliance by using tactics that address specific parts of the tax population or particular areas of non-compliance. The activities we undertake to ensure compliance are guided by research into existing and emerging non-compliance trends and threats to the tax base. This research supports our sophisticated risk assessment systems which examine the characteristics of taxpayers to detect areas of possible non-compliance.

Our approach to the administration of Canada's tax laws plays a key role in shaping taxpayers' compliance behaviour. It is our belief that, without the force of applicable legislation, the presence of the

CRA, and the way we administer the tax laws, levels of tax compliance in Canada would be lower.

In the following sections, we discuss our key results for 2007-2008 related to priorities identified in our *Corporate Business Plan 2007-2008 to 2009-2010*.

Our Approach: Service

People find it easier to participate in Canada's tax regime when the system is accessible, service is timely, and tax information is accurate. In turn, this promotes voluntary compliance and helps prevent compliant taxpayers from slipping into unintentional non-compliance. Our service improvement initiatives are intended to enable Canadians to self-assess and file their tax returns easily.

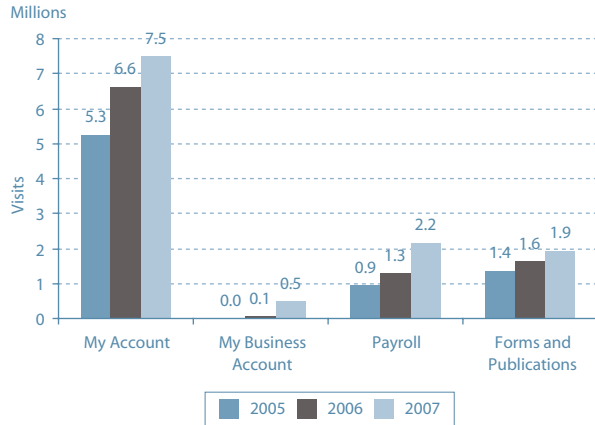
Priority in our *Corporate Business Plan 2007-2008 to 2009-2010*: Enhance service delivery for Canadians

Achievement: In 2007-2008, we delivered the following:

- additional electronic self-service options, plus new services on our Web channel; and
- a measurement framework to assess our progress toward the reduction in the compliance burden for small businesses.

To enhance service delivery, we built on our electronic (self-serve) offerings to increase accessibility and the dissemination of tax-related information. This past fiscal year, we continued to maximize the use of technology to optimize delivery through channel convergence and to increase accessibility to tax-related information by improving our Web-based products and navigability. This promoted access to the tax-related information that is necessary for taxpayers to meet their obligations. Figure 1 shows the upward trend in visits to our tax-related Web-based products over the past three calendar years. This provides an indication of our success in the electronic dissemination of tax-related information. (Please see PA1 on page 37 and PA2 on page 42 for details of our activities in this area).

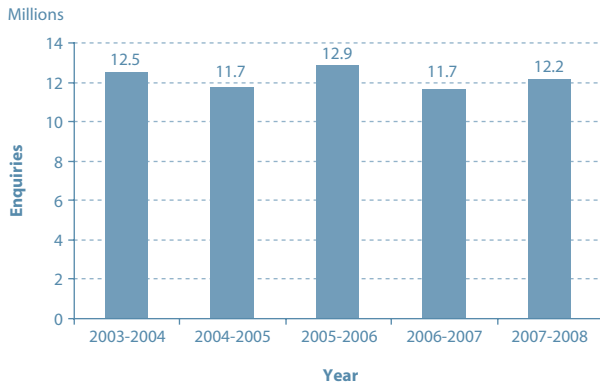
Figure 1 Visits to CRA Web-based Tax Products



Data quality: Good

As usage of our electronic offerings has increased, our experience shows that some taxpayers continue to prefer agent-assisted service. Indeed, usage of such service has remained fairly constant (see Figure 2).

Figure 2 Agent-assisted Enquiries



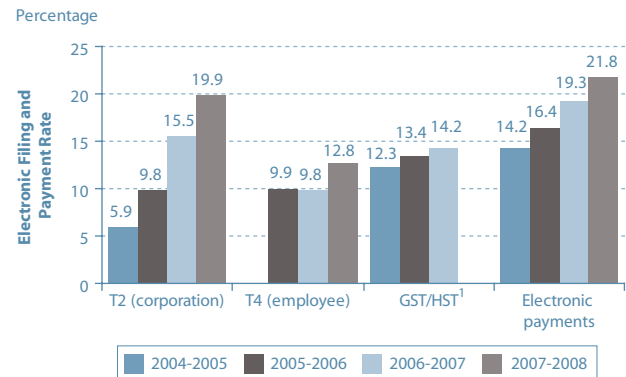
Data quality: Good

In the past year, telephone accessibility issues have resulted in some dissatisfaction expressed by taxpayers. Telephone calls to us are becoming increasingly (now 80%) account-specific. Our confidentiality procedures make account-specific calls longer, leading to a reduction in the number of calls each agent can answer. Internal reallocations during 2007-2008 allowed us to increase agent capacity, thereby enabling us to answer more calls. We have

also acknowledged that our current targets of 80% for telephone caller accessibility were not high enough to satisfy taxpayer needs. Consequently, we have increased these targets to 90% for the next fiscal year, and will monitor whether or not taxpayer needs are being met.

Over the past fiscal year, we also continued to encourage the take-up of the electronic filing of tax returns. Electronic filing by individuals has increased to 53.5% of all individual returns filed. Figure 3 shows the uptake trend in electronic filing by the other taxpayer segments, as well as the increase in electronic payments.

Figure 3 Rates of Electronic Filing and Payments



¹ We cannot report the 2007-2008 rates of electronic filing for GST/HST as data from our GST/HST system is not available.

Data quality: Good

At the end of 2007-2008, 19.9% of all corporation returns filed were filed electronically. Although this is a significant improvement from 2006-2007, it is still a small percentage of the overall population of corporations. Given that the provinces of Ontario, Alberta, and Quebec require the separate filing of federal and provincial returns, the take-up of electronic services for corporations is not expected to significantly increase until 2009-2010, when the Ontario corporation tax return is harmonized with the federal tax return. At that point, Ontario corporations will have the option of filing one electronic return.

Reducing the compliance burden for small businesses

In May 2007, the Action Task Force on Small Business Issues released its final report containing recommendations endorsed by the Minister of National Revenue and our Commissioner. The task force was created to ensure that the administrative policies and practices of the CRA impose the least burden possible on small businesses, while ensuring that legislative and administration requirements are met.

The task force identified three areas of focus:

- to simplify, improve, and, where appropriate, reduce the frequency of small business interactions with the CRA;
- to improve how and when the CRA communicates with small businesses; and
- to make burden reduction systemic within the CRA.

The report identified more than 60 action items, which we agreed to implement across the CRA. We are placing more emphasis on reducing this burden in our strategic planning as well as in our principles of service delivery and business transformation. These steps illustrate how we are working toward achieving a systemic approach to burden reduction for small businesses, while ensuring that small businesses continue to provide us with the information we need to confirm their compliance with tax obligations. During 2007-2008, we developed a measurement framework that will be used to assess our progress in this area.

In our view, the levels of voluntary compliance are significantly influenced by our commitment to quality service and by our commitment to reducing the administrative burden. Our approach to promoting voluntary compliance is consistent with the Government of Canada's approach to service, and includes our work on citizen-focused service standards (see page 81 for a complete discussion and a list of our public service standards results for 2007-2008).

Our Approach: Enforcement

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

Over the past fiscal year, the CRA continued its focus on non-compliance that threatens to erode Canada's revenue base. This included areas in which our 2004 Compliance Review identified as key priority risk areas. As indicated in our *Corporate Business Plan 2007-2008 to 2009-2010*, these areas are aggressive tax planning, the underground economy (UE), GST/HST high-risk compliance, non-filers/non-registrants, and remittance non-compliance (collections).

Priority in our *Corporate Business Plan 2007-2008 to 2009-2010*: Address specific compliance challenges

Achievement: In 2007-2008, we:

- identified a nearly 30% decline in participation in gifting tax shelters, the focus of aggressive tax planning work this past year;
- shared best practices on the UE with our international partners;
- undertook several pilot projects related to GST/HST high risk compliance;
- initiated a study to better understand the non-filer population; and
- undertook key debt management studies related to the individual taxpayer population.

Identifying and addressing reporting non-compliance

Non-compliance with reporting obligations takes many forms: from unintentional errors and omissions to deliberate tax evasion. Identification, correction, and prevention tactics to target non-compliance are implemented throughout the CRA. Although it is hard to quantify the true deterrence value of our enforcement tactics, our strategic indicators of taxpayer behaviour (see page 23) lead us to believe that our approach to enforcement acts as a deterrent to those contemplating non-compliance.

Our daily work ranges from routine verification procedures (such as matching third-party information while processing returns), to limited examinations, to full audits. In the most serious cases, we carry out tax evasion and fraud investigations, which can lead to fines and imprisonment.

For example, in 2007-2008, we conducted our largest ever search action. This was a result of alleged involvement in fraud related to false Registered Retirement Savings Plans (RRSPs), investment scams, and other tax evasion schemes. Several major cases have been referred for criminal investigation.

More results of these activities are presented in the discussion of program activities 2 through 4 (starting on page 41).

Aggressive tax planning

We recognize that taxpayers are entitled, as provided by law, to arrange their affairs to reduce tax liability and to receive eligible benefits. Tax arrangements that push the limits of Canada's tax laws, however, are unacceptable. By proactively addressing aggressive tax planning, we contain these arrangements before they pose a significant threat to Canada's revenue base.

Our approach to aggressive tax planning is comprehensive. Most importantly, we aim to inform taxpayers by making them aware of unacceptable tax planning practices. In 2007-2008, we implemented an action plan for aggressive tax planning and among other successes, achieved a nearly 30% reduction in participation in gifting tax shelters. Details related to

this action plan can be found in PA4 (starting on page 55).

Underground economy

The underground economy is also a major focus for the CRA. We are committed to combating the underground economy because it erodes the tax base, undermines public perceptions of the fairness and integrity of our administration of Canada's tax laws, and affects the competitiveness of compliant businesses (see page 57 for specific activities undertaken to combat the underground economy during 2007-2008).

There is limited filing or registration data available about individuals and corporations who operate completely in the underground economy. Consequently, this makes effective identification and risk analysis a challenge for us. To begin to address this, we have allocated substantial resources to projects in order to identify and address non-compliance in specific sectors participating in UE activity. Results of these projects will be measured and analyzed to determine whether specific compliance strategies should be implemented to address this non-compliance.

We also work with international partners to share best practices. For example, in 2007, we held bilateral meetings with Her Majesty's Revenue and Customs of the United Kingdom, the Australian Taxation Office (ATO), and the New Zealand Inland Revenue and participated as an international guest in the Cash Economy Advisory Group with the ATO. These meetings provided an opportunity to enhance our current knowledge and to identify new areas of activity in the underground economy and how to address them.

GST/HST compliance

Our GST/HST compliance strategy focuses on preventing improper refunds and creating a legislative and administrative environment to reduce systemic opportunities for fraud. This specifically includes improving our enforcement activities and ability to identify high-risk registrants and refund claims before credit returns are paid. We also consider any possible

implications related to GST/HST refunds when discussing income tax refunds, and vice versa.

Over the past year, we conducted several specific pilot projects aimed at uncovering non-compliance with GST/HST remittance and in claiming overpayments. We found:

- fictitious entities that were registered for the purpose of claiming GST refunds; and
- the risk of GST/HST overpayments was high on some non-resident accounts.

We will use these findings to enhance and refine our risk rating criteria to help us target areas at high risk of GST/HST fraud in future years and, where possible, increase our audit presence.

Non-filers/Non-registrants

The tax return is the basis of establishing a taxpayer's tax liability. Moreover, registration for GST/HST serves to ensure that the appropriate amount of GST/HST is collected and remitted.

To help us improve how we detect both filing and registration non-compliance, we study the non-filing population with the objectives of identifying non-filing trends; benchmarking our results to more accurately measure the impact on future compliance; and enhancing our systematic risk assessment, thus improving our file selection process.

Addressing remitting non-compliance

Once taxpayer liability is identified, it becomes a debt owed if payment is not made when due. If the assessment (or reassessment) is not disputed by the taxpayer, we move to collect the assessed liability, as well as any accompanying penalties and interest. In certain cases, where legislation allows, portions of disputed assessment must also be collected or secured.

We collect new tax debt after assessing the risk these accounts represent in terms of danger of loss, and identifying appropriate actions to protect the Crown's interest. Our processes and the resulting activities to collect outstanding taxes payable are described in PA3 (see page 48).

In recent years, our focus has begun to shift from the management of collection cases to debt or receivables management. This has included the development of enhanced research and analytical ability to help us, for example, improve our understanding of the composition and disposition of individual tax debt. Although the number of non-compliant individuals remained relatively constant, there has been a steady and significant increase in the dollar value of the tax that remained unpaid following the assessment of their returns. This has had a sizable impact on tax receivables.

The factors contributing to our increasing debt inventory are numerous and complex. We believe that the strengthening of our remittance-related research and analytical capabilities, while still in the early stages, will enhance our understanding of factors that affect taxpayer remittance behaviour. In turn, this understanding will inform the future strategies we undertake to manage our tax debt. We expect our Integrated Revenue Collections (IRC) technology platform to play a key role as we implement these strategies.

Our Approach: Redress

The CRA is committed to administering a tax system that is fair and just. Consequently, when taxpayers disagree with us, we provide them with the opportunity for redress. The availability of such a dispute resolution process is central in safeguarding taxpayers' trust and confidence in the integrity of Canada's tax regime. We provide taxpayers with avenues for resolution when differences arise regarding tax liability or if there are complaints regarding our services.

In addition, legislated taxpayer relief provisions have permitted the CRA, in certain situations, to be more flexible and responsive to taxpayers' circumstances when it would be unreasonable or unfair to penalize them. Our aim is to ensure that all taxpayers have access to timely and impartial redress, as discussed in our section on Appeals (see PA5 on page 61).

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

every opportunity possible to inform taxpayers of their rights and we are committed to responding promptly to enquiries from the office of the Taxpayers' Ombudsman.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Enhance trust in Canada's tax administration by formalizing the process for resolving service-related complaints

Achievement: In 2007-2008, we implemented the CRA Service Complaints program, employing a new horizontal process for tracking and managing service-related complaints.

Our Service Complaints program has begun to help us identify problems and propose solutions, while upholding the eight service rights outlined in the Taxpayer Bill of Rights.

We believe that such improvements to Canada's tax redress regime increases taxpayers' confidence in the CRA's tax administration and enhances our capacity to protect Canada's revenue base, which is a benefit to all Canadians.

Compliance communications initiative

Using communications as a compliance tool is a central component of the CRA's overall approach to compliance, which we believe plays a significant role in promoting positive compliance behaviour and deterring non-compliance.

For Canadians who are compliant, communication about what the CRA is doing to combat tax cheating provides them with the reassurance that the CRA is serious about tax cheating. For Canadians who are considering not to comply or who are not compliant, the visibility of our compliance and enforcement activities and results may act as a deterrent and lead them to rethink perceptions of risk associated with cheating. We also need to provide taxpayers with the information they need to understand the risks and consequences of non-compliance.

In 2007-2008, we conducted some qualitative research including some focus group testing of wage earners and small business owners about their attitudes to tax compliance and how their attitudes might be shaped by what we do, or do not do, by compliance communication. The findings indicate that our compliance communications initiative is going in the right direction. Publication of non-compliance results can act as a deterrent to individuals considering non-compliance. Compliance communications, in general, can contribute to perceptions of an open and transparent tax administration, as well as provide evidence of a tax system that is committed and effective in addressing tax cheating.

An increased number of compliance communications activities were undertaken in 2007-2008. For example, for the first time, the CRA participated in the Competition Bureau's Fraud Awareness Month; a series of compliance "volumetrics" news releases were issued; and several Tax Alerts were released. In particular, in August 2007, a new Tax Alert was issued with regard to donation tax shelters. The Alert was designed to caution donors that the CRA audits all donation tax shelters and that to date, none of the tax shelters audited have been accepted by the CRA. In an attempt to reduce the number of participants in these donor tax shelters, we included a copy of the newly released Tax Alert in a mailing to 65,000 donors whose donations were currently being reviewed by the CRA. As well, two of the CRA's Tax Alerts were translated into languages other than the two official languages.

We believe that focused, sustained, and timely compliance communications provide Canadians with information about the risks and consequences of non-compliance, help Canadians understand that the CRA takes concrete steps to protect the tax base, and ultimately influence taxpayer perceptions and behaviours about compliance.

Our strategic outcome measures

We use our strategic outcome measures to gauge the compliance behaviour of Canadian taxpayers. Using data from internal and external sources as a baseline of compliance information, we group these indicators into the following four broad categories of taxpayer obligations to help us measure and assess our results against our Tax Services strategic outcome.

- Registration Compliance estimates the proportion of Canadian businesses that have registered as required by law to collect the GST/HST.
- Filing Compliance indicators estimate the proportion of the Canadian population who file their returns on time.

- Reporting Compliance indicators contribute to our assessment of the degree to which taxpayers report complete and accurate information.
- Remittance Compliance indicators estimate the proportion of taxpayers who owed taxes and paid the full amount on time.

To facilitate further analysis of compliance behaviour, we partition the Canadian taxpayer population into the following types: individuals, self-employed individuals, corporations, GST/HST registrants, and employers. Also included are macro-indicators, which we use to evaluate reporting compliance trends.

Our strategic outcome measures are currently undergoing a review in order to enhance our ability to report against our strategic outcome.

Our Tax Services Strategic Outcome Measures

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

	Current Target	2003-2004	2004-2005	2005-2006	Performance Rating		Data Quality
					2006-2007	2007-2008	Rating
					2007-2008	N/A	N/A
					2006-2007	Met	Good
Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Canadian businesses that were registered for the GST/HST	90%	86.6%	88.8%	89.5%	93.0%	n/a	N/A

<input type="checkbox"/> Met	<input checked="" type="checkbox"/> Mostly Met	<input type="checkbox"/> Not Met
n/a Not Available	N/A Not Applicable	

Registration is the first step for Canadian businesses in complying with their tax obligations. We cannot provide registration compliance estimates for businesses that were registered for the GST/HST at this time as comprehensive data from our GST/HST systems is not available. Consequently, we cannot assess our achievement in this area. Trend data over the past number of years, however, provides us with a sufficient level of confidence to conclude that Canada's revenue base is not being jeopardized by

Canadian businesses who are not registered, as required, for the GST/HST. This trend, coupled with the results from our Non-Registrant area¹ (discussed in PA3 on page 51), provides us with the assurance that there remains a high level of registration compliance by Canadian businesses.

1. Our Non-Registrant area seeks to ensure that all businesses that are legally required to register for the GST/HST meet their obligations.

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

					Performance Rating		Data Quality
					2007-2008	Met	Good
					2006-2007	Met	Good
Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Individuals who filed a timely return	90%	92.6%	92.6%	92.8%	93.0%	92.5%	✓
Corporations – taxable incorporated businesses that filed their returns on time	90%	87.1%	86.0%	86.4% ¹	86.4%	85.8%	☑
Businesses that filed their GST/HST returns on time	90%	92.0%	92.6%	91.8%	91.4%	n/a	N/A
Employers who filed their T4 returns on time	90%	96.5%	94.5%	94.5%	96.0%	95.5%	✓

¹ This filing rate has been restated.

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Individual taxpayers include all persons who file or who are required to file a T1 Individual Income Tax and Benefit Return. By comparing our data with census data from Statistics Canada, we estimate that timely filing behaviour of the Canadian population aged 18 and over for 2007-2008 was 92.5%, which exceeds our 90% target.

This data provides us with assurance that there is a high level of voluntary compliance among individuals with respect to filing tax returns.

Our current filing compliance indicator for individuals measures the rate of participation by Canadians aged 18 and over, whether or not they have taxable income.

In the case of corporations, our compliance rate applies only to those that are taxable, which are those corporations that filed a T2 Corporation Income Tax Return showing total tax payable greater than zero. The incidence of timely filing among taxable

corporations is 85.8%, which continues, as in previous years, to be below our 90% target. The remainder filed their returns after the due date, either voluntarily or as a result of the work of our Non-Filer area (see PA3 on page 51).

We cannot provide filing compliance information on GST/HST returns at this time as comprehensive data from our GST/HST systems is not available.

Employers, including individuals, corporations, and charities, are legally responsible for deducting, remitting, and reporting federal and provincial income tax, Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, and employer-provided benefits. During 2007-2008, 95.5% of employers that filed their T4 returns, did so on time, as they did in the previous year.

Our review of our strategic outcome measures may result in refinement of our filing compliance indicators.

Our Measure: Reporting compliance

Our Indicators ¹	Current Target	Performance Rating				Data Quality
		2007-2008	2006-2007	Met	Met	Good
		2004-2005	2005-2006	2006-2007	2007-2008	Rating
Trend in growth in personal income reported to the CRA compared with personal income estimated by Statistics Canada	Tracks favourably	Yes	Yes	Yes	Yes	✓
Trend in growth in net GST collected compared with retail sales and personal expenditures	Tracks favourably	Yes	Yes	Yes	Yes	✓
Trend in corporate income tax assessed by the CRA relative to corporate profits before tax estimated by Statistics Canada	Tracks favourably	Yes	Yes	Yes	Yes	✓
Trend in net income of unincorporated businesses reported to the CRA relative to net income of unincorporated businesses per Statistics Canada National Accounts estimates	Tracks favourably	Yes	Yes	Yes	Yes	✓
Non-Compliance Rate Estimates						
Key tax credits and deductions not subject to third-party reporting – individuals ²	Downward trend	13.9%	15.5%	14.7%	14.8%	✗
Random Audits – Small and Medium Unincorporated Business Filers ³	Downward trend	N/A	N/A	N/A	14.6%	N/A

¹ Our assessments against some indicators are based on the latest available data.

² It should be noted that this non-compliance is found in a relatively small segment of the population of individual taxpayers

³ Our Core Audit Program selects, in multi-year intervals, random samples of tax files from different segments of the SME population. The years in which these results are reported are presented. The rates in the present table are for non-compliance greater than \$5,000 in net federal tax. Unincorporated business filers include the following: farming, professional, business, fishing, and large rentals (> \$125,000).

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Our macro indicators (see page 27) show that growth in personal income reported to the CRA tracks favourably relative to that estimated by Statistics Canada. This leads us to believe that Canadians are accurately reporting changes in personal income to the CRA. Also, the net GST/HST revenue tracks favourably with retail sales and personal expenditures on goods and services, which indicates that the majority of Canadian businesses are reporting and remitting the GST/HST they collect to the CRA (see Figure 4 and Figure 5).

Similarly, growth in corporate income taxes assessed by the CRA tracks favourably with growth in corporate profits before tax estimated by Statistics Canada (see Figure 6) and growth in net income of unincorporated businesses reported to the CRA tracks

favourably with National Accounts Estimates of the growth in net income of unincorporated businesses (see Figure 7).

While our macro indicators provide us with assurance that taxpayers, in general, are complying with their obligations, we conduct various studies and reviews to detect areas where non-compliance with reporting obligations may be emerging or increasing. For example, we continue to conduct an annual random sample program to estimate the non-compliance rate for individuals with respect to key deductions and credits that are not subject to third-party reporting. Our sample for 2007-2008 estimated this non-compliance rate for individuals as 14.8%, a similar proportion when compared with last year.

Our reporting compliance indicators focus on small businesses because our risk assessment systems indicate that non-compliance is more prevalent among the self-employed and businesses than among individual wage earners. This is because deductions for individual wage earners are usually withheld at source by employers and remitted to us. Also, we review large businesses (those with a gross income of \$250 million or more) every two years and, of those selected for audit, we audit the current and prior years.²

Most businesses audited under the small and medium-sized enterprise (SME) audit programs are selected on the basis of risk. Our Core Audit Program (CAP), however, selects a random sample of SMEs for audit to estimate a reliable compliance rate. Different segments of the SME population are selected each year.³ This approach provides us with accurate reporting compliance estimates that allow for monitoring compliance trends over time and for validating and refining the risk criteria used in our risk assessment system (see page 55).

In the past fiscal year, the CAP program examined the unincorporated business segment of the SME population. This segment's estimated rate of

2. An internal audit of Large Business in 2006-2007 was conducted to see if the Large Business Audit area was effectively managed and supported. The audit concluded that this area featured a sound approach in that all returns of large corporations were being reviewed and that a complete and clear set of communiqués provided direction for auditors.
3. Non-compliance rate data is available only in multi-year intervals following our CAP research plan.

significant reporting non-compliance (i.e., \$5,000 or more in additional federal tax owing) was 14.6% (see page 25). This is the first year in which this particular segment has been examined since the CAP program was implemented. As such, this estimate of reporting non-compliance will serve as a baseline against which future examinations of this particular segment will be evaluated.

Over the past number of years, CAP has estimated reporting non-compliance in other segments of the SME population with results indicating relatively low levels of non-compliance⁴. We believe that taken together, these results support our assessment that overall, non-compliance with reporting requirements is at relatively low levels.

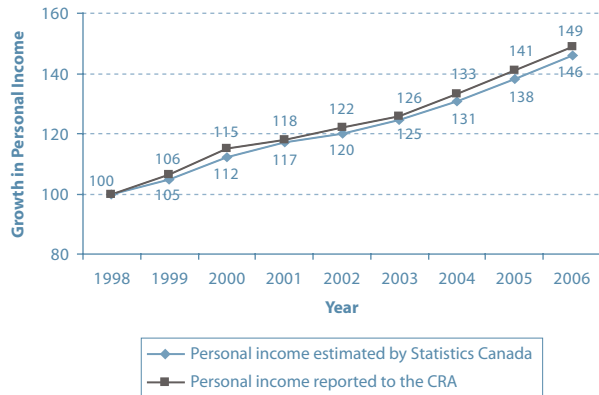
Dollar value of identified non-compliance

Although results against our strategic outcome measures provide evidence that non-compliance is generally at relatively low levels, the results of our program activities demonstrate that such non-compliance is, in total, financially significant. Please refer to PA2, PA3, and PA4 (starting on page 41) for additional details on the dollar value of identified non-compliance.

4. SMEs that collect GST/HST (non-compliance rates estimates are: 12.3% (baseline) in 2004-2005, and 9.1% in 2006-2007 for net federal tax greater than \$5,000). Self-employed individuals (baseline non-compliance rate estimate is 8.6% in 2001-2002 for net federal tax greater than \$5000). SME Corporations (baseline non-compliance rate estimate is 8.5% in 2003-2004 for net federal tax greater than \$5,000).

Our Macro Indicators

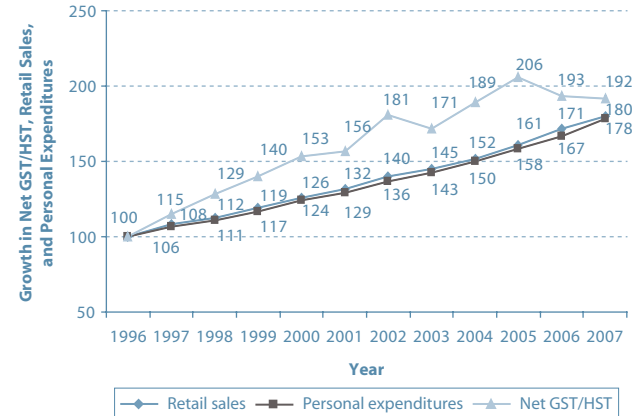
Figure 4 Growth in Personal Income Reported to the CRA Compared With Personal Income Estimated by Statistics Canada (1998 = 100)



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

Data quality: Good

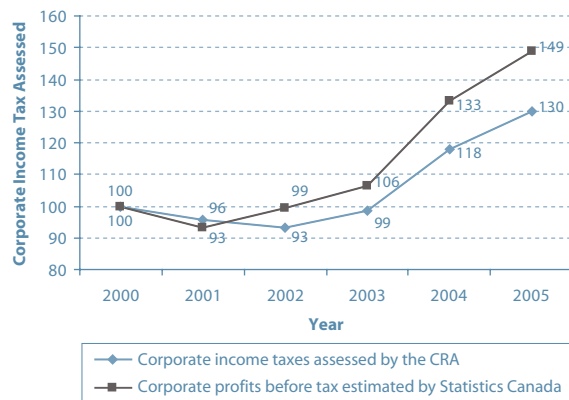
Figure 5 Growth in Net GST/HST Revenue Compared With Retail Sales and Personal Expenditures (1996 = 100)



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

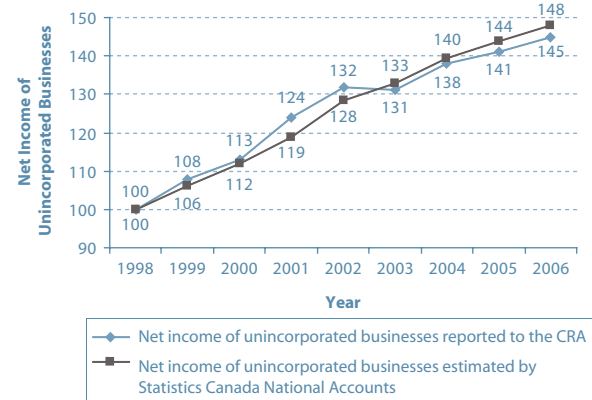
Data quality: Good

Figure 6 Comparison of Corporate Income Tax Assessed by the CRA Relative to Corporate Profits Before Tax Estimated by Statistics Canada (2000 = 100)



Data quality: Good

Figure 7 Comparison of Net Income of Unincorporated Businesses Reported to the CRA Relative to Net Income of Unincorporated Businesses Per Statistics Canada National Accounts Estimates (1998 = 100)



Data quality: Good

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

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	Performance Rating		Data Quality
					2007-2008	Not Met	Good
					2006-2007	Not Met	Good
							Rating
Individuals who paid their reported taxes on time	90%	94.3%	93.2%	93.1%	94.3%	93.2%	✓
Taxable corporations that paid their reported taxes on time	90%	91.0%	90.7%	88.7%	85.4%	84.9%	✗
Businesses that collected GST/HST ¹	N/A	2.6 million collected \$44 billion	2.7 million collected \$47 billion	2.8 million collected \$52 billion	3 million collected \$50 billion	n/a	N/A
Employers who forwarded at-source deductions on behalf of their employees on time	90%	90.5%	89.2%	88.7%	87.7%	89.2%	☑
Trend in ratio of outstanding tax debt to gross cash receipts	N/A	5.54%	5.43%	5.62%	5.79%	6.23%	N/A

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

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Our remittance compliance measures reflect the degree to which various taxpayer segments paid all taxes determined through self-assessment on or prior to the payment deadline. Where amounts owing were not paid on time, we initiated a series of steps to obtain payment (see page 48 for more details).

We estimate that 93.2% of individuals with taxes owing paid the entire amount of their taxes on time in 2007-2008. This remittance compliance estimate exceeds our 90% target. This estimate includes those individuals who had taxes deducted at source by their employer.

The estimated percentage of tax remitted on time by taxable corporations during 2007-2008 was 84.9%.

Businesses are also an important contributor to the level of remittance compliance in terms of their collection and remittance of GST/HST. Our ability to assess the level of remittance compliance information continues to be constrained, given limitations with our GST/HST system (see page 41). As ongoing releases result in increased functionality of the redesigned

GST/HST systems, we will have better data and capacity for analysing compliance. The upward trend in numbers of businesses registered, however, combined with our macro indicator showing that net GST/HST revenue tracks favourably with retail sales and personal expenditures on goods and services (see Figure 5), provides assurance that the majority of businesses are remitting GST/HST as required by law.

In past fiscal years, the rate of remittance compliance by employers had shown a trend toward less timely payment of source deductions to the CRA. In 2007-2008, 89.2% of employers remitted on time. This is an improvement over the prior three fiscal years' remittance rate by employers, though still slightly below our 90% target.

Although we do not establish a target for the ratio of tax debt to gross cash receipts, it is a useful trend indicator.

Overall, revenues continued to increase year-over-year (see Financial Statements). Although there are areas for improvement related to voluntary

compliance, which have led us to rate this measure as not met, we do not consider there to be an immediate threat to the integrity of Canada's revenue base, especially in view of our legislated authorities to collect outstanding tax debt.

Conclusion

Our measure of taxpayers' filing compliance indicates that filing compliance with Canada's tax laws continued to be high in 2007-2008. While we do not have a registration compliance rate for 2007-2008, trend data for registration compliance over the past number of years, coupled with the results from our Non-Registrant area, provides us with a sufficient level of confidence that there remains a high level of registration compliance by Canadian businesses.

Our estimates of non-compliance in reporting for 2007-2008, which provide the foundation for our overall assessment, indicate that, for the majority of Canadians, the incidence and magnitude of this non-compliance is relatively low, though financially significant. Although we recognize that improvements continue to be needed in the area of remittance compliance, we believe that our debt management research will help to inform our future strategies implemented through our IRC project, to manage our tax debt inventory, and to promote remittance compliance.

Given these results, it is our assessment that, overall, taxpayers meet their obligations and Canada's revenue base is protected.

Achieving Our Benefit Programs Strategic Outcome

Our Goal

Our aim is to ensure that Canadians access the federal, provincial, territorial benefits to which they are entitled. In addition, we aim to reduce the overall administrative cost of government by looking for potential efficiencies that make using our delivery platform more attractive.

Our Outcome

We maintained our strong performance in issuing timely and accurate payments based on the correct determination of benefit eligibility. We also continued to attract new business in 2007-2008 as a benefits program administrator.

Our Challenge

Our challenge is to ensure that every eligible Canadian is aware of our programs, and receives the benefits and credits to which he or she is entitled.



Eligible families and individuals receive timely and correct benefit payments

Each year we provide benefits, credits, and other related services that assist families and children, low- and moderate-income households, and persons with disabilities. The flexibility of our core systems allows us to administer and deliver programs on behalf of federal, provincial, and territorial governments.

We ensure that benefit recipients have access to timely and accurate information products and responses to their telephone enquiries.

We also provide data exchange and data transfer services to an increasing number of government clients. These services support other federal government departments as well as Canada's provinces and territories to simplify the administration of their income-tested benefit and payment programs.

A list of the programs we currently administer and the services we deliver is provided in Schedule B – Other Items of Interest.

Our Approach

We work hard to ensure that all Canadians receive the benefits and credits to which they are entitled, in a timely manner.

Our Approach: Service

We believe, when individuals fully understand what they need to do to meet eligibility requirements, that they will comply with benefit obligations. Consequently, we provide benefit recipients with information, tools, and services that are accessible through a variety of channels: our telephone service, proactive outreach efforts, and Web sites that provide information and allow benefit recipients to do transactions online.

Priority in our *Corporate Business Plan 2007-2008 to 2009-2010*: Enhance electronic services

Achievement: In 2007-2008, we successfully added new features to My Account and implemented an online child benefits application facility.

During 2007-2008, the number of visits to our Web site pages increased, as it has in past years. The positive reception of our new online service-Apply for child benefits-as evidenced by the high take-up rate, supports our assertion that the use of electronic services aids in the efficient and effective delivery of our programs and services.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Ensure timely benefit payments

Achievement: In 2007-2008, we issued more than 88.5 million payments, 99.99% of which were on-time.

Our Approach: Validation

To ensure a high compliance rate among benefit recipients, we are systematically implementing elements of a long-term benefits-specific compliance strategy, which is based on education, facilitated compliance, and the maintenance of a credible enforcement presence.

Our activities in validation and controls are wide ranging in scope. We validate marital status, children in care, addresses, and income information to maintain the integrity of benefit and credit programs. The information provided to recipients during validation reviews helps to inform and educate individuals about their eligibility and entitlement requirements. Although overall compliance is high, we continue to identify and address areas of concern.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Ensure accurate benefit payments and strengthening compliance

Achievement: In 2007-2008, we began developing benchmarks for GST/HST credit recipients, enabling future assessment of compliance trends.

To enable future assessment of compliance trends, benchmarks are established through specific validation projects. The consistent review and comparison with the base data allows timely recognition of changes and the prompt introduction of strategies, as required, to address them.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Maximize the capacity of CRA to deliver services

Achievement: In 2007-2008, we successfully increased the number of programs and services that we delivered on behalf of other government clients from 72 to 77, which increased our contribution to government economic efficiency.

Strategic outcome measures

We measure our progress toward accomplishing our strategic outcome with three major indicators: payment timeliness, payment accuracy, and the number of services delivered on behalf of federal, provincial, and territorial governments.

Our Measure: Payment timeliness

Timely payments are critical for benefit recipients. In many cases, benefit program payments make up a significant portion of the income needed by recipients to cover their daily expenses. Delayed payment means that this required income may not be available.

Over the past year, we issued more than \$16 billion in benefit payments to 11 million individuals and families on behalf of federal, provincial, and territorial governments. During 2007-2008, 99.99% of benefit payments were made on time, meeting our target.

Our Measure: Payments are correct

The fairness and integrity of benefit programs is reflected in the accuracy of our payments. Recipients and government clients alike depend on the accurate calculation and issuance of benefit and credit payments.

It is the responsibility of each recipient to provide us with complete and accurate information to maintain their eligibility and permit the accurate calculation of their benefits. It is our responsibility to make the information and tools available so that individuals can comply with benefit obligations. It is also our responsibility to be diligent in ensuring accuracy in processing applications and account updates, and maintaining and enhancing our core systems to ensure the accuracy of our payment calculations.

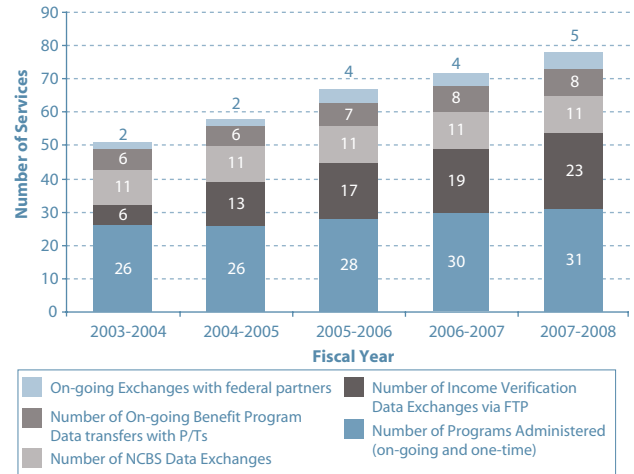
Our Measure: Provinces, territories, and other government departments rely on the CRA as a key service provider

The CRA does not create the benefit and credit programs it administers on behalf of other levels of government. Provinces, territories, and other government departments use the CRA to deliver specific programs on their behalf. They also use our services to support the administration of certain programs that they deliver. During 2007-2008, we made payments on behalf of 23 federal, provincial, and territorial programs, compared to 22 in 2006-2007, indicating that the CRA is a preferred service provider.

During 2007-2008, we began delivering the Ontario Child Benefit, a new and substantial addition to the ongoing provincial programs that we administer. We also began new data exchanges in support of four new provincial programs: Newfoundland Students, Nova Scotia Seniors Pharmacare, Ontario Rental Opportunities, and New Brunswick Tuition Tax Back.

The following chart indicates the increase in data transfer and data exchange services since 2003-2004.

Figure 8 Number of Benefit-Related Programs and Services Administered (Data Transfers and Data Exchanges to Provinces, Territories and Other Government Departments)



Data quality: Good

Due to annual growth in these areas, we now administer 31 programs and 46 data transfer and data exchange services for our clients.

Conclusion

Our administration and delivery of timely and accurate benefit programs and services provides a key service to Canadians each year. Our work as a national agency benefits both our government clients and the citizens they serve: governments enjoy lower administration costs and more effective compliance; citizens receive more comprehensive and better-integrated benefits and services that are simpler for them to use.

Our Benefit Programs Strategic Outcome Measures

		Performance Rating	Data Quality
	2007-2008	Met	Good
	2006-2007	Met	Good

Payment timeliness

Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Benefit recipients receive payments on time	99%	99.9%	99.8%	99.9%	99.99%	99.99%	✓

Benefit payments are correct

Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Canada Child Tax Benefit recipients provide complete and accurate information and receive the proper entitlement	95%	95.5%	93.2%	95.1%	95.5%	95.5%	✓

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

Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Number of programs and services administered	Upward trend	51	58	67	72	77	✓

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Our Program Activities

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

Program activities are groups of related activities that are designed and managed to meet a specific public need, and that are often treated as a budgetary unit. Each program activity is articulated to reflect how we allocate and manage our resources in order to achieve intended results.

The following sections of this report are organized according to six program activities:

- Taxpayer and Business Assistance (PA1), which assists taxpayers in meeting their obligations under Canada's self-assessment system.
- Assessment of Returns and Payment Processing (PA2), which processes and validates taxpayer returns; registers, establishes, and maintains taxpayer accounts; and receives payments.

- Accounts Receivable and Returns Compliance (PA3), which detects and addresses non-compliance with taxpayer filing and remittance requirements, and manages tax debt.
- Reporting Compliance (PA4), which verifies the complete and accurate disclosure by taxpayers of all required information to establish their tax liabilities and protects the revenue base through audit and enforcement activities.
- Appeals (PA5), which provides a timely and impartial dispute resolution process for taxpayers who disagree with decisions taken by the CRA.
- Benefit Programs (PA6), which provides Canadians with income-based benefits and other services that contribute directly to their economic and social well-being.

For each PA, we present a discussion of performance in relation to the PA's expected result(s), specify the key results achieved during the year, provide a snapshot of the spending profile, and list notable achievements. At the end of the discussion for each PA, we present the results associated with each of our key performance indicators in a report card format to demonstrate how we arrived at our conclusion for each expected result(s).

Taxpayer and Business Assistance (PA1)

Our Goal

Our aim is to ensure that taxpayers, businesses, and registrants are provided with the tools, assistance, and information needed to facilitate voluntary compliance with their tax obligations. In addition, we clarify the interpretation of the tax laws to protect Canada's revenue base.

Our Outcome

Our performance in 2007-2008 demonstrates that we were successful in ensuring that taxpayers, businesses, and registrants have access to timely and accurate service. We maintained our focus on encouraging the use of more affordable, equitable, and accessible channels for taxpayers to meet their obligations under Canada's tax laws.

Our Challenge

We identified areas for improvement in the administration of our charities programs, issuing advance income tax rulings, and the registration of pension and other deferred income plans.



Spending Profile (thousands of dollars)	Total Authorities 2007-2008	Actual Spending 2007-2008	Variance
	\$1,007,143	\$985,885	\$21,258

Overview

The Taxpayer and Business Assistance program activity assists taxpayers, businesses, and registrants in meeting their obligations under Canada's self-assessment system, by providing accurate and timely responses to their enquiries. Taxpayers have access to the information they need through a variety of channels (e.g. our Web site, telephones, paper publications, appointments, and outreach). In addition, we provide rulings and interpretations to clarify and interpret tax laws and to administer federal tax legislation governing registered plans and charities.

We carry out this program activity to achieve the following expected result:

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

Our Assessment: Met

Our Measure: Timely information

The telephone remains a popular channel through which taxpayers seek information from the CRA. During 2007-2008, we handled over 16 million tax-related public enquiries, including answering enquiries in support of our Corporate Tax Administration for Ontario (CTAO) initiative. Accordingly, the timeliness with which we are able to respond to taxpayer telephone enquiries is our key measure.

We met our service standards for answering general and business tax enquiries in a timely manner, achieving 83% and 82% respectively in 2007-2008. With respect to charities enquiries, where calls are now segregated between the simple and the complex, our 80% target was exceeded for both types.

We also consider it important to update our information channels to reflect the most up-to-date legislative information for individuals and businesses. For example, following the October 30, 2007, Economic Statement issued by the Minister of Finance, we made changes to more than 500 electronic and

100 paper products in a timely fashion. These changes were also incorporated into 12 million individual tax packages distributed to taxpayers in time for the 2007 filing season. Our rigorous annual review process also ensured that all other new information was accurately incorporated in a timely fashion into our tax-related electronic and paper information products, as well as on our Web site.

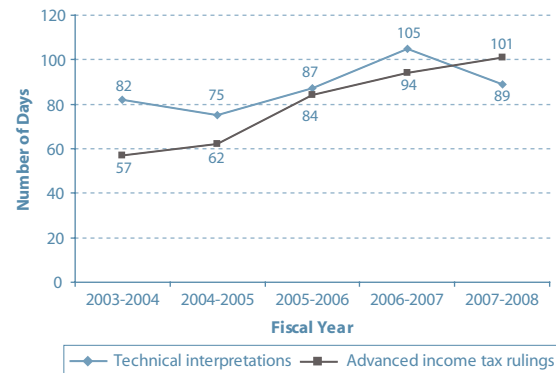
During 2007-2008, we completed the transformation of our in-person service to service by appointment at our Tax Services Offices (TSOs). This change, along with the implementation of our related service delivery strategy to encourage a shift in taxpayer usage toward more cost-effective self-service options, resulted in a 53% reduction of enquiries handled by agents at our TSOs.

We have a service standard in place to respond to written requests for GST/HST rulings and interpretations within 45 working days of receipt of the request. In 2007-2008, 89% of GST/HST rulings and interpretations were completed within this time frame, exceeding our established target of 75%. Since our past performance has consistently exceeded the existing target, we are raising our target for this service standard to 80% for 2008-2009.

We achieved some improvement in meeting our service standard for the provision of technical income tax interpretations. In 2007-2008, our turnaround times improved to 89 days on average from the previous year's average of 105 days. Resources which had been diverted in 2006-2007 to deal with old files, were once again applied to current inventory resulting in a performance improvement this year.

There is still a need for improvement in meeting our service standard for issuing advance income tax rulings. The number of days to provide advance income tax rulings increased to 101 days in 2007-2008, taking 68% longer than our target of 60 days and 7% longer when compared with 2006-2007. The increase over last year is principally the result of the closure of several very old rulings files. The hiring and training of additional staff throughout 2007-2008 is anticipated to aid in reducing the number of days required to complete this highly specialized workload in the future.

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



Target – technical interpretations: 90 days
Target – advanced income tax rulings: 60 days

Data quality: Good

We also deliver timely services to other federal government departments. An example of the service we provide relates to the CPP/EI rulings work we perform on behalf of Human Resources and Social Development Canada (HRSDC). In 2007-2008, we again exceeded the 85% service level for the timely completion of ruling requests, achieving 93%.

These results demonstrate that some of these service standards are showing improved results; however, our performance in issuing advance income tax rulings needs to improve. Providing less timely service could result in taxpayers undertaking questionable transactions, potentially leading to reduced compliance and more costly audit and appeals activities.

Our Measure: Accurate information

Providing accurate information to taxpayers is critical in helping them to comply with their obligations to self-assess and report their tax liability to the CRA. To ensure that the information that we provide is accurate, we use qualitative and quantitative quality assurance techniques that provide ongoing, timely feedback to our agents. One example of this is our internal quality listening and coaching program. We also conduct a survey on our telephone enquiries lines, which poses questions based on selected non-account-specific enquiry topics. The results from our ongoing quality monitoring programs indicate that

accuracy is assured as a key element of providing quality enquiries services.

Our Measure: Accessible information

Taxpayers need to be able to access the information, tools and assistance we provide in a manner that responds to their needs. We rely on results achieved against our caller accessibility targets for general, business, and charities telephone enquiries to gauge our success.

In 2007-2008, we exceeded our 80% target for general and charities enquiries, attaining 84% and 93% respectively. However, we fell just short of our 80% target for business enquiries, achieving 79%. A significant factor to this result was a higher than anticipated number of enquiries resulting from the redesign of the GST/HST system and the introduction of harmonized legislation initiatives (see PA2 for details on our GST/HST system redesign implementation).

Telephone accessibility is a priority for the CRA. As noted in the chapter entitled Achieving Our Tax Services Strategic Outcome, internal resource reallocations were made during this past year to increase telephone caller accessibility targets from 80% to 90% for 2008-2009.

Our Web site is another key element of our strategy to enhance accessibility to the information taxpayers need and thereby help them to meet their compliance obligations.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Implement channel convergence

Achievement: In 2007-2008, we expanded our Smartlinks initiative to include both individual and business call centres.

Our Smartlinks service aligns telephone and Internet service delivery channels by linking users of our Web site tax information for individuals and businesses to our telephone service. Real-time user feedback helps us identify problems and improve Web content. In 2007-2008, in response to enquiries we received, we expanded our Smartlinks service by adding new links to selected Web pages for individuals. This program encourages the use of the CRA Web site as a self-service information resource for taxpayers.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Enhance taxpayer service on the Internet

Achievement: In 2007-2008, enhancements to the Web site were implemented, based on taxpayers feedback.

The number of visits to the pages of our Web site regarding tax information for individuals and businesses continues to climb, with more than 14.7 million visits in 2007-2008. We believe that the increased traffic is the result of the enhancements made to our Web site.

An examination of changing demographics and economic trends led us to concentrate our outreach strategy on individuals within four key sectors (youth, First Nations, newcomers to Canada, and small and medium-sized enterprises). Many of these individuals were new to the tax system, and reaching out to these Canadians improves their access to our products and services, and helps ensure that they are made aware of their responsibilities and entitlements under Canada's tax legislation.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Enhance targeting and customization of outreach programs and expand taxpayer consultation efforts

Achievement: In 2007-2008, our outreach programs increased our visibility in the targeted sectors.

Our outreach activities increase our visibility in the community. In 2007-2008, we undertook the following:

- we conducted 1,287 outreach events, involving more than 58,000 participants, to provide information on benefits and entitlements to individuals such as current and potential child benefit recipients, students, and newcomers to Canada; and
- we presented approximately 1,200 outreach events for businesses—involving close to 30,000 participants—to support the business community by facilitating compliance for such groups as small businesses, GST/HST/PST registrants, and potential business e-service users.

We expect that the implementation of our outreach strategies will improve compliance among these population sectors by increasing awareness of their requirements to comply.

We are also committed to improving access to information services for key sectors, including: charities, pension plan administrators, exporters, tobacco manufacturers and others, to increase compliance with applicable areas of tax regulation.

Priorities in our Corporate Business Plan

2007-2008 to 2009-2010: Strengthen the charities program; continue the implementation of a risk-based approach to registering plans; and fully implement the *Softwood Lumber Products Export Charge Act, 2006*

Achievement: In 2007-2008, we achieved the following:

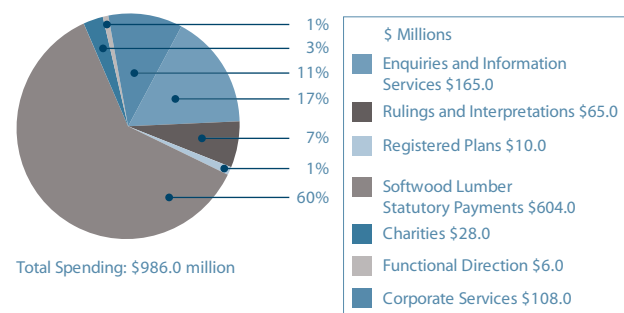
- improved our Charities Web site;
- delivered 85 charity information sessions;
- completed our review of the registration and amendment processes for all types of registered plans, using a risk-based approach;
- issued to the provinces the first two quarterly payments of softwood lumber export charge revenues in January and March 2008; and
- made 578 visits to provide information sessions to exporters of softwood lumber products.

In 2007-2008, access to charities program information on the Charities pages of our Web site was enhanced, including a new section tailored specifically for donors. The Web site now contains, for example, a section entitled 'Operating a Registered Charity' and a checklist for charities to follow.

The results against our key indicators for accessibility demonstrate that taxpayers continue to have the access to the services they need to meet their obligations under Canada's tax system. In addition, the innovations that we are implementing will have a positive influence on our ability to meet Canadians' expectations in the future.

A Snapshot of Taxpayer and Business Assistance (PA1)

Figure 10 Resource Spending



In 2007-2008, spending for this program activity totalled \$986 million (4,599 FTEs) or 22.3% of the CRA's overall expenditures (Figure 10).¹ Of this \$986 million, \$878 million was for net program expenditures and \$108 million was allocated to this program activity for corporate services.

Notable Achievements by Sub-Activity

- **Enquiries and Information Services** – We handled more than 16 million public enquiries and over 14.7 million visits to tax-related information for individuals and businesses.
- **Excise and GST/HST Rulings and Interpretations** – We processed 4,170 written enquiries for rulings and interpretations, and handled almost 106,000 GST/HST-related technical telephone enquiries.
- **CPP/EI Rulings** – We processed 61,971 requests for rulings.
- **Registered Plans** – We administered approximately 32,000 plans, and conducted 461 audits.
- **Charities** – We administered more than 83,000 registered charities, processed 82,074 returns, and conducted 790 audits.

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

Performance Report Card

Expected Result	Year	Performance Rating	Data Quality
	Taxpayers, businesses, and registrants receive timely, accurate, and accessible information	2007-2008	Met
2006-2007		Met	Good

Timely Information

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
General calls answered within two minutes of entering the queue	80%	77%	81%	80%	82%	83%	✓
Business calls answered within two minutes of entering the queue	80%	74%	81%	85%	81%	82%	✓
Charities calls answered within two minutes of entering the queue	80%	77%	90%	86%	89%	93%	✓
Legislative changes reflected in information to the public in a timely manner	N/A	✓	✓	✓	✓	✓	N/A
Respond to written requests for GST/HST rulings and interpretations within 45 working days of receipt of request	75% ¹	76%	86%	88%	87% ²	89%	✓
Average number of days to issue an income tax technical interpretation to taxpayers	90 days (avg)	82 days	75 days	87 days	105 days	89 days	✓
Average number of days to issue an advance income tax ruling to taxpayers	60 days (avg)	57 days	62 days	84 days	94 days	101 days	✗
Percentage of CPP/EI rulings issued within targeted time frames	85%	86%	91%	92%	86%	93%	✓

¹ This service standard is being increased to 80% for 2008-2009.

² This became a service standard in 2006-2007. Prior year results reflect performance against a performance target.

Accurate Information

Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Level of agent accuracy relative to the 1996-1997 baseline year	N/A	✓	✓	✓	✓	✓	N/A

Accessible Information

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
General callers that reach our telephone service	80%	91%	83%	83%	83%	84%	✓
Business callers that reach our telephone service	80%	86%	83%	91%	86%	79%	☑
Charities callers that reach our telephone service	80%	96%	94%	93%	96%	93%	✓
Enhancement of our alternative information sources to expand the range and accuracy of communications products	N/A	✓	✓	✓	✓	✓	N/A

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Assessment of Returns and Payment Processing (PA2)

Our Goal

Our aim is to deliver efficient and effective high-volume processing of individual and business tax returns and payments, thereby promoting voluntary compliance and contributing to the protection of Canada's revenue base.

Our Outcome

Our performance in 2007-2008 demonstrated our ability to ensure timeliness and accuracy in our assessment and returns processing activities. It also led to increased recovery rates for our pre- and post-tax review programs. We enhanced our overall performance by introducing new technologies to increase the accessibility, effectiveness, and efficiency of our programs and services to make it easier for Canadians to meet their tax obligations.

Our Challenge

We identified areas for improvement, specifically in meeting the service standard for processing GST/HST returns and providing statements of interim payments on a timely basis.



Spending Profile: (thousands of dollars)	Total Authorities 2007-2008	Actual Spending 2007-2008	Variance
	\$911,122	\$871,315	\$39,807

Overview

We undertake a wide range of activities to process individual and business tax returns and payments, including the use of risk assessment, third-party data matching, and information validation to detect and address non-compliance. Our programs contribute to individuals and businesses meeting their filing and payment obligations.

We carry out our Assessment of Returns and Payment Processing program activity to achieve two expected results:

- assessment and payment processing are timely and accurate; and
- non-compliance is detected and addressed.

Expected Result: Assessment and payment processing are timely and accurate

Our Assessment: Met

Our Measure: Timely processing

In 2007-2008, we met most of our service standards for our high-volume processing activities. We processed 11.4 million T1 paper returns, 13.7 million T1 electronic returns, and almost 1.8 million T2 returns. In addition to the returns processing activities, we processed 80% of almost 3.2 million statements of interim payments on time, not meeting our target of 95%. This decline in performance was related to the challenges we experienced with our redeveloped GST/HST system and the consolidation of the sites where we print these statements.

We met all of our key performance standards for timeliness. Of 36 million payments, we deposited 99% within our standard of 24 hours, and by mid-June, we processed 99.8% of the individual returns that were filed on time (by April 30). We also met our targets for T4 and T5 returns processing.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Implement the redeveloped GST/HST system

Achievement: In 2007-2008, the CRA implemented the new GST/HST system.

The GST/HST redesign system release, which involved the implementation of a number of new systems and major revisions to existing systems, is designed to simplify tax compliance for businesses by harmonizing various accounting, penalty and interest system processes. With this harmonization, we are now able to offset debts in one business line against credits in another.

The new GST/HST returns processing system and the changes made to electronic services in 2007-2008 allow GST/HST filers to review accounts, request changes, search for payment status, and transfer credits between accounts. In addition, changes to GST/HST NETFILE and TELEFILE options now allow registrants to file debit returns electronically.

Over the course of the year, we discovered that the depth and breadth of changes introduced in 2007-2008 have also resulted in a more complex processing environment for GST/HST transactions and have posed significant challenges to our new systems. As a result of these system changes, we could not evaluate our standard of processing all GST/HST returns within 21 days. We are reviewing current production and service standards, and have planned additional system enhancements to address the problems we encountered this year.

As discussed on page 17 in Achieving Our Tax Services Strategic Outcome, we continue to make improvements to our electronic service offerings to make it easier, and provide more options, for Canadians to interact with the CRA. Our new GST/HST processing environment and ongoing improvements to our electronic services are good

examples of how we are leveraging technology to enhance service.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Provide enhanced Internet services

Achievements: In 2007-2008, we achieved the following:

- introduced Quick Access, a new complementary online service to My Account;
- enhanced My Account and our Represent a client service; and
- enhanced My Business Account to provide more flexibility to businesses in managing their affairs online.

In February 2008, we launched Quick Access, a new complementary online service to My Account that enables individuals to view basic tax related information. This service gives individuals certain personal tax and benefit account information currently available in My Account without having to register for a Government of Canada epass. This feature provides taxpayers with quicker access to more common queries such as tax return status, GST/HST credit payment status, Registered Retirement Savings Plan deduction limits, and the status of benefit payments.

We enhanced My Account, our secure portal that provides individuals an online view of their tax information and account history as well as transactional services. As of July 2007, individuals can apply for child benefits, view disability tax credit (DTC) information and set up a pre-authorized payment plan for instalments. As of February 2008, individuals can view advanced payments for the Working Income Tax Benefit (WITB), view a list of children for which they are the primary caregiver, and change multiple years at once using the Change my return service. Successful log-ins to My Account for Individuals have increased 26% this fiscal year over last and individual My Account enrolments have surpassed one million.

Since February 2006, our Represent a client service has provided tax representatives with access to online services. In October 2007, this service was expanded to provide representatives, including employees of

a business, with more services and information. Represent a client gives representatives a secure, single point of access to multiple clients' information.

We expanded our online services to meet the growing expectation of business owners for convenient and secure online services. In response to action items identified in the March 2007 *Report of the Canada Revenue Agency's Action Task Force on Small Business Issues*, we made enhancements to My Business Account to ensure that businesses have access to personalized tax account information to suit their needs. My Business Account now includes options for businesses to authorize, update, or delete a representative's authorization, which provides the representative with the tools to manage online their authorized taxpayer's business accounts.

In 2007-2008, My Business Account registered over 117,000 successful log-ins, as compared with just over 17,000 in its inaugural year of 2006-2007. We expect this upward trend to continue as more representatives are authorized for online access and begin utilizing My Business Account features. As part of our commitment to maintain effective partnerships with other federal, provincial, and territorial organizations, as well as certain First Nations, we have sought to expand the use of the Business Number as a common client identifier for businesses to securely interact and simplify their dealings with various levels of government.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Focus on business opportunities

Achievement: In 2007-2008, we implemented Business Number agreements for the following three provincial programs:

- Occupational Health and Safety Nova Scotia;
- Mining Tax and Tobacco Tax in Manitoba; and
- Food Primary Liquor Licence in British Columbia.

In addition to the latest three agreements, we have established Business Number partnership agreements with four provinces, covering 48 provincial business programs. We are also working with Service Ontario to develop a joint Business Number process for some of the province's business programs.

Our ability to maintain our standards for timely processing allows us to gauge our overall effectiveness in meeting the needs of taxpayers, thereby contributing to meeting their obligations and helping to protect Canada's revenue base.

Our Measure: Accurate processing

The T1 Quality Evaluation Program, which reviews initial assessments of individual tax returns each year, is our primary tool for determining the accuracy of our assessed returns. Our review for 2007-2008 indicates processing errors with an impact on a taxpayer's refund or balance due were less than 1%. From 1999 through 2007, the amounts involved were, on average, \$250 to \$350 per error.

We also ensure accuracy by using two-dimensional (2-D) bar code technology for computer-generated paper returns. A 2-D bar code contains all of the taxpayer identification and financial data necessary for the assessment of the return, and virtually assures the accurate capture of taxpayer data. At the end of 2007-2008, 37% of all individual paper returns had been processed using this technology. In total, we processed almost 4.3 million 2-D bar-coded individual returns, a year-over-year increase of 7%.

This was also the first full year that we processed bar coded Corporation Income Tax (T2) returns. By year-end, 80% of all paper corporation income tax returns filed used 2-D bar codes.

We believe our results from our quality evaluation program, and the continued use of 2-D bar coding to facilitate accurate data capture, demonstrate our commitment to ensuring accuracy in our processing activities.

Expected Result: Non-compliance is detected and addressed

Our Assessment: Met

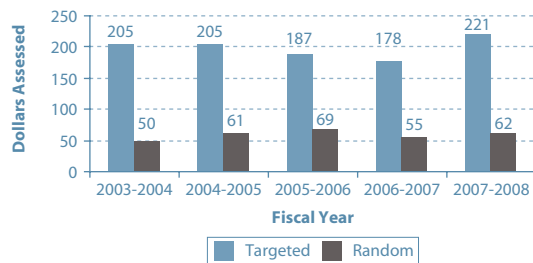
Our Measure: Detecting non-compliance

Effective processes to detect and address non-compliance are essential to managing compliance risk and ensuring that individuals pay their required taxes. We subject selected returns to further review

under our post-assessment programs, devoting resources to areas where we have identified that the risk and potential revenue consequences of non-compliance are higher.

The success of our risk assessment approach is demonstrated when recoveries for targeted reviews exceed those for random reviews. Targeted reviews focus on claims where the risk and potential revenue consequences of non-compliance are higher. During 2007-2008, we made adjustments on 27% of targeted reviews and 16% of random reviews. The average additional amounts recovered per review were \$221 for targeted reviews and \$62 for random reviews (see Figure 11).

Figure 11 Targeted vs Random Reviews – Average Additional Value Assessed (\$) by Review Type



Data quality: Good

Our Measure: Addressing non-compliance

We have three main types of T1 tax review programs: the Pre-assessment Review Program, the Processing Review Program, and the T1 Matching Program.

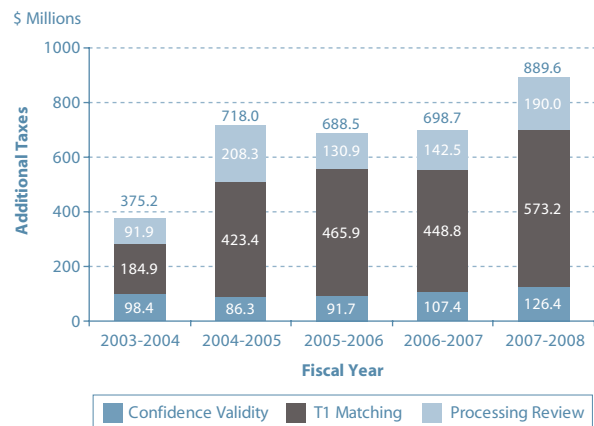
One of our pre-assessment review programs is the Confidence Validity Program. Through this program, various deductions and credits on returns are reviewed and corrected before a notice of assessment is issued. We identified an average amount of \$467 of additional tax assessed per review, for a total of more than \$126 million, an increase of 18% over the previous year.

Our Processing Review Program promotes compliance and helps maintain confidence in the fairness of our programs through increased education, effective risk-scoring systems, and a balanced approach to our file selection process. In 2007-2008, this program

recovered \$190 million in additional taxes, an increase of 34% over the previous year.

Our T1 Matching Program compares information on an individual's tax return with information provided by third-party sources, such as employers or financial institutions. In 2007-2008, this program generated additional tax assessments totalling \$573.2 million. These results demonstrate the vital role played by third-party information reporting in promoting compliance among individual taxpayers.

Figure 12 Additional Taxes Assessed Through T1 Reviews



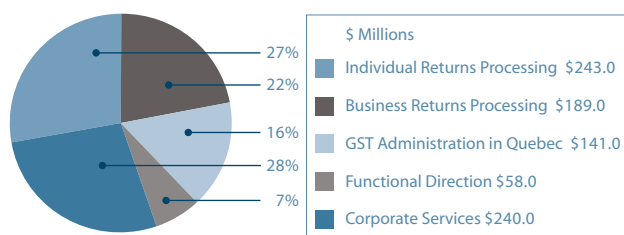
Data quality: Good

An integral part of our overall review program is our Beneficial Client Adjustments initiative. By comparing an individual's return to third-party information, we identify areas where the taxpayer may have under-claimed credits relating to tax deducted at source or Canada Pension Plan contributions. We adjust these returns and allow amounts to which the taxpayer is entitled and, if applicable, issue a refund. In 2007-2008, we identified and corrected almost 218,000 individual returns, resulting in an average beneficial adjustment of \$355 per return.

As demonstrated in Figure 12, in 2007-2008, the recovery rates throughout our T1 tax review programs resulted in a total of \$889.6 million in additional taxes assessed. Although some of these additional assessments may be uncollectable, we believe these results demonstrate that we have effective processes in place to detect and address non-compliance. This enables us to manage the compliance risk and ensure that individuals pay their required taxes.

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

Figure 13 Resource Spending



Total Spending: \$871.0 million

In 2007-2008, spending for this program activity totalled \$871 million (8,638 FTEs) or 19.7% of the CRA's overall expenditures (Figure 13).¹ Of this \$871 million, \$631 million was for net program expenditures, and \$240 million was allocated to this program activity for corporate services.

Notable Achievements by Sub-Activity

- **Individual Returns Processing** – We processed more than 25 million individual returns; refunded \$21.8 billion to nearly 16 million individual taxpayers; and processed over 194,000 T3 trust returns. There were almost 314,000 additional individuals enrolled and almost 3.3 million visits to My Account.
- **Business Returns Processing** – We processed almost 1.6 million information returns, almost 1.8 million corporate returns, and over 58,000 Excise and Other Levies returns. We processed more than 36.4 million payments, totalling almost \$372 billion.

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

Performance Report Card

Expected Result	Year	Performance Rating	Data Quality
	Assessment and payment processing are timely and accurate	2007-2008	Met
	2006-2007	Met	Good

Timely Processing

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Service Standards							
Processing T1 individual income tax returns (paper) within four to six weeks	100%	3.6 weeks	3.6 weeks	3.6 weeks	3.9 weeks	4.1 ¹ weeks	✓
Processing T1 individual income tax returns (electronic) within two weeks	100%	1.7 weeks	1.9 weeks	1.9 weeks	1.6 weeks	1.7 ² weeks	✓
Percentage of GST/HST returns processed within 21 days	95%	95.6%	96.5%	98.3%	98.5%	n/a ³	n/a
Processing T2 corporation income tax returns within 60 days	90%	N/A	N/A	N/A	N/A	92% ⁴	✓
Providing Statements of Interim Payments (SIP) to T2 Corporation Income Tax/GST/HST taxpayers on a monthly basis.	95%	N/A	N/A	N/A	N/A	80% ⁵	✗
Processing T3 trust returns within four months	95%	72%	97%	96%	96%	98%	✓
Responding to taxpayer-requested adjustments (T1) received via the Internet within two weeks	100%	N/A	N/A	N/A	N/A	2 ⁶ weeks	✓
Responding to taxpayer-requested adjustments (T1) within eight weeks	100%	5 weeks	5.6 weeks	5.6 weeks	7 weeks	7 weeks	✓
Performance Standards							
Percentage of funds from non-electronic payments deposited within 24 hours of receipt	98%	94.5%	88.6%	99.4%	95.8%	93.9%	☑
Percentage of Business Number registrations processed within 10 working days	95%	n/a	n/a	n/a	98.2%	91%	☑
T1 returns received on time processed by mid-June	98%	n/a	n/a	99.7%	99.7%	99.8%	✓
Percentage of T4 information returns processed by April 30	90%	93.9%	100%	94.6%	86.6%	94.7%	✓
Percentage of T5 returns processed by May 31	90%	100%	100%	97%	46%	100%	✓
Electronic Processing Take-up							
Percentage of individual filers who file electronically	Upward trend	48%	49.4%	49.4%	50.6%	53.5%	✓
Percentage of eligible corporations that file electronically	Upward trend	1.6%	5.9%	9.8%	15.5%	19.9%	✓
Electronic filing take-up rates of other types of returns (T4 and GST/HST) (see Figure 3 on page 18)	Upward trend	n/a	n/a	✓	✓	✓	✓

¹ Represents the average number of weeks to process T1 individual returns – paper.

² Represents the average number of weeks to process T1 individual returns – electronic.

³ Final results not available at this time as comprehensive data from our GST/HST system is not available.

⁴ Revised indicator and target for 2007-2008. Combined two previous indicators and targets for T2 processing workload.

⁵ Revised indicator definition for 2007-2008.

⁶ New service standard for 2007-2008.

Accurate Processing

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Percentage of T1 returns assessed accurately	98%	98.6%	99%	99%	98.9%	99.1%	✓
Taxpayer-requested adjustments are reassessed accurately	96%	n/a	n/a	n/a	97.4%	96.6%	✓

Expected Result

Reporting non-compliance is detected and addressed	Year	Performance Rating	Data Quality
	2007-2008	N/A	Good
	2006-2007	N/A	Good

Detecting Non-Compliance

Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Ratio of average dollars recovered – targeted versus random reviews	N/A	4.1	3.4	2.7	3.2	3.6	N/A

Addressing Non-Compliance

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Additional tax assessed through pre-assessment reviews (millions)	N/A	\$98.4	\$86.3	\$91.7	\$107.4	\$126.4	N/A
Additional tax assessed through T1 Matching post-assessment reviews (millions)	N/A	\$184.9	\$423.4	\$465.9	\$448.8	\$573.2	N/A
Additional tax assessed through Processing Review post-assessment reviews (millions)	N/A	\$91.9	\$208.3	\$130.9	\$142.5	\$190	N/A

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Accounts Receivable and Returns Compliance (PA3)

Our Goal

Our aim is to promote compliance with Canada's tax laws for filing, withholding, and remitting debt obligations, including those amounts collected or withheld in trust on behalf of the Government of Canada, as well as provinces, territories, and certain First Nations.

Our Outcome

Our performance in 2007-2008 demonstrated our success in several areas of addressing the tax debt effectively, as well as our achievements to identify and address non-compliance as it relates to employer, payroll, and GST/HST accounts. Technological innovation and process enhancement significantly contributed to improvements in our management of tax debt inventories this past year.

Our Challenge

Despite the increase in our production, large shifts in the intake of new debts is challenging our ability to resolve taxpayer accounts on a timely basis.



Spending Profile: (thousands of dollars)	Total Authorities 2007-2008	Actual Spending 2007-2008	Variance
	\$713,143	\$695,321	\$17,822

Overview

We manage the federal government's largest debt collection service, managing debts arising from income tax, GST/HST, the Canada Pension Plan, Employment Insurance, and defaulted Canada student loans. In working with Canadians both to resolve their debt issues and to promote compliance with tax legislation governing employers, payroll, and the GST/HST, we help protect Canada's revenue base.

We carry out our Accounts Receivable and Returns Compliance program activity to achieve two expected results:

- tax and non-tax debt are resolved on a timely basis and are within targeted levels; and
- non-compliance is detected and addressed.

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

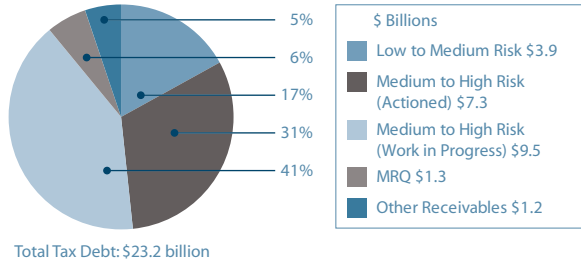
Our Assessment: Mostly met

Our Measure: Timely resolution of tax debt

It is important to address tax debt on a timely basis. The sooner we determine the risks involved in collecting a particular debt, the better we are able to effectively use our resources to resolve that debt. Consequently, the longer a debt exists, the harder it can be to collect it.

We manage millions of low-risk debt accounts on an ongoing basis. These are resolved using low-cost enforcement strategies, such as reminder letters and telephone contact. Accounts that present a greater risk are assigned to our Tax Services Offices (TSOs) for more intensive analysis and investigation. Figure 14 demonstrates the different risk levels and the dollar amounts in those accounts. Medium- to high-risk accounts make up 73% of our overall debt accounts. More than 90% of our tax debt resources are located in our TSOs to work with these higher-risk files.

Figure 14 Inventory Component Chart



Data quality: Good

To ensure that we are addressing the debt on a timely basis, we have in place a 60% target for the percentage of intake resolved in the year of intake, as detailed in our Performance Report Card on page 53. For 2007-2008, this target was met despite a 26% increase in the intake of new debt.

In striving to meet our timeliness targets for the resolution of tax debt, we constantly seek ways to improve our results. Our *Corporate Business Plan 2007-2008 to 2009-2010* identified several priorities that we are pursuing.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Maintain strong core business

Achievement: In 2007-2008 we:

- enhanced and improved workload processes and technological innovation;
- implemented our insolvency strategy; and
- continued with our instalment campaign.

During 2007-2008, we built on the successes of our National Collections Call Centre, our GST/HST, T1 National workload initiatives, and our instalment campaign. Specifically, we implemented our national insolvency strategy and established collections centres of expertise to address debt arising from international tax planning and tax avoidance schemes.

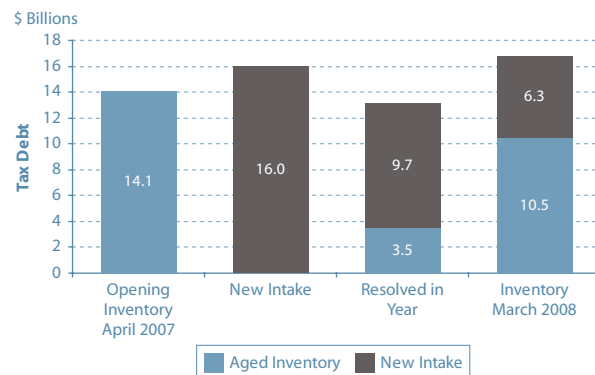
These results, as well as our strategies for improvement, lead us to believe that we are resolving tax debt on a timely basis.

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

We strive to keep our tax debt within manageable levels. Intake of new debt in the TSOs during the year was \$16 billion, an increase of \$3.3 billion over the previous fiscal year. Of this intake amount, \$5.7 billion was from large accounts, which included accounts totalling \$1.2 billion resulting from reporting compliance activities directed toward international and aggressive tax planning.

In line with our goal to manage debt effectively, we aim to achieve a target of 90% of the TSO workload resolved compared to new intake of debt to our TSO's. During 2007-2008, we achieved an 83% result, largely due to the marked increase in new intake during the year. By not meeting this key expectation, it is our assessment that our overall expected result was mostly met for 2007-2008.

Figure 15 TSO Intake, Production and Inventory 2007-2008



Data quality: Good

Through 2007-2008, cash collections of \$11.9 billion exceeded our target for cash collections by \$3.2 billion. Despite this marked increase, the total tax debt inventory continues to grow. Activities currently under way to increase our ability to manage the tax debt include the following:

- focusing on significantly refining our program delivery model by modernizing our processes;
- improving processes and systems infrastructure through the Integrated Revenue Collections Project; and

- undertaking improvements designed to manage workloads more effectively, such as the creation of specialized work teams and centres of expertise to address complex receivables.

Canada, along with other tax administrations around the world, is experiencing marked increases in tax debt inventories. This has been reported in various studies by the OECD. The factors contributing to the increasing tax debt inventories are numerous and complex. Further discussion of the issues surrounding remittance non-compliance can be found on page 16 of the section entitled Achieving Our Tax Services Strategic Outcome.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Implement business transformation

Achievement: In 2007-2008, we began the rollout of our Integrated Revenue Collections initiative.

In March 2007, we completed the development of our Individual Tax Debtor Research Model, which will allow us to better understand the make-up of tax debt and establish profiles for individual debtors.

In our *Corporate Business Plan 2007-2008 to 2009-2010*, we planned improvements to our processes to better manage our tax debt inventory, and this work is underway. For specific details please refer to Schedule B on page 92.

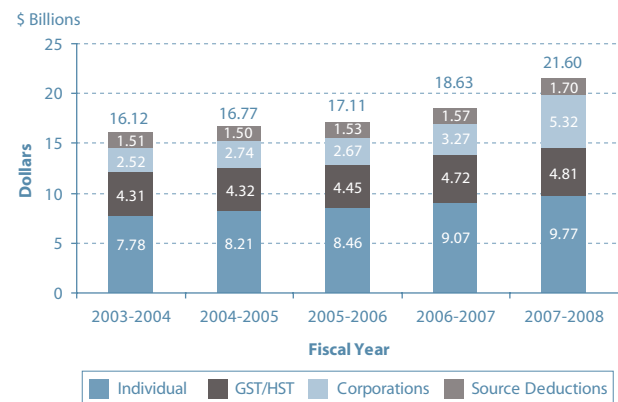
During 2007-2008, we achieved our target to reduce the proportion of TSO tax debt older than five years of age to less than 16% of total tax debt. For the fiscal year ending March 31, 2008, this ratio was 15.4%, representing a decline of 3.1 percentage points from last year.⁵ One of the contributing factors for this decrease is the above-noted increase in new intake during the year. Since our aged inventory ratio is affected by the level of new intake, we have decided

5. Effective this fiscal year, we are reporting aged inventory exclusive of MRQ GST/HST. Our adjusted 2006-2007 ratio (to exclude MRQ GST/HST) was 18.5%.

to change this target for future years from a percentage to a dollar value.

From 2006-2007 to 2007-2008, total accounts receivable increased by 16% (or \$3.0 billion) to \$21.6 billion. The main contributor to this increase was the \$2.1 billion intake in our corporate revenue line; representing 68% of the overall increase. This increase is shown in Figure 16, which incorporates data from our four main revenue lines. This also affected TSO inventories, which at fiscal year end were \$16.8 billion. We expect the increase in our audit activities related to complex international and tax avoidance transactions will continue to have an impact on corporate arrears.

Figure 16 Trend in Accounts Receivable



Data quality: Good

Our non-tax collections work focuses on collecting EI overpayments, defaulted Canada Student Loans, CPP overpayments, and other debts on behalf of Human Resources and Social Development Canada. During 2007-2008, we exceeded established objectives, collecting \$614.7 million, or \$48.6 million more than our target.

Priority in our 2007-2008 to 2009-2010 Corporate Business Plan: Expand business opportunities

Achievement: In 2007-2008, we further integrated collection operations from HRSDC.

To maintain our success in delivering collections services for our government clients, we work closely with client collections areas to create a more efficient workplace. We are working toward an integrated taxpayer-centred approach, aimed at modernizing processes and facilitating the integration of tax and other government programs' debt workloads. This approach will allow for greater efficiency and flexibility in collecting debts that arise from various sources.

Overall, our results—and our achievements related to our priorities—demonstrate our commitment to ensure that tax and non-tax debt are within targeted levels, thereby protecting Canada's revenue base.

Expected Result: Non-compliance is detected and addressed

Our Assessment: Met

Our Measure: Dollar value of non-compliance

There will always be individuals and organizations who, for a variety of reasons, fail to comply with Canada's tax laws. To address this, we facilitate and enforce compliance with taxpayer and employers' obligations under the various Acts we administer.

In 2007-2008, we set targets for the dollar value of identified non-compliance for two key areas: Non-Filer/Non-Registrant (NF/NR) and Employer Withholding.

In our NF/NR area, we enforce taxpayer obligations to file individual, trust, and corporate tax returns. In 2007-2008, we identified and addressed non-compliance by obtaining more than 761,000 individual and corporate returns from taxpayers who had failed to file, resulting in the

identification of \$2.4 billion in identified non-compliance. These results exceeded our target of \$2.2 billion. We also addressed non-compliance by initiating legal actions that resulted in the conviction of 1,296 non-compliant taxpayers, over \$1.4 million in fines levied, and 49 prison sentences handed out by the courts. Our Contract Payment Reporting Initiative secured over 57,000 additional individual and corporate tax returns.

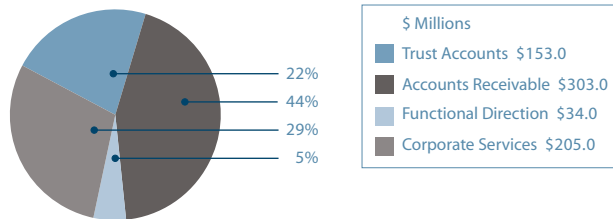
In our Employer Withholding area, we enforce employers' obligations to withhold, report, and remit source deductions and taxable benefits. In 2007-2008, our Employer Withholding area addressed over 666,700 instances of non-compliance, resulting in identified non-compliance of \$1.4 billion. This result exceeded our forecasted target of \$1.3 billion.

With respect to our GST/HST compliance area, our goal is to ensure registration and filing compliance with the legislative requirements under the *Excise Tax Act*. As mentioned in previous sections of this report, a change aimed at enhancing systems capabilities in the GST/HST operating system was implemented in 2007-2008. We cannot provide registration and filing compliance information on GST/HST returns at this time as comprehensive data from our GST/HST system is not available. We addressed GST/HST non-compliance through education, assisted compliance activities, and prosecutions when warranted. We anticipate being able to resume reporting on these activities in our 2008-2009 annual report.

We believe that, when taken as a whole, our results in detecting and addressing non-compliance demonstrate our success in facilitating and enforcing compliance with the requirements of Canada's tax system.

A Snapshot of Accounts Receivable and Returns Compliance (PA3)

Figure 17 Resource Spending



Total Spending: \$695.0 million

In 2007-2008, spending for this program activity totalled \$695 million (8,855 FTEs) or 15.7% of the CRA's overall expenditures (Figure 17).¹ Of this \$695 million, \$490 million was for net program expenditures, and \$205 million was allocated to this program activity for corporate services.

Notable Achievements by Sub-Activity

- **Accounts Receivable** – TSO cash collections totalled \$11.9 billion. The National Collections Call Centre actions resulted in total payment arrangements of close to \$1.4 billion. National Pools actions resulted in cash collections of more than \$1.3 billion. Cash Collections from large accounts totalled over \$3.9 billion.
- **Trust Accounts** – More than 761,000 returns were obtained from individuals and corporate taxpayers who had not filed their returns, over 8,660 GST/HST non-registrants were identified, and 666,770 occurrences of payroll non-compliance were addressed. Our Contract Payment Reporting Initiative secured a total of 57,689 additional individual and corporate tax returns.

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

Performance Report Card

Expected Result	Year	Performance Rating	Data Quality
	Tax and non-tax debt are resolved on a timely basis and are within targeted levels	2007-2008	Mostly Met
	2006-2007	Mostly Met	Good

Timely Resolution of Tax Debt

Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Percentage of intake resolved in the year of intake	60%	N/A	N/A	62.0%	66.7%	60.4%	✓

Tax and Non-Tax Debt Are Within Targeted Levels

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Dollar value of TSO production as a percentage of dollar value of TSO intake of new accounts receivable	90%	92.4%	100%	99.8%	90%	83%	✗
Accounts receivable over five years old as a percentage of total	<16%	19%	17%	18%	20%	15.4%	✓
TSO cash collections (billions)	\$8.7	\$9.4	\$8.8	\$9.5	\$9.7	\$11.9	✓
Non-tax debt – Dollars collected (millions)	\$566.1	N/A	N/A	N/A	\$592.0	614.7	✓

Expected Result	Year	Performance Rating	Data Quality
	Non-compliance is detected and addressed	2007-2008	Met
	2006-2007	Met	Good

Dollar Value of Non-Compliance

Our Indicators ¹	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Employer/payroll/GST/HST non-compliance (billions)	\$1.3	\$2.2	\$2.1	\$2.2	\$2.3	\$1.4	✓
T1/T2 Non-filers/GST/HST Non-registrant non-compliance (billions)	\$2.2	\$2.0	\$2.2	\$2.4	\$2.4	\$2.4	✓

¹ Current targets and results for 2007-2008 have been adjusted to remove GST/HST amounts.

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Reporting Compliance (PA4)

Our Goal

Our aim is to help protect Canada's tax revenue through a range of verification, audit, and enforcement activities, as well as through education. Our activities focus on the accuracy and completeness with which taxpayers determine their tax liability.

Our Outcome

Our performance in 2007-2008 demonstrates our success in the effective assessment of risk and the detection of reporting non-compliance. Reporting Compliance activities complement our strategy of detecting non-compliance, taking appropriate action, and deterring future non-compliance.

Our Challenge

The increasing complexity of the Canadian and international economies presents ongoing challenges to the detection and deterrence of non-compliance.



Spending Profile: (thousands of dollars)	Total Authorities 2007-2008	Actual Spending 2007-2008	Variance
	\$1,380,228	\$1,333,748	\$46,480

Overview

It is our strategy to detect non-compliance, take appropriate action, and deter future non-compliance through audit and enforcement activities, as well as through education. Our activities benefit all Canadians by contributing to the protection of Canada's tax base.

We carry out our Reporting Compliance activities to achieve the expected result stated below.

Expected Result: Non-compliance is detected and addressed

Our Assessment: Met

Our Measure: Audit activities

The CRA strives to understand and address the compliance risks that challenge the Canadian tax system. The ongoing refinement of our compliance strategy and action plans reflects the current and emerging compliance risks inherent in all of Canada's economic sectors. As well, the CRA maintains an audit presence across all Canadian industries and taxpayer

sectors. Our audit activities detect and deter non-compliance.

A key measure of our audit performance is the percentage of audits undertaken for each taxpayer sector compared with our plan. Of particular note this year was our increased focus on international and large business audits, a sector identified as high-risk in our risk management approach. In 2007-2008, we also surpassed our target in the small and medium-sized enterprise sector. Our performance exceeded our plan for this measure.

- International and large business: We conducted over 27,400 audits, about 24% more than planned.
- Small and medium-sized enterprise: We conducted over 321,500 audits, reviews and examinations, about 27% more than planned.
- Other compliance activities: We conducted about 10,600 audits and enforcement actions in tax incentives and enforcement programs. The nature of some activities and the workload in this category prevent the establishment of performance plans.

Our Measure: Outreach activities completed

Outreach activities raise the CRA's visibility and profile, help taxpayers meet their obligations through education and assistance, and inform businesses about their responsibilities and obligations. Based on the results of our experience and research, the CRA conducts organized visits to the businesses in a neighbourhood, community, or part of a community. During these visits, the CRA answers questions, gives out information, raises awareness about CRA services, and discusses any tax-related issues and concerns. We focus on business communities where non-compliance may be an issue.

In 2007-2008, through our outreach activities, we contacted close to 11,000 small and medium-sized businesses to educate and help them meet their tax obligations. As our performance measurement plans for this measure were under review in 2007-2008, we are unable to rate our performance. The results we achieved demonstrate that we actively engage in this education component of our taxation self-assessment strategy.

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

We use risk management techniques to identify compliance risks and assess them for their potential negative effect on the tax revenue base. We then reduce the threat to our tax revenue base through the deployment of our compliance resources. This involves using a mix of instruments and activities to address specific taxpayer sectors and areas of identified higher risk.

Our measure of success in the assessment of risk is the activity improvement ratio. Stated simply, this is a comparison of the rate of reporting non-compliance in targeted audits of industry sectors in the small and medium-sized enterprise population compared with random audits of this same population.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Assess risk and detect non-compliance

Achievement: In 2007-2008, targeted reviews were more effective than random reviews.

In 2007-2008, targeted audits for the small and medium-sized enterprise population were determined to be approximately 3.4 times as effective as random audits of this population. This improvement ratio demonstrates the success of our effective assessment of risk and detection of reporting non-compliance measure.

Aggressive tax planning

We took actions to counter aggressive tax planning, that is, arrangements that push the limits or cross the boundary of acceptable tax planning. Our approach has been multi-faceted, including working collaboratively on several initiatives where the focus is on the abusive use of tax havens, and international transactions.

In 2007-2008, we reassessed over 20,000 individuals who had participated in one or more of 20 unacceptable tax shelter gifting arrangements, resulting in over \$335 million in additional taxes assessed.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Implement the action plan to counter aggressive tax planning

Achievement: In 2007-2008, the identification of unacceptable tax shelters and tax evasion schemes demonstrated our success in addressing aggressive tax planning.

In addition, a number of charities' registrations were revoked for participating in these schemes. In August 2007, we issued a Tax Alert to remind Canadians that the CRA is reviewing all tax shelter-related donation arrangements (for example, schemes that typically promise donors tax receipts worth more than the actual amount of the donation). As a means to reduce the number of participants in these schemes, a copy of the Tax Alert was included in a mailing to over 65,000 individuals who had

participated in these shelters in 2005 and 2006, and whose donations were currently being reviewed by the CRA. We believe that the nearly 30% reduction in 2007 in participation in tax shelter gifting arrangements demonstrates the success of our efforts to detect, address, and prevent non-compliance in this area.

In November 2007, a Tax Alert was issued regarding tax schemes that promised “tax-free withdrawals” from RRSPs and RRIFs. The CRA warned that not only would investors risk a reassessment of their tax return for the value of the funds withdrawn, but also that investing in such schemes could result in the loss of retirement savings to unscrupulous promoters. Audits related to these schemes continue.

The CRA’s 11 Centres of Expertise continue to play a major role in identifying aggressive tax planning schemes and developing new sources of information that can be integrated into the CRA’s risk assessment models. These Centres, located in local tax services offices, bring together audit professionals and specialists in international tax and tax avoidance. Working in teams, they define the scope and nature of abusive international transactions and other aggressive tax planning schemes. They also determine who participates in and promotes such schemes, and how to identify them. More than 50 projects are underway, with the potential for significant tax recoveries.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Continue our efforts to address inter-provincial tax avoidance

Achievement: In 2007-2008, we worked with provincial and territorial governments as well as tax intermediaries in order to promote compliance and shut down abusive schemes.

We made significant progress in combating aggressive provincial tax avoidance schemes. Working with provincial counterparts in Alberta, Ontario, and Quebec, we recovered over \$120 million in taxes from individuals in various unacceptable arrangements.

The CRA continues to pursue abusive transactions using the General Anti-Avoidance Rule (GAAR). For example, schemes such as “artificial capital losses” are promoted throughout the country; since inception in

2003, the CRA has denied more than \$2 billion in cumulative losses claimed under these schemes.

International partnerships

Our approach to compliance is supported through cooperation with other tax administrations and international organizations.

In 2007-2008, the CRA finalized its international compliance strategy. We committed to strengthening our relationships with international administrations and work to mitigate the risks of non-compliance arising from the growing number of financial transactions that cross borders.

The CRA is a member of the Joint International Tax Shelter Information Centre (JITSIC), which promotes collaboration to counter international aggressive tax planning. The other members are Australia, the United Kingdom, the United States and Japan. We also collaborated with tax treaty partners by playing an active role in international forums. These include the OECD’s Working Party on Tax Avoidance and Evasion, the Forum on Tax Administration’s study of the role of intermediaries, the Leeds Castle Group, and the Seven Country Working Group on Tax Havens. Each provides an opportunity to share knowledge on issues of common concern.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Implement the action plan to counter aggressive international tax planning schemes

Achievement: In 2007-2008, we increased audit and enforcement activities in the international tax segment.

The CRA worked closely with a number of international partners in identifying Canadian residents that used tax havens to avoid their fiscal responsibilities. Reviews of the taxpayers involved are in progress. In February 2008, the CRA issued a Tax Alert reminding Canadians that those who use tax havens to hide assets or avoid taxes should know that the CRA is working with international partners to address tax avoidance and evasion to ensure that Canadians are accurately reporting their income and paying tax.

Underground economy

We strive to understand and address the underground economy (UE), examples of which are found in sectors including construction, home renovations, hospitality, taxi, automotive repairs and sales, and tourism.

This past year, over 1,000 CRA employees worked full time on identification, audit, or enforcement activities to address the underground economy. We also work on an ongoing basis with Canada's provinces, territories, and other federal agencies and departments to better identify those participating in the underground economy. The Federal/Provincial/Territorial UE Working Group continues to explore new opportunities to jointly address the UE through research studies, information sharing, and cooperative approaches.

During 2007-2008, we conducted about 17,300 underground economy audits, resulting in approximately \$223 million in additional identified taxes. As well, a number of the deliverables in our multi-year action plan designed to address the underground economy were implemented in 2007-2008, such as the Integrated Enforcement Team Project and the Research Audit Project. The results of these projects are currently being evaluated. We have 11 further projects underway.

In 2007-2008, we initiated research to assess the trends of the UE and risk factors in the construction and hospitality industries. The objectives will be accomplished through a review of UE related literature, and the identification and evaluation of risk indicators as a determinant of UE in the construction and hospitality industries.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Increase our understanding of the underground economy

Achievement: In 2007-2008, we evaluated the results of our pilot projects and teamed with provincial and territorial partners to increase our understanding of the underground economy.

We expect that our increased understanding of the underground economy will enable us to further refine

our methods to identify, address, and deter participation in the future.

GST/HST

We strive to improve GST/HST compliance by working to prevent improper refunds and creating a legislative and administrative environment that reduces systemic opportunities for fraud.

In 2007-2008, to test methods of addressing GST/HST non-compliance, the CRA completed a number of pilot projects including the historical small credits pilot, the GST/HST zero-rated agriculture pilot, and the GST/HST zero-rated exports pilot.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Continue efforts to counter GST/HST fraud

Achievement: In 2007-2008, we evaluated the results of our pilot projects and re-engineered the GST/HST High Risk Analysis Team program.

The results of these pilot projects enhanced our understanding of whether or not registrants filing credit returns in these sectors are engaged in a legitimate commercial activity and entitled to refunds.

We researched the effectiveness of our GST/HST programs and learned that the built-in fairness of our programs must be accompanied with appropriate vigilance to effect valuable program refinements. In particular, with changes that were made, we were able to enhance our recoveries for non-resident accounts. We also improved our rate of recovery through field visits to new registrants and through the review of our prepayment audit selection criteria.

Special Enforcement Program

Our Special Enforcement Program conducts audits and undertakes other civil enforcement actions against individuals and businesses who are known or suspected of deriving income from illegal activities.

In 2007-2008, we completed more than 1,100 audits in the Special Enforcement program involving taxpayers suspected of earning income from illegal activities. The audits of this sector identified \$82.2 million in additional taxes owing.

Criminal Investigations

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

In 2007-2008, 180 income tax and GST/HST investigations were referred to the Public Prosecution Service of Canada (PPSC) for prosecution and 57 GST investigations were referred to the Ministère de la Justice du Québec for prosecution. These and referrals from previous years resulted in convictions for tax evasion or fraud in 299 cases in 2007-2008 (including 44 cases in Quebec courts). Courts across Canada imposed close to \$27.5 million in fines. In addition, offenders were sentenced to a total of more than 44 years in prison. We obtained convictions in 96% of the cases prosecuted, as illustrated in Figure 18.

Figure 18 Conviction Rate for Cases Referred to the Public Prosecution Service of Canada by the CRA



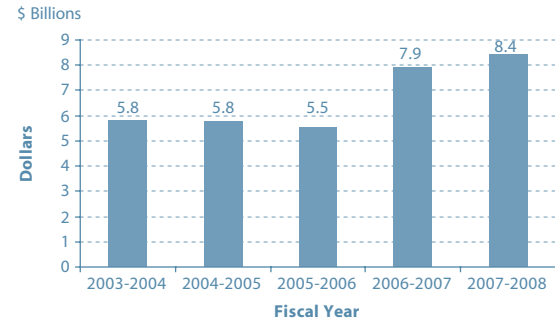
Data quality: Good

The consistently high conviction rate for cases referred to the PPSC demonstrates the quality of the investigative and prosecuting work done by the CRA and the PPSC. This in turn contributes to an effective use of resources in the justice system.

Fiscal impact

In total, our programs to detect and address non-compliance identified a fiscal impact of \$8.4 billion.

Figure 19 Fiscal Impact of Reporting Compliance Activities



Data quality: Good

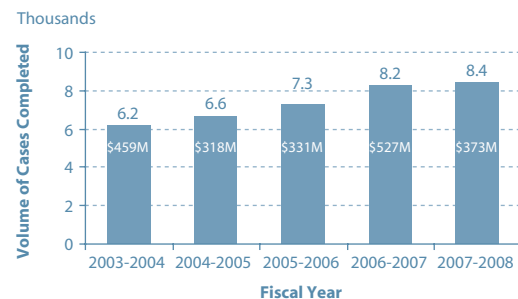
Since the tax assessments that make up this fiscal impact are subject to appeal, some assessments may be overturned. A portion of this fiscal impact may also be uncollectable.

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

The Voluntary Disclosures Program (VDP) encourages taxpayers to correct past errors or omissions and report their tax obligations without penalty or prosecution.

As illustrated in Figure 20, in 2007-2008, we processed approximately 8,400 disclosures, resulting in more than \$373 million in assessed additional taxes. While the number of disclosures represents an increase over 2006-2007, the total of assessed additional taxes is approximately \$154 million less than in the previous year.

Figure 20 VDP Cases Completed With Identified Taxes Assessed for Each Fiscal Year



Data quality: Good

In 2007-2008, we implemented changes that will aid taxpayers in making a disclosure, as well as improve the VDP administrative process, including outreach to tax professionals. A review of our disclosure data shows that more than 70% of disclosures received in 2007-2008 were made through tax professionals, indicating the success of outreach efforts.

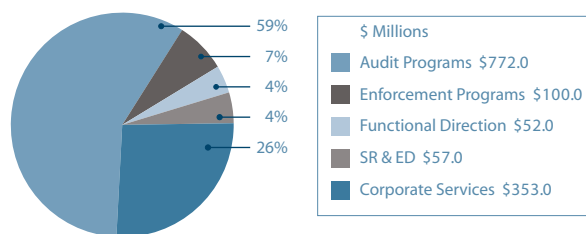
To promote the use of the VDP, we included a message in a number of Tax Alerts and news releases,

encouraging taxpayers to correct their tax affairs before we begin any audit action or investigation. We also provided a VDP Taxpayer Agreement form in electronic format on the CRA Web site at: www.cra-arc.gc.ca.

Our 2007-2008 activities to improve the VDP demonstrate that it is being consistently administered.

A Snapshot of Reporting Compliance (PA4)

Figure 21 Resource Spending



Total Spending: \$1.3 billion

In 2007-2008, spending for this program activity totalled \$1.3 billion (12,831 FTEs) or 30.2% of the CRA's overall expenditures (Figure 21).¹ Of this \$1.3 billion, \$981 million was for net program expenditures, and \$353 million was allocated to this program activity for corporate services.

Notable Achievements by Sub-Activity

- **International and large businesses** – We conducted about 27,400 audits, resulting in a fiscal impact of \$5.7 billion.
- **Small and medium-sized enterprises** – We conducted about 321,500 audits and examinations, resulting in a fiscal impact of about \$2.1 billion.
- **Enforcements and disclosures** – We conducted more than 1,100 audits under the Special Enforcement Program, identifying \$82.2 million in additional tax owing. We also conducted 180 income tax and GST/HST investigations under the Criminal Investigations Program.
- **Scientific Research and Experimental Development Program** – This program provides more than \$4 billion in tax credits to almost 18,000 claimants.

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

Performance Report Card

Expected Result	Year	Performance Rating	Data Quality
	Non-compliance is detected and addressed	2007-2008	Met
2006-2007		Met	Good

Performance Indicators

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Number of files audited as a percentage of estimate:							
• International and large businesses	100%	n/a	n/a	n/a	197%	124%	✓
• Small and medium-sized enterprises	100%	n/a	n/a	n/a	153%	127%	✓
Number of outreach activities completed	100%	n/a	n/a	n/a	128%	n/a ¹	N/A

¹ Due to the unique nature of outreach activities, the methodology for establishing targets was under revision in 2007-2008.

Effective Assessment of Risk and Detection of Reporting Non-Compliance

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Results of targeted vs. random reviews (CAP) ¹	Exceeds	n/a	n/a	3.8	4.0	3.4	✓
Percentage of risk-based reviews resulting in detection of reporting non-compliance	Upward trend	n/a	n/a	n/a	n/a	49.3	N/A ²

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

² This year, the Core Audit Program (CAP) sampled specific categories in the T1 population for the first time.

The VDP is administered in a consistent manner

In 2007-2008, VDP goals, objectives, and performance measurements and indicators were developed. These performance measurements and indicators will be used in future reporting periods.

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Appeals (PA5)

Our Goal

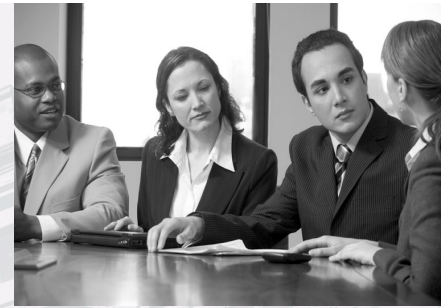
Our commitment is to fairness and our aim is to provide a fair and timely redress process whereby taxpayers can dispute CRA decisions regarding their income tax, commodity tax, and CPP/EI files, or register their complaints about the services they have received from CRA.

Our Outcome

Our performance in 2007-2008 demonstrates our success in maintaining impartiality in our dispute resolution process. We will be undertaking a review of our timeliness objectives to reflect the changing realities within this program activity. Our achievements related to our key priorities demonstrate that we are making process improvements to address our performance.

Our Challenge

The Appeals program activity will need to accommodate the changing nature of taxpayers' appeals files resulting from the CRA's focus on reporting non-compliance.



Spending Profile: (thousands of dollars)	Total Authorities 2007-2008	Actual Spending 2007-2008	Variance
	\$163,387	\$156,127	\$7,260

Overview

Our Appeals program activity administers one of the Government of Canada's largest dispute resolution services. We strive to provide taxpayers with a fair and timely dispute resolution process that respects Canadians' fundamental rights to redress in their dealings with Canada's tax system.

Taxpayers can dispute assessments and determinations pertaining to income tax and commodity taxes, as well as CPP/EI assessments and rulings. If taxpayers are not satisfied with the results of our review process, they can then appeal to the courts.

This program activity also manages the administration of the Taxpayer Relief Provisions, as well as our Taxpayer Service Complaints Program.

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

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

Our Assessment: Mostly met

Our Measure: Impartiality

Our aim is to ensure that all taxpayers have access to impartial redress. To achieve impartiality, we believe our dispute resolution process must demonstrate high levels of transparency, consistency, and accessibility.

We use quality assurance to measure transparency for our income tax and commodity tax dispute resolution activities, and we measure the consistency of our activities in these two areas, as well as in our CPP/EI activities. Using sampling methods, our quality assurance review covered our dispute resolution activities across Canada to assess performance against our targets.

With regard to consistency, our 2007-2008 quality assurance review found that we reviewed, researched, and addressed issues under dispute; applied the law

correctly and impartially; provided taxpayers with an opportunity to respond to our decision; and derived an acceptable resolution in the vast majority of cases. As reported in our Performance Report Card on page 64, the results of 99.5% for income tax and 99.4% for CPP/EI exceeded our targets, while our 95.4% performance in commodity taxes fell slightly short of our 97% target.

In addition, our 2007-2008 review found that all relevant information supporting issues under dispute—including auditor records, but excluding information held in confidence under governing legislation—was made available to the taxpayer under the transparency criteria 99.6% of the time for income tax and 99.2% of the time for commodity tax cases. Although these results do not quite meet our ambitious 100% targets, we believe that the results demonstrate the transparency of our dispute resolution processes. We think that our current transparency performance targets exceed taxpayer expectations and have been revised for the coming years to more appropriate levels.

Another key aspect of our commitment to fairness is our mandate to consider relief to taxpayers through the Taxpayer Relief Provisions contained in the various acts we administer.

The enhancements we made to our services for Canadians included the introduction of an electronic Taxpayer Relief Application form on our Web site. This added convenience increases the accessibility for taxpayers to apply for relief, which we believe contributes to our goal of improving consistency in our service for all taxpayers.

We are also developing a new system to assist in the administration of the Taxpayer Relief Provisions.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Improve consistency in the agency-wide administration of the Taxpayer Relief Provisions

Achievement: The implementation of our new Taxpayer Relief Provisions administrative system has been delayed until April 2009.

Originally scheduled for implementation in April 2008, the release is now scheduled for April 2009. The new system will better track and manage requests for Taxpayer Relief Provisions throughout our organization to improve our reporting and analysis capabilities. This will ultimately provide Canadians with enhanced consistency in the management of Taxpayer Relief Provisions.

Accessibility to redress was made easier this year with enhancements to our Web site. With the guidance provided as part of the online format, the taxpayer is assisted in registering his or her dispute.

We believe that these results, taken together, contributed to improvements in the areas of transparency, consistency, and accessibility.

Our Measure: Timeliness

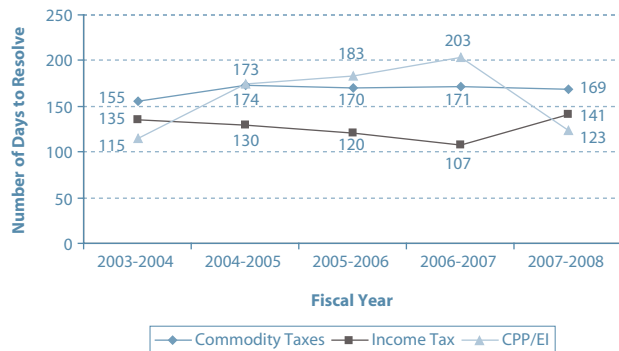
When taxpayers file a notice of dispute, our Appeals timeliness service standard aims to ensure that we notify them of receipt of their dispute within 30 days at least 85% of the time.

A 27.7% increase in total intake of disputes impeded our ability to meet our service standard in 2007-2008. The 84% result we achieved was slightly below our target of 85% and a decline in performance from previous years.

In 2007-2008, our intake of income tax disputes increased by 31.5% over 2006-2007. This rise was mostly attributable to the results of CRA's focus on aggressive tax planning and other audit priorities (see PA4 on page 54). The success in detecting a significantly higher level of reporting non-compliance meant that the average time to resolve the resulting disputes rose to 141 days (see Figure 22). Overall, we met three of the four timeliness targets that we had in place for our income tax dispute workloads, representing more than 80% of the total number of disputes resolved. The results of this increased audit activity also produced a slight increase (two days) in the average age of our workable income tax dispute inventory. In light of the nature of the new files in dispute, we do not consider this slight increase to be a material movement from the result achieved in 2006-2007.

Commodity tax disputes include primarily GST/HST issues, as well as issues concerning other excise taxes, levies, and rebates. In 2007-2008, our commodity tax intake was 24.7% greater than in 2006-2007. We believe that the increase in intake was largely the result of changes made to our GST/HST processing system. On average, we took 169 workable days to resolve disputes for commodity taxes, about the same as in 2006-2007; however, the average age of workable inventory increased to 204 days.

Figure 22 Average Time to Resolve Disputes



Data quality: Good

More favourably, the average time to resolve CPP/EI files decreased from 203 days in 2006-2007 to 123 days in 2007-2008. Our CPP/EI dispute resolution

results benefited both from the 24% reduction in intake from 2006-2007 and from increased Government of Canada funding to address this work. The average age of the workable inventory was also reduced to 70 days from 80 days in 2006-2007.

In our Report Card on page 64, we report a N/A (not applicable) rating for our timeliness performance in CPP/EI. This rating reflects the review of timeliness performance objectives that was undertaken in 2007-2008.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Review and strengthen core business processes and operations

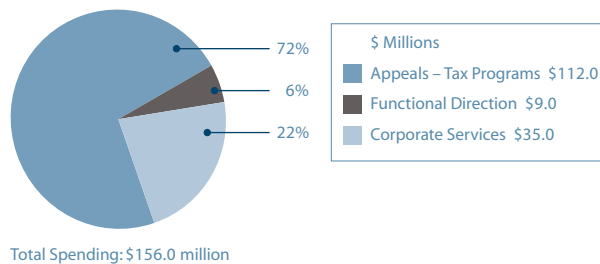
Achievement: In 2007-2008, we achieved the following:

- improved management of our CPP/EI dispute resolution activities; and
- enhanced dispute workload management.

Overall, these results demonstrate that we have made progress in better managing our Appeals program activity, but we continue to seek further opportunities for improvement.

A Snapshot of Appeals (PA5)

Figure 23 Resource Spending



In 2007-2008, spending for this program activity totalled \$156 million (1,490 FTEs) or 3.5% of the CRA's overall expenditures (Figure 23)¹. Of this \$156 million, \$121 million was for net program expenditures, and \$35 million was allocated to this program activity for corporate services.

Notable Achievements by Sub-Activity

- **Appeals** – We resolved about 65,700 disputes, representing \$3.06 billion in taxes. About 80,500 disputes remain in workable and non-workable inventory, totalling more than \$10.2 billion in taxes.
- **Taxpayer Relief Provisions** – About 54,400 requests for relief from interest and penalties were processed by the CRA. Approximately 29,600 of these requests were allowed in full or in part, in favour of the taxpayer. The total value of all cancellations and waivers was more than \$617 million for over 341,000 taxpayers.
- **Service Complaints** – More than 1,400 service complaints were processed.

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

Performance Report Card

Expected Result	Year	Performance Rating	Data Quality
	Taxpayers receive an impartial and timely review of contested decisions	2007-2008	Mostly Met
	2006-2007	Mostly Met	Good

Impartiality

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Appeals activities that met standards for consistency							
Income tax	97%	n/a	98.5%	99.5%	99.6%	99.5%	✓
Commodity taxes	97%	n/a	94.8%	98.0%	97.0%	95.4%	☑
CPP/EI	95%	n/a	99.4%	99.6%	99.6%	99.4%	✓
Appeals activities that met standards for transparency							
Income tax	100%	n/a	95.7%	98.1%	99.3%	99.6%	☑
Commodity taxes	100%	n/a	98.1%	99.4%	98.8%	99.2%	☑

Timeliness

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Service standard for initial contact	85%	89%	90%	89%	89%	84%	☑
Workable days to complete a case¹							
Income tax	Various	135	130	120	107	141	☑
Commodity taxes	Various	155	173	170	171	169	✓
CPP/EI	Various	115	174	183	203	123	N/A
Average age of workable inventory							
Income tax	Neutral or downward trend	N/A	162 days	159 days	175 days	177 days	☑
Commodity taxes	Neutral or downward trend	N/A	176 days	175 days	181 days	204 days	✗
CPP/EI	Neutral or downward trend	N/A	148 days	178 days	80 days	70 days	✓

¹ The overall rating is based on whether or not results were achieved against established targets for the combined workloads.

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Benefit Programs (PA6)

Our Goal

Our aim is to ensure that timely and correct benefit payments are issued to eligible families and individuals through effective service delivery.

Our Outcome

Our performance in 2007-2008 demonstrates that we were successful in ensuring that we delivered the right benefits to the right individuals in a timely manner on behalf of federal, provincial, and territorial governments.

Our Challenge

We are challenged to maintain and advance our technological edge, modernizing and adapting our systems, and our information and access services. We work diligently to support change and to optimize our capacity to deliver effective and efficient programs and services now and in the future.



Spending Profile: (thousands of dollars)	Total Authorities 2007-2008	Actual Spending 2007-2008	Variance
	\$385,140	\$380,563	\$4,577

Overview

Our Benefit Programs activity contributes directly to the economic and social well-being of Canadians. We accomplish this by delivering income-based and other benefits, credits, and services to eligible residents for federal, provincial, and territorial governments.

We administer three core federal programs that issue benefit payments:

- the Canada Child Tax Benefit (CCTB);
- the Goods and Services Tax/Harmonized Sales Tax (GST/HST) credit; and
- Children's Special Allowances (CSA).

We also deliver the Universal Child Care Benefit (UCCB) on behalf of Human Resources and Social Development Canada, the Disability Tax Credit (DTC), as well as numerous ongoing and one-time benefit and credit programs and services on behalf of provincial, territorial, and other federal government clients. Our ability to deliver efficient, timely, and accurate programs and services makes us a valuable partner for government clients.

We carry out our Benefit Programs activity to achieve two expected results:

- benefit recipients receive timely, accurate, and accessible information; and
- eligibility determination and payment processing are timely and accurate.

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

Our Assessment: Met

Providing timely and accurate information and services for recipients allows them to understand our programs and their obligations. We believe that this encourages program uptake and compliance. We utilize a variety of tools, including paper publications, telephone services, our Web site, and opportunities for outreach presentations to provide recipients with the information they require.

Our Measure: Timely information

With more than six million benefit-related calls answered during 2007-2008, it is clear that recipients still rely on the telephone to contact us. To ensure that we are providing timely telephone service,

we implemented a new timeliness service standard in 2007-2008 for CCTB telephone enquiries. We are committed to responding to calls within two minutes of entering the call queue 75% of the time. Our success rate of 78% exceeded this new target.

Our GST/HST credit telephone service was similarly successful, with 78% of calls receiving a response within two minutes, a slight improvement over the previous year's timeliness results for these calls. These trends are important, as they allow us to measure our timeliness of service, as well as identify successful areas and those that may require improvement.

Our Measure: Accurate information

We believe that providing accurate information to potential and existing recipients reduces the need for clients to contact us, promotes application for programs, and enhances benefit compliance. In some cases, we create and direct information packages to reach specific groups to give them a clear understanding of our programs, and their rights and obligations as recipients. In 2007-2008, we distributed accurate information to individuals in several ways. For example, pamphlets and applications were placed in Welcome to Canada kits by Citizenship and Immigration Canada to inform newcomers about potential benefits and credits. We also presented DTC information at 21 conferences and established a 1-800 line to answer questions about the credit and how to apply. This number is given out along with our Web site address to specific groups as needs are identified.

We surveyed a sample of first-time CCTB applicants in 2007-2008 to obtain feedback on the information that we provided. Results compiled from the survey indicated that over 89% of those who responded to the survey were satisfied with the information received, and that 91% found the application instructions easy to understand.

Our Measure: Accessible information

Internal resource reallocations were made, which allowed us to meet our accessibility targets for CCTB enquiries, and improve our accessibility performance on GST/HST credit telephone enquiries. As a result, during 2007-2008, 87% of CCTB callers were successful in reaching our telephone service, as were 83% of GST/HST credit callers. As noted for other enquiry lines, there were concerns that the accessibility target (80%) for our telephone services was not high enough to satisfy the needs of CCTB recipients. Our caller accessibility targets have been increased to 90% for 2008-2009 to better meet the needs of Canadians.

The number of visits to My Account Benefits pages increased from 6.2 million in 2006-2007 to 7.6 million in 2007-2008. We enhanced our Web site to give recipients additional electronic access to information and services. One of these enhancements was the addition of new features to My Account, particularly for the DTC. In addition, we implemented an online child benefit application facility in July 2007. It was well received, as evidenced by the more than 15,000 applications submitted through this service.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Ensure timely, accurate, and accessible information and services to benefit recipients

Achievement: In 2007-2008, we achieved the following:

- implemented and met a new service standard for the timeliness of CCTB telephone enquiries;
- enhanced My Account and promoted usage;
- implemented Disability Tax Measures Initiative recommendations; and
- launched the facility for online child benefit applications.

In 2007-2008, analysis of each of our measures suggests that we provided recipients with information and services through a wide array of sources.

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

Our Assessment: Met

We strive to ensure that accurate payments are received by the right individuals in a timely manner. This requires that recipients provide us with valid information in compliance with legislation concerning benefit eligibility and the amounts issued.

In 2007-2008, more than 27% of Canadian families (over 847,000 families) receiving CCTB got the maximum benefit payment. The maximum monthly benefit went to those with a net income below \$20,883. The value of our benefit payments to the lives of our recipients—up to \$526 monthly for a two-child family—suggests why timely and accurate payments are essential.

Our Measure: Timely eligibility determination and payment processing

We process applications, account adjustments, payments and notices against timeliness standards. Timely information processing provides the up-to-date data required for accurate calculation.

During 2007-2008, our reviews showed that we met our service standard targets for timely processing of benefit-related transactions. We processed 99% of benefit applications and marital status change forms, and responded to 99% of written enquiries related to benefit and credits within 80 days. In addition, 99.99% of our payments were delivered on time, exceeding our target of 99%.

Our Measure: Accurate eligibility determination and payment processing

We introduced new service standards to measure accuracy in overall payments, notices, and letters that result from our processing activities. We met our target of 98% related to the overall accuracy in the processing of applications and marital status change forms. Our result of 97.3% in the overall accuracy

in the processing of account adjustments, however, was slightly below our target of 98%.

An important indicator that our initial calculation of benefit payment is correct is the relatively low value of overpayments issued by our programs. Overpayments are often due to delayed account revisions. A net CCTB overpayment increase of \$30.6 million was created during 2007-2008, representing 0.32% of the more than \$9.5 billion issued. This result compares favourably with the target ceiling of 0.4%.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Ensure timely and accurate processing of benefit payments, applications, and other transactions

Achievement: In 2007-2008, we achieved the following:

- enhanced and modernized critical automated systems; and
- introduced and met new service standards for accuracy of processing applications, marital status change forms, and account maintenance adjustments.

During 2007-2008, we worked to strengthen our benefits compliance rate by implementing elements of our long-term compliance strategy. For example, to enhance front-end detection of non-compliance, our staff at each Tax Centre received training on fraud detection and awareness. As a deterrent to non-compliance, we published compliance-oriented fact sheets and distributed news releases.

Our extensive reviews of recipient accounts are aimed at validating those identified as high-risk for potential overpayments or underpayments. In 2007-2008, we reviewed more than 253,000 benefits accounts, and adjusted approximately 166,000 of them. This represented just over 65% of accounts selected for review, exceeding our target of 50%. These results suggest we used effective criteria for selecting accounts for review.

During 2007-2008, our adjustments uncovered almost \$195 million in benefit and credit overpayments. Where recipients were overpaid, we will offset amounts from future payments, refunds, and credits

to which the recipients are entitled, and apply them to the outstanding balance, or begin collection action.

Validation-related adjustments also found individuals and families who had been underpaid. In 2007-2008, these adjustments, favouring benefit recipients, amounted to \$81 million.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Ensure benefits compliance

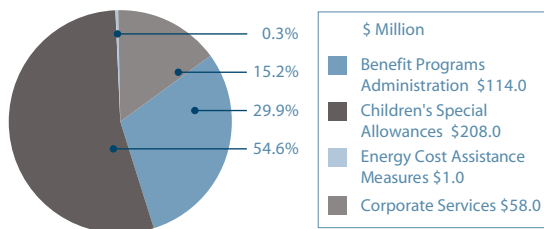
Achievement: In 2007-2008, we achieved the following:

- implemented recommendations from the Compliance Strategy;
- enhanced compliance awareness; and
- developed a measurement sample for the GST/HST credit program.

In 2007-2008, analysis of each of our measures confirmed that our compliance projects effectively identified and targeted non-compliant individuals and families. Our efforts build on our commitment to issue accurate benefit payments to Canadians.

A Snapshot of Benefit Programs (PA6)

Figure 24 Resource Spending



Total Spending: \$381.0 million

In 2007-2008, spending for this program activity totalled \$381 million (1,942 FTEs) or 8.6% of the CRA's overall expenditures (Figure 24).¹ Of this \$381 million, \$323 million was for net program expenditures, and \$58 million was allocated to this program activity for corporate services.

Notable Achievements by Sub-Activity

- **Benefit Programs Client Services** – We handled almost 6.3 million telephone enquiries.
- **Benefit Programs Administration** – We issued 88.5 million benefit payments, totalling \$16.0² billion to more than 11 million recipients. We determined \$667 million in Disability Tax Credit entitlements for almost 499,000 individuals. We processed over 702,000 applications and marital status change forms, over 688,000 account maintenance adjustments, and almost 1.2 million in-year GST/HST credit account redeterminations.
- **Direct transfer payments under statutory programs** – We issued more than \$208 million under the Children's Special Allowances (CSA) program and just under \$1 million under the Energy Cost Benefit program.

¹ Spending for FTE figures for sub-activities may not add up to this total due to rounding.

² Including the \$667 million in entitlements to the DTC program, which are delivered through the T1 assessing process, rather than as direct cash payments, the total amount of benefits and credits issued is almost \$16.7 billion.

Performance Report Card

Expected Result

Expected Result	Year	Performance Rating	Data Quality
	Benefit recipients receive timely, accurate, and accessible information	2007-2008	Met
	2006-2007	Met	Good

Timely Information

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
CCTB calls answered within two minutes of entering the queue	75%	74%	79%	76%	75%	78%	✓
GST/HST credit calls answered within two minutes of entering the queue	N/A	74%	74%	76%	73%	78%	N/A

Accurate Information

Our Indicator	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Range and accuracy of communications products	N/A	N/A	N/A	N/A	✓	✓	✓

Accessible Information

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
CCTB callers that reach our telephone service	80%	88%	84%	77%	80%	87%	✓
GST/HST credit callers that reach our telephone service	N/A	67%	75%	74%	77%	83%	N/A
Take-up of Change My Address service (thousands of users)	Upward trend	94	107	61	89	138	✓
Take-up of Child and Family Benefits Web page (millions of views)	Upward trend	1.6	1.94	2.43	3.67	3.67	✓
Take-up of CSA on the Web service (use by agencies)	Upward trend	22.5%	25.9%	27.8%	31.5%	33.5%	✓

Expected Result

Expected Result	Year	Performance rating	Data quality
	Eligibility determination and payment processing are timely and accurate	2007-2008	Met
	2006-2007	Met	Good

Timely Eligibility Determination and Payment Processing

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Percentage of benefit applications and marital status change forms processed on time	98%	99.1%	99.3%	99.4%	99%	99.1%	✓
Level of satisfaction with application processing time	75%	76%	77%	77%	81%	79%	✓
Percentage of account maintenance adjustments processed on time	98%	98.0%	98.9%	97.2%	97.8%	99.0%	✓

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

Accurate Eligibility Determination and Payment Processing

Our Indicators	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
Percentage of accurate payments when processing benefit applications and marital status change forms	98%	99.9%	99.8%	99.5%	99.7%	98.9%	✓
Percentage of accurate payments when processing account maintenance adjustments	98%	98.1%	99.5%	99.7%	98.5%	98.4%	✓
CCTB overpayment debt as a percentage of payments issued	<0.4%	0.28%	0.09%	0.27%	0.2%	0.32%	✓
Percentage of CCTB accounts reviewed	5%	4.79%	4.88%	5.42%	5.77%	4.49%	☑
Percentage of CCTB accounts reviewed that were adjusted	50%	51.4%	57.2%	62.2%	61.4%	65.6%	✓
Dollar value of validation adjustments (identified overpayments)	N/A	N/A	N/A	\$184M	\$186M	\$195M	N/A
Dollar value of validation adjustments (identified underpayments)	N/A	N/A	N/A	\$72M	\$76M	\$81M	N/A

✓ Met	☑ Mostly Met	✗ Not Met
n/a Not Available	N/A Not Applicable	

The CRA Board of Management



Members' names listed from left to right, bottom to top rows.

Raymond Desrochers, Sylvie Tessier, William V. Baker (Commissioner and Chief Executive Officer), Connie I. Roveto (Chair of the Board of Management), Stephen E. Rudin, Camille Belliveau, Howard A. Leeson, André Gingras, Robert J. (Bob) Healey, James J. Hewitt, James R. Nininger, Gordon Gillis, Patricia J. Mella, Rod Malcolm, Myles Bourke.

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

Our Goal

Our aim is to ensure that the Canada Revenue Agency has a robust strategic framework to support its ongoing success, and that sound monitoring and reporting practices are in place.

Our Outcome

Our collaboration with CRA management in 2007-2008 contributed to maintaining the reputation of the CRA as a leader and innovator in management practices in the public service of Canada.

Our Challenges

Current challenges for the Board for this planning period included:

- working within the broader government framework for key decision-making processes;
- monitoring change management, including budgetary restrictions and competing priorities, as the CRA's business expands and evolves; and
- addressing the capacity of Information Technology legacy systems to support the new and ongoing needs of the organization.

Overview

The CRA Board of Management's legislative role is to oversee the organization and administration of the CRA, and the management of its resources, services, property, personnel, and contracts. This overarching responsibility includes overseeing the development and the approval of the CRA's Corporate Business Plan. As it undertakes its legislated role, the Board brings to bear a forward-looking strategic perspective, and fosters sound management practices. Working with CRA management, the Board has helped the CRA achieve considerable success during the course of this past year.

Priorities and Results for 2007-2008

Listed below are the Board's most significant priorities for 2007-2008, along with its accomplishments. Information relating to the achievements realized by the CRA regarding a number of these priorities can be found in the Management Results chapter.

Organization and Administration of the CRA

As noted above, the Board of Management is responsible for overseeing the organization and administration of the CRA. In 2007-2008, the Board approved plans, strategic approaches and investments related to major initiatives, and regularly monitored their progress. The two key areas of focus were Enterprise Risk Management and the Corporate Tax Administration for Ontario.

Enterprise Risk Management

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: To continue monitoring the implementation of the CRA's enterprise risk management regime and its associated tools

Because of its implications for planning, reporting, and decision making, enterprise risk management remains an important area of focus within the Board's purview.

As required by the Board-approved CRA Enterprise Risk Management Policy, we have reviewed the CRA Corporate Risk Inventory and the resulting Action Plans; the Inventory and Plans help strengthen decision-making at the CRA by ensuring that risk is understood and that strategies and approaches are implemented to reduce, maintain, or control the CRA's risk exposure. The Board also monitored progress in the management of a number of the CRA's key risk areas.

Corporate Tax Administration for Ontario (CTAO)

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: To monitor the implementation of the agreement to administer Ontario's corporate income tax

The Board's strategic outlook for the CRA recognized the potential of the CRA's expanding role in the administration of taxes and benefits in Canada, to achieve a simpler and more integrated tax and benefits administration for Canadians. The most significant and recent example of the CRA's expanding role is the Corporate Tax Administration of Ontario initiative, which transfers the administration of Ontario's corporate income tax from the Ontario Ministry of Revenue to the CRA.

This past year, the Board approved the CTAO project plan, including: the governance structure, the human resources transition plan, the monitoring framework, and all planned expenditures. The Board continues to monitor this initiative through key milestones during the project lifecycle.

Management of Personnel

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: To continue overseeing the advancement of the CRA's Human Resources regime and practices, including succession planning and labour negotiations

Succession Planning

Succession planning has become a key focus of the Board of Management in recognition of the CRA's aging workforce and environmental drivers including: the global economic environment; new technology drivers; growing competition in labour markets; and the more and more diverse and aging Canadian population and workforce.

In 2007-2008, the Board reviewed the CRA's succession planning approaches and processes to ensure that the CRA is well prepared to deal with current and future waves of retirements at the senior levels. The value of this plan was demonstrated in the CRA's timely and effective transitioning of a significant number of executive positions, eight of which were senior positions reporting directly to the Commissioner.

The Board will continue to provide input to the development of strategies and policies to attract, develop, and retain the skilled workers the CRA needs to meet its mandate.

Labour Negotiations/Agency Classification Standard

The Board oversaw, reviewed, and approved the negotiating mandate that led to the signing of the new collective agreement with the Public Service Alliance of Canada. This was achieved before the previous contract had expired.

This achievement was even more impressive considering that the collective agreement introduced the new Agency Classification Standard for 25,000 Services and Programs (SP) personnel. The transition, overseen and approved by the Board, combined 16 legacy occupational groups and provides for a simpler, more streamlined and efficient human resources structure that is better aligned to CRA business needs.

Management of Resources

Each year, the Board fulfills its fiduciary oversight responsibilities in this area by reviewing and monitoring the CRA's planned allocation of resources, and its performance and spending, including the approval of the CRA's financial statements. In 2007-2008, particular emphasis was placed on project oversight and information technology.

Project Oversight

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: To continue monitoring the CRA's major projects to ensure they are effectively and efficiently managed

The Board played an increased role in the oversight of major CRA projects, in accordance with the CRA Project Management Policy. We have reviewed and approved the governance structure, the monitoring framework and the planned expenditures for a number of major investment projects relating to program operations. We then regularly monitored the progress of each project to ensure that all set objectives and timelines were met.

Information Technology (IT)

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: To continue monitoring IT risks and investments, thereby ensuring that IT resources are effectively managed

Information Technology is a key enabler of everything the CRA does. With an aging infrastructure and expanding applications, the Board undertook a review of the CRA's IT strategic direction to ensure alignment with the CRA's current and future business needs.

The Board also monitored various IT initiatives to ensure that risks to IT systems were identified and mitigated. These initiatives included maintenance and upgrades to legacy systems, as well as plans to upgrade the CRA's data centres to accommodate the CRA's growing computing systems infrastructure.

Board Governance

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: To continually seek to be a “best practices board” to maximize our contribution to the CRA’s strategic and operational objectives

With its ongoing commitment to improving governance and operating practices, the Board strives to function in an effective and efficient manner that successfully supports CRA operations and decision making. To maximize its contribution to the CRA’s strategic objectives, the Board continued to refine its own governance framework and operating procedures.

A milestone in the Board’s evolution was reached with the introduction of the Board of Management Oversight Framework (BoMOF). This complements Treasury Board of Canada Secretariat’s Management Accountability Framework (MAF). Both accountability frameworks are structured around key elements that establish the expectations for good management.

In addition to complementing the MAF, the BoMOF helps the Board ensure that it is appropriately meeting its oversight responsibilities as set out in the *Canada Revenue Agency Act*.

In 2007-2008, the Board worked with CRA management to develop the BoMOF and then assessed the CRA’s performance against it. The Board is pleased to report that this first assessment demonstrates the strong and transparent management of the CRA and its commitment to continuous improvement.

The Board believes that setting the performance objective for the Commissioner-CEO and evaluating

the incumbent’s performance based on those objectives, is a key element in the fulfillment of its accountabilities. The Board provides the objectives for the coming year, as well as a report on achievements of prior year performance objectives, to the Clerk of the Privy Council as input to the overall annual performance review for the Commissioner-CEO.

The Board’s membership was stable in 2007-2008, with the appointment of only one new member.

In preparation for the nomination of director candidates, the Board approved revisions to its Competency Profile and gap analysis. These documents are key elements of the Board nomination process and list the competencies, knowledge, experience, and representation collectively desired on the Board.

Building on a Solid Foundation

Since the Board was established in 1999, it has matured into a productive, proactive, and diverse body that has become one of the CRA’s governance strengths. The CRA’s governance structure is increasingly recognized as a model for other government organizations with the Board as the cornerstone of this structure.

This success hinges on the joint efforts of the Board and senior management to increasingly take advantage of the CRA’s legislative flexibilities and authorities. With its approval of the Board of Management Oversight Framework, the Board has positioned itself at the next level of governance maturity, enhancing the conduct of its oversight responsibilities to better lead the CRA into the next decade and beyond.

Our Goal

Our aim is to ensure that our tax and benefit services have the guidance, infrastructure, and resources needed for successful delivery.

Our Outcome

We delivered on our management priorities through timely and responsive decision-making, a fully accountable senior management culture, streamlined management policies, and improved planning and reporting.

Our Challenge

The full integration of our business planning with our workforce and IT planning is our primary challenge. Getting the right operational skills and the right tools in place to help achieve our two strategic outcomes is of critical importance.



To ensure that the CRA's tax and benefit services have the guidance, infrastructure, and resources needed for successful delivery, our interrelated human resources, information technology, and other management strategies must be fully integrated. During 2007-2008, we made key investments in our infrastructure to enhance our effectiveness. We were also active in modernizing our service delivery to take advantage of emerging technology while continuing to develop a knowledgeable, professional, and values-driven workforce.

Management oversight

The CRA is empowered with a unique governance regime that designates distinct responsibilities and accountabilities to our Minister, Board of Management, and Commissioner/Chief Executive Officer. In 2007-2008, our management performance was assessed through two means: the Management Accountability Framework (MAF) assessment conducted by the Treasury Board of Canada Secretariat (TBS), and the Board of Management Oversight Framework (BoMOF) assessment conducted by the Board. These two separate assessments ensured that several indicators falling

under the legislated authorities of the Board, and not assessed by TBS, were addressed.

The 2007-2008 TBS MAF assessment contained positive results. Of the eleven indicators against which the CRA was assessed, we received three "strong" ratings and eight "acceptable" ratings. Although the CRA was found to be at or above the federal public sector norm for all of the indicators against which we were assessed, TBS identified two areas in which we could strengthen management practices: our corporate performance framework, and financial management and control. We are committed to addressing these areas in the coming year.

To complement the TBS framework and to support the Board in the exercise of its oversight responsibilities, the Board and our senior management developed, during 2007-2008, a BoMOF.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Pilot the Board of Management Oversight Framework

Achievement: In 2007-2008, the CRA Board of Management undertook its first assessment using the BoMOF.

Results from the first BoMOF assessment were very positive. Of the 19 indicators against which we were assessed, the CRA received 15 “strong” ratings and four “acceptable” ratings.

The results of these assessments provide Canadians with assurance that management excellence is being promoted in the CRA.

The management of risk

The effective management of risk provides many benefits to an organization, including:

- more rigorous support of strategic planning and performance management;
- better outcomes in effectiveness and efficiency;
- greater openness and transparency in decision making and in the conducting of business; and
- better preparedness for initiatives such as reviews, evaluations, and audits.

As an important element in both the MAF and BoMOF assessments, TBS and the Board each consider risk management to be key to the sound overall administration of the CRA. In March 2006, our Enterprise Risk Management Policy was established to ensure risk management is applied in a consistent and systematic manner at the corporate, operational, and project levels.

Priority in our *Corporate Business Plan 2007-2008 to 2009-2010*: To complete an integrated agency-wide corporate risk inventory

Achievement: In 2007-2008, we created the *CRA Corporate Risk Inventory 2007*, which includes the identification, analysis, and evaluation of our top risks.

Our Corporate Risk Inventory 2007, which is a snapshot of the CRA’s risk status, was one of the sources used in establishing our 2007-2010 Corporate Audit and Evaluation Plan. The CRA Corporate Risk Inventory 2007 was also a key tool used by senior management during its 2007-2008 strategic planning deliberations and related decision-making.

To address the risks identified in this inventory, our senior executives developed the CRA Risk Action Plan – Agency Top Risks, which identified strategies for addressing our top risks.

Two of these top risks—non-compliance with tax legislation and growth in debt—are discussed in Achieving Our Tax Services Strategic Outcome (page 16). Results achieved in 2007-2008 related to our top information technology risks are discussed below.

Information technology responsiveness and sustainability

The CRA collects and processes large amounts of data. Our information technology infrastructure must support the achievement of our strategic outcomes, the confidentiality of taxpayer information, and meet Canadians’ expectations for electronic services.

Priority in our *Corporate Business Plan 2007-2008 to 2009-2010*: To make strategic investments in technology systems

Achievement: In 2007-2008, we made the following key technology investments:

- Security Modernization Program initiatives;
- Data Centre upgrades;
- Network Services Enhancement Project;
- Server Consolidation Project; and
- Business Intelligence Decision Support/Agency Data Warehouse project.

Our information technology infrastructure is currently housed in data centres, where we maintain all critical tax and benefits data, applications, and electronic services delivered by the CRA to Canadians. Our national network and distributed technology infrastructure connects all sites and supports our workforce. During 2007-2008, the following steps were taken to ensure our primary service channels are secure and reflect the high standards of the Government of Canada:

- we partnered with Public Works and Government Services Canada on plans for a new shared data centre facility;

- Our Data Centre Recoverability project was completed, thereby positioning us to meet our established goals of resuming critical business operations within 72 hours (Recovery Time Objective (RTO)) and only losing up to 24 hours of data (Recovery Point Objective) in the event of the physical loss of a data centre;
- we completed upgrades to the electrical power system at one of our data centres to ensure a loss of power would not disrupt our ongoing business; and
- we also contributed to the greening of IT by adding filters to our generator exhaust systems at one data centre, significantly reducing carbon monoxide emissions.

In addition, to enable us to maintain our capacity to meet the expectations of Canadians, we put in place a strategy to assess our software and to identify those applications that are not sustainable for the long-term. Steps such as these are critical to ensuring that we meet our current and future compliance and service delivery needs in a timely and effective manner.

Maintaining trust

The confidence Canadians have in the CRA's integrity is fundamental to our success in administering tax and benefit programs. Since 2000, we have conducted an annual survey to assess Canadians' views towards the CRA and their satisfaction with specific program aspects. Our 2007 Annual Corporate Survey reveals that we have been successful over the past year in maintaining a positive public image. The number of Canadians that rate our overall performance as 'excellent' or 'good' has increased three percentage points over 2006. Canadians' satisfaction with their most recent service experience, however, has marginally decreased. As in past years, negative attitudes continue to be linked to general perceptions about the CRA, about the federal government as a whole, and about taxation in general, rather than to any specific service-related difficulties encountered.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: To build and implement a branding strategy aligned with CRA's future direction

Achievement: In 2007-2008, we promoted our brand promise:

Contributing to the well-being of Canadians and the efficiency of government by delivering world-class tax and benefit administration that is responsive, effective and trusted.

We began to implement our branding strategy along a number of fronts: raising employee awareness; introducing a consistent visual identity for the organization; and developing an internal governance structure to further implementation efforts.

The Federal Accountability Action Plan brought forward thirteen specific measures to help strengthen accountability and increase transparency and oversight in government operations. Consequently, we developed a three-year Chief Executive Officer (CEO)/Chief Financial Officer (CFO) certification process during 2007-2008 that involves the identification, documentation, and testing of internal controls. The information generated will allow our CEO or CFO to answer specific Parliamentary questions related to the management of the CRA, such as the effectiveness of our internal controls.

We also continued to build our capacity for assessing and reporting on internal controls over financial reporting. In this regard, we released the first Report on the CRA's Controls relating to the Corporation Income Tax Program. This report provides assurance to provincial and territorial governments of the reliability of CRA's financial reporting.

Pursuant to our 2006 Project Management Policy, we took steps to demonstrate to the Board and to TBS that all CRA projects are consistently managed according to basic principles.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Improve oversight framework

Achievement: In 2007-2008, we developed a reporting framework for the Board of Management, entitled the Capital Investment Project Portfolio.

Our Capital Investment Project Management reporting process was created to provide the Board with quarterly reports on major project delivery performance, including scheduling, cost, and scope. This provides assurance that risks have been identified and appropriate mitigation strategies have been applied to safeguard the CRA's assets and reputation.

Keeping taxpayer information secure is also key to maintaining the trust of taxpayers. All negotiations of new information exchange agreements with partners include a review of the recipient organization's security policies and processes. In addition, the recipient organization must agree to perform a regular internal audit review of the use, communication, retention, and disposition of the taxpayer information in question, and to report its findings to the CRA.

We constantly remind our employees of their responsibilities to protect such information; in 2007-2008, we provided 457 security awareness sessions to a total of 10,048 employees. In addition, we undertook the following initiatives this past year to prevent our employees from inappropriate access to protected information.

- We completed a compliance assurance and monitoring framework for our System Access Profile Program to ensure that we appropriately manage employees' access rights to CRA systems.
- We also launched a project to establish a National Audit Trail Monitoring Program to allow the CRA to maintain consistent and accessible audit trail records and enable proactive and automated detection of possible unauthorized use and suspicious activity.

As with all federal departments and agencies, the CRA is subject to the provisions of the *Access to Information Act* and the *Privacy Act*. These Acts give Canadians the right to access information that is under the control of a government institution within legislated timeframes.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Enhance Canadians' trust in the integrity of the CRA

Achievement: In 2007-2008, we responded to *Access to Information Act* and *Privacy Act* requests within legislated timeframes, 86.6% and 92.2% of the time respectively.

In October 2006, a significant step was taken by the federal and Ontario governments to increase the harmonization of the tax systems in Canada, reduce compliance costs for businesses, and reduce administration costs for governments with the signing of the agreement to transfer the administration of Ontario corporate tax to the CRA. This agreement will save Ontario businesses up to \$100 million annually in reduced compliance costs.

Priority in our Corporate Business Plan 2007-2008 to 2009-2010: Plan and implement a single administration of the Ontario corporate tax

Achievement: In 2007-2008, we worked with the Ontario Ministry of Revenue to achieve important milestones for the implementation of a single corporate tax administration in the province of Ontario.

This year, we undertook the following in preparation for the phased transfer of Ontario's corporate tax functions, under the CTAO initiative.

- Over 300 Ontario Ministry of Revenue employees accepted employment at the CRA to help ensure the successful delivery of the province's corporate tax program.
- As of February 2008, Ontario corporations began making a single instalment payment for the 2009 taxation year, thereby reducing their administrative costs.
- A communication strategy was implemented to ensure that Ontario-based corporations and tax advisors understand the way in which a single tax administration will impact them and whom they should contact for answers.

These accomplishments illustrate our commitment to maintaining the trust of Canadians. We believe that maintaining this trust is fundamental to our success in administering tax and benefit programs.

Human resources capacity and capability

To deliver our tax and benefits programs, we require a diverse and adaptable workforce with strong leadership and superior technical expertise. In June 2007, the Clerk of the Privy Council introduced his 2007-2008 *Public Service Renewal Action Plan (PSRAP)*, which identified key priorities for ensuring the federal Public Service meets future challenges. Our human resources agenda is well positioned to respond to the needs of our business while being aligned with the *PSRAP*.

This past year, we developed the first annual Canada Revenue Agency Workforce Plan (AWP), which integrates workforce and business planning through such steps as increasing the mobility of work to benefit from employees' knowledge and experience and meet our business needs, promoting employee movement across various business lines, and building an effective and strategic recruitment approach.

Attracting new and excellent talent will help ensure that we can continue to respond to the evolving needs of Canadians. In 2007-2008, we set a target of recruiting 165 indeterminate post-secondary graduates. We surpassed this goal by appointing 249 post-secondary graduates to indeterminate positions, through initiatives such as our Auditor and Aboriginal Tax Officer Apprenticeship programs.

We must continue to invest in our employees to ensure that they have the necessary skills and competencies. We achieved our 90% target for putting in place learning plans for our indeterminate employees. This result is a significant increase from 67% achieved in 2006-2007.

Leadership development is essential for the effective management of the CRA. In 2007-2008, approximately 150 employees participated in our corporate management development programs. We also expanded delivery of our Management and Leadership Program courses and, as a result, over 2,600 participants attended learning events.

For any organization, relationships between the employer and its employees must remain positive for business goals to be met. On December 3, 2007, an historic milestone was achieved when the CRA signed a new collective agreement with the Public Service Alliance of Canada that was negotiated before the expiration of the former collective agreement. A key component of this agreement was the pay negotiation for our Services and Programs (SP) group, which replaced 16 former occupational groups for approximately 25,000 employees.

Our staffing-related Pre-Qualification Process (PQP), which involves standardized assessments, is a critical part of building our organizational capacity. In 2007-2008, we made PQP mandatory for our internal selections process, resulting in an increase of 8% in the cumulative average time to staff (compared to 2006-2007). Our intention is to reduce the average staffing time.

Conclusion

During the past year, we delivered on our management priorities through our strong performance, timely and responsive decision-making, a fully accountable senior management culture, and improved planning and reporting, thereby contributing to the effective governance of the CRA. Based on our achievements this past year related to our priorities, as well as the steps we took to strengthen our management infrastructure, we believe that we effectively responded to the CRA's strategic outcomes for both the administration of Canada's tax laws and the delivery of benefits.

Service Standards in the CRA – Overall Results

We believe that providing high quality service facilitates compliance with Canada's tax system. To that end, we are committed to providing taxpayers and benefits recipients with service that is:

- accessible;
- prompt;
- accurate;
- fair; and
- professional.

Our service standards state the level of performance that Canadians can reasonably expect to encounter from the CRA under normal circumstances. Service standards that are reasonable and that the CRA meets contribute to our efforts to promote compliance. Service standards that are consistently met also contribute toward increasing the level of confidence that Canadians place in government.

How we set targets

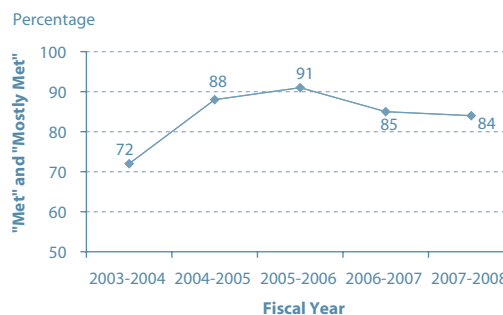
The CRA sets targets that represent the percentage or degree of expected attainment of an established standard. Targets are based on operational realities, historical performance, complexity of the work, and Canadians' expectations. For example, standards for front-end processing generally have shorter time frames and/or higher targets, while those requiring greater review and analysis have lengthier time standards and/or lower targets.

We review our standards and targets annually. This year, we introduced five new standards, two in the Tax Services and three in the Benefit Programs areas. Two existing standards were amended: the Charities telephone service was amended to be more consistent with other telephone services; and T2 processing targets were combined and the standard improved (historical results are therefore not available for this standard).

Overall results

Overall, we met or mostly met 37 of the targets measured in 2007-2008. Our performance dropped marginally this year due to difficulty in meeting Registered Plans' standards. This was a result of high staff turnover and subsequent training requirements.

Figure 25 Service Standards With Targets That Are Met and Mostly Met



Data quality: Good

Challenges

We did not meet our target for the processing of Statements of Interim Payments. The decline in performance was related to the challenges experienced with the redeveloped GST/HST system and the consolidation of the sites where we print these statements.

In addition, we experienced difficulty in meeting our target regarding processing requests to authorize or cancel a representative during non-peak periods. We will review workflow efficiencies and the appropriateness of the standard in the context of the workload.

The decreased performance with respect to the GST/HST Visitor Rebates Program was due to the combined effects of the elimination of the program effective April 1, 2007, and the introduction of the Foreign Convention and Tour Incentive Program at the same time.

Performance Rating Legend

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

n/a Not Available	N/A Not Applicable
-------------------	--------------------

Taxpayer and Business Assistance (PA1)

Service	Service standard	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
1. Problem Resolution Program	Acknowledged within two working days	100%	94%	98%	98%	97%	95%	☑
2. Problem Resolution Program	Resolution/client contact within 15 working days	100%	94%	97%	97%	97%	95%	☑
3. General enquiries – Telephone	Respond to calls in queue within two minutes	80%	N/A	81%	80%	82%	83%	✓
4. Business enquiries – Telephone	Respond to calls in queue within two minutes	80%	N/A	81%	85%	81%	82%	✓
5. Charities – respond to telephone enquiries ¹	Respond to calls in queue within two minutes	80%	N/A	N/A	N/A	N/A	86%	✓
6. Advance income tax rulings to taxpayers	Within an average of 60 days	100%	57 days	62 days	84 days	94 days	101days	✗
7. Technical interpretations to taxpayers	Within an average of 90 days	100%	82 days	75 days	87 days	105 days	89 days	✓
8. GST/HST Rulings and Interpretations – Written enquiries	Within 45 working days	75%	N/A	N/A	N/A	87%	89%	✓
9. Applications to register pension plans	Complete review in 180 days	85%	91%	89%	96%	97%	94%	✓
10. Amendments to registered pension plans	9 months	80%	78%	84%	89%	82%	77%	☑
11. Termination of registered pension plans	One year	85%	77%	88%	90%	88%	82%	☑
12. Retirement savings plans (applications to register, amend, or terminate)	Within 60 days	80%	89%	97%	84%	85%	85%	✓
13. Retirement income funds (applications to register, amend, or terminate)	Within 60 days	80%	90%	95%	84%	91%	91%	✓
14. Education savings plans (applications to register, amend, or terminate)	60 days	85%	92%	93%	88%	85%	71%	✗
15. Actuarial valuation reports	9 months	80%	72%	81%	80%	36%	56%	✗
16. Deferred income plans – Response to written enquiries	Within 60 days	80%	64%	69%	75%	60%	38%	✗
17. Deferred Profit Sharing Plans	Registration in 180 days	80%	N/A	85%	79%	99%	97%	✓
18. Deferred Profit Sharing Plans	Amendments and terminations within 270 days	80%	N/A	82%	68%	89%	87%	✓

¹ Standard and target revised.

Assessment of Returns and Payment Processing (PA2)

Service	Service standard	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
19. Processing visitor GST/HST rebate applications ¹	4 weeks	95%	N/A	N/A	N/A	N/A	51%	✗
20. Responding to taxpayer requested adjustments (T1)	8 weeks	100%	5 weeks	6 weeks	6 weeks	7 weeks	7 weeks	✓
21. Responding to taxpayer requested adjustments (T1) received via the Internet	2 weeks	100%	N/A	N/A	N/A	N/A	2 weeks ²	✓
22. Providing Statements of Interim Payments (SIP) to T2 Corporate Income Tax/ GST/HST taxpayers on a monthly basis.	Mailed by the 18th of the month	95%	61%	49%	99%	100%	80%	✗
23. Processing T1 individual income tax returns (paper) ³	4-6 weeks	100%	under 4 weeks	under 4 weeks	under 4 weeks	under 4 weeks	4 weeks	✓
24. Processing T1 individual income tax returns (electronic) ³	2 weeks	100%	under 2 weeks	under 2 weeks	under 2 weeks	under 2 weeks	under 2 weeks	✓
25. Processing T3 trust returns	Within 4 months	95%	72%	97%	96%	96%	98%	✓
26. Processing Excise Tax, Excise Duty, and Air Travellers Security Charge returns	Within 90 days	95%	N/A	N/A	N/A	98%	98%	✓
27. Processing GST/HST returns ⁴	Within 21 days	95%	96%	97%	98%	98%	N/A	N/A
28. Processing T2 corporation income tax returns	Within 60 days	90%	N/A	N/A	N/A	N/A	92% ⁵	✓

¹ Program was cancelled April 1, 2007; however, visitors had one year in which to file their application. Standard was adjusted.

² New standard and target for 2007-2008.

³ Revised for 2007-2008 and introduction of percentage measure to be consistent with our other measurements.

⁴ Reliable results not available at this time as comprehensive data from our GST/HST systems is not available.

⁵ Revised standard and target for 2007-2008. Combined two previous standards and targets for T2 processing workload.

Accounts Receivable and Returns Compliance (PA3)

Service	Service standard	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
29. Processing fairness requests related to accounts receivable and trust accounts programs	4-6 weeks	90%	90%	90%	90%	n/a	n/a ¹	n/a

¹ Reliable data not available.

Reporting Compliance (PA4)

Service	Service standard	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
30. Processing non-resident Regulation 105 waiver requests ¹	30 days	85%	N/A	N/A	N/A	N/A	83%	<input checked="" type="checkbox"/>
31. SR&ED Refundable claims	120 days	90%	95%	93%	92%	96%	96%	✓
32. SR&ED Non-refundable claims	365 days	90%	92%	94%	95%	96%	97%	✓
33. SR&ED Claimant-requested adjustments to refundable claims	240 days	90%	95%	95%	94%	97%	97%	✓
34. SR&ED Claimant – requested adjustments to non-refundable claims	365 days	90%	94%	94%	94%	93%	95%	✓
35. Video and film tax credits – Refundable claims – unaudited	60 days	90%	96%	94%	90%	97%	97%	✓
36. Video and film tax credits – Refundable claims – audited	120 days	90%	93%	95%	92%	96%	96%	✓

¹ New standard and target for 2007-2008.

Appeals (PA5)

Service	Service standard	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
37. Initial contact letter for disputes	30 days	85%	89%	90%	89%	89%	84%	<input checked="" type="checkbox"/>

Benefit Programs (PA6)

Service	Service standard	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
38. Canada Child Tax Benefit – Telephone Enquiries ¹	Respond to calls in queue within two minutes	75%	N/A	N/A	N/A	N/A	78%	✓
39. Processing benefit applications and marital status change forms – Timeliness ²	Issue a payment, notice, or explanation within 80 calendar days	98%	99%	99%	99%	99%	99%	✓
40. Processing benefit applications and marital status change forms – Accuracy ³	Accurately process information and, if necessary, issue a payment, notice, or letter	98%	N/A	N/A	N/A	N/A	98%	✓
41. Responding to benefit and credit enquiries – Timeliness ⁴	Issue a payment, notice, or explanation within 80 calendar days	98%	98%	99%	97%	98%	99%	✓
42. Responding to benefit and credit enquiries – Accuracy ⁵	Respond to recipient written enquiries and telephone referrals from the Call Centres with the correct information, and process new recipient information including issuing a payment, notice, or letter accurately	98%	N/A	N/A	N/A	N/A	98%	✓
43. Validation and control – results of review	60 days	90%	92%	98%	93%	n/a	99%	✓
44. Process a request to authorize or cancel a representative	Within 20 days of receipt during peak period	90%	N/A	n/a	96%	77%	91%	✓
45. Process a request to authorize or cancel a representative	Within 5 days of receipt during non-peak periods	90%	N/A	50%	71%	33%	75%	✗

¹ New standard and target for 2007-2008.

² Revised wording.

³ Revised wording. New standard and target for 2007-2008.

⁴ Revised wording.

⁵ New standard and target for 2007-2008.

Corporate Services

Service	Service standard	Current Target	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	Rating
46. Client or taxpayer requests for statistical tax data	Respond to client or taxpayer requests for statistical data within an average of 30 calendar days	100%	N/A	N/A	28 days	28 days	29 days	✓

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

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

Note: Results are rounded to the nearest whole number.

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

New Service Standards and Targets for 2008-2009

Program Activity	Service Standard	Target
Benefit Programs (PA6)	Process a request to authorize or cancel a representative—accuracy—peak period	98%
	Process a request to authorize or cancel a representative—accuracy—non-peak period	98%

Deletions and Adjustments of Existing Service Standards for 2008-2009¹

Program Activity	Service Standard	Target
Taxpayer and Business Assistance (PA1)	Problem Resolution Program targets lowered from 100% to 95%	95%
	GST/HST Rulings and Interpretations—written enquiries target was raised from 75%	80%
Assessment of Returns and Payment Processing (PA2)	GST/HST SIPS have been added to the count of Providing Statements of Interim Payments (SIPS) to taxpayers	95%
	The timeline for processing GST/HST returns changed from 21 days to 30 days	95%
	Processing visitor GST/HST rebate applications	For deletion
Benefit Programs (PA6)	Validation and Control results of review reduced from 60 days to 45 days	90%

¹ References to deletions and adjustments are found in the 2007-2008 Report on Plans and Priorities – Appendix D.

Service Standards under Development in 2008-2009

Program Activity	Service Standard	Proposed Target
Taxpayer and Business Assistance (PA1)	Review and respond to applications for charitable registration upon receipt of a complete application, within established standards	80%
	Deferred income plans—response to written enquiries within 60 days	85%
	GST/HST Rulings, telephone enquiries—respond to calls in the queue within two minutes	80%
	Registration of a pension plan within 90 days	85%
	Registered pension plan amendments within 60 days. This standard would combine amendments within nine months and terminations within one year	85%
	Request for eligible contributions within 270 days. This standard would rename actuarial validation reports and raise the target	85%
	International and Non-resident General Enquiries – Telephone service level. Respond to calls in the queue within two minutes	80%
Appeals (PA5)	Processing disputes	tbd

Conclusion by the Commissioner



The Canada Revenue Agency (CRA) is a national organization that has extensive contact with Canadian citizens and businesses. In 2007-2008, we continued to take full advantage of our legislative flexibility in order to deliver efficient programs and services and pursue partnership opportunities that result in overall savings to the public purse.

As Commissioner and Chief Executive Officer, I am accountable to the Minister of National Revenue for all program matters, and to our Board of Management for administrative matters. I am proud to report that we have once again demonstrated our capacity to achieve meaningful and measurable results for Canadians.

We finalized the implementation of the Corporate Tax Administration for Ontario initiative, which will lead to a simpler and more efficient corporate tax system for businesses. We also continued to make progress in actioning commitments to reduce the compliance burden for small and medium sized business, as identified in the *Report of the Canada Revenue Agency's Task Force on Small Business Issues*, published in April 2007.

We maintained our focus on areas that have high rates of non-compliance, such as the underground economy, aggressive tax planning, and Goods and Services Tax/Harmonized Sales Tax (GST/HST). We have increased our audit work to counter aggressive tax planning and we conducted several specific pilot projects aimed at uncovering GST/HST fraud. In addition to the steps we are taking in the area of compliance, we are also improving service to make it simpler and easier for individuals and businesses to meet their tax obligations. In 2007-2008, we improved our electronic service offerings that allow us to more effectively deliver services, increase overall accessibility of tax information and provide more options for Canadians to interact with us.

In May of 2007, we introduced our new formalized service complaints resolution process that will provide individuals, businesses and benefit recipients an additional level of confidence in the way we handle service-related complaints. Concurrently, our Minister announced the new Taxpayer Bill of Rights and the creation of the Taxpayers' Ombudsman. We remain committed to providing taxpayers the means by which they can be heard and have their issues resolved. Our new service complaints resolution process will strengthen our ability to respond to service-related issues.

Our reputation as a world class tax administration is well earned and we are proud of our accomplishments over the past year. As we move forward, I remain confident in the dedication, knowledge and professionalism of our employees to deliver quality results that matter to Canadians.

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

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

Schedule A – The CRA Governance Structure

Board Membership

The Board is composed of 15 members of which, four members including the Chair, and the Commissioner and CEO are nominated by the federal government; one director is nominated by each province; and one director is nominated by the territories.

The following list shows the Board's membership as of March 31, 2008.

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

Chair, Board of Management
President
Cirentity Management
Toronto, Ontario

Camille Belliveau, CFP, FCGA

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

Myles Bourke, B. Comm., FCA

Corporate Director
Chartered Accountant
Lethbridge, Alberta

Raymond Desrochers, B. Comm., CA, CFE

Partner
BDO Dunwoody LLP Chartered Accountants
Winnipeg, Manitoba

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

Lawyer/Consultant
Dartmouth, Nova Scotia

André Gingras

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

Robert J. (Bob) Healey, B. Comm., CFP, FCA

Corporate Director
Chartered Accountant / Management Consultant
St. John's, Newfoundland and Labrador

James J. Hewitt, FCMA

Corporate Director
Penticton, British Columbia

Howard A. Leeson, Ph.D.

Senior Policy Fellow
Saskatchewan Institute of Public Policy
Regina, Saskatchewan

Rod Malcolm, CA

Corporate Director
Iqaluit, Nunavut

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

Corporate Director
Stratford, Prince Edward Island

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

Corporate Director
Ottawa, Ontario

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

Health Care Consultant
Toronto, Ontario

Sylvie Tessier, B.Sc., M.B.A., P.Eng., ICD.D

Consulting Director
Sierra Systems
Toronto, Ontario

William V. Baker, B.A., M.A., ICD.D

Commissioner and Chief Executive Officer
Canada Revenue Agency
Ottawa, Ontario

Committee Membership and Director Participation

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

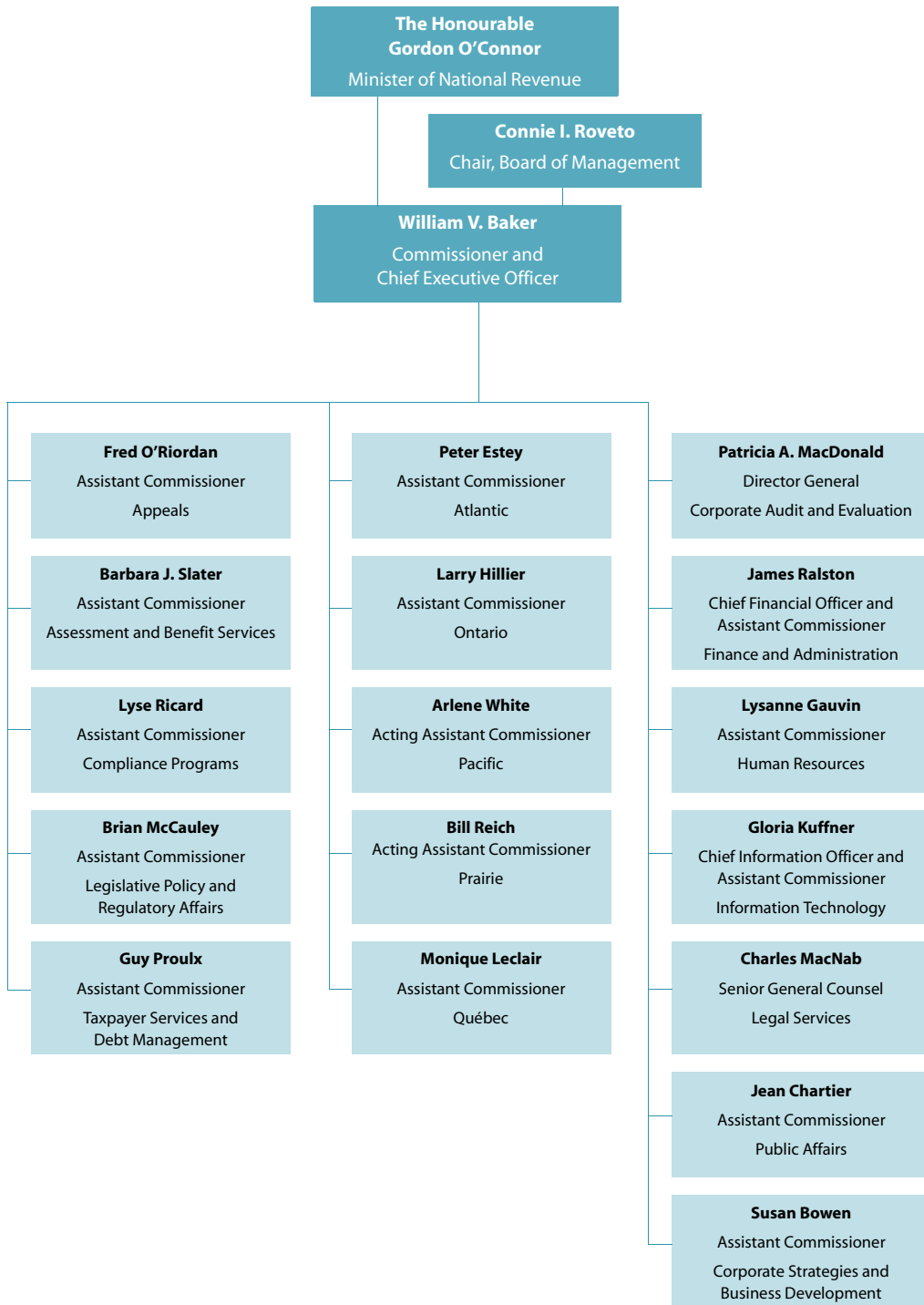
The following table shows each committee's membership as of March 31, 2008, as well as each Director's participation rates:

Board Members	Board of Management (13) ¹	Audit Committee (6) ¹	Resources Committee (4) ¹	Human Resources Committee (4) ¹	Governance Committee (6) ¹	Total	Average Attendance per Member
William Baker	13/13		4/4	4/4	6/6	27/27	100%
Camille Belliveau	13/13		4/4		1/1	18/18	100%
Myles Bourke	13/13	6/6				19/19	100%
Raymond Desrochers	13/13	6/6				19/19	100%
Gordon Gillis	11/13			4/4		15/17	88.2%
André Gingras	11/13		3/4			14/17	82.4%
Robert Healey	13/13	3/3 ²				16/16	100%
Jim Hewitt	13/13	6/6			6/6	25/25	100%
Howard Leeson	12/13			4/4	6/6	22/23	95.7%
Rod Malcolm	9/13		3/4			12/17	70.6%
Patricia Mella	12/13			4/4		16/17	94.1%
Jim Nininger	13/13			4/4	6/6	23/23	100%
Connie Roveto	13/13	6/6	4/4	4/4	6/6	33/33	100%
Stephen Rudin	10/13			4/4		14/17	82.4%
Sylvie Tessier	13/13		4/4			17/17	100%
Total	182/195	27/27	22/24	28/28	31/31	290/305	95.1%
Average Attendance Per Meeting	93.3%	100%	91.7%	100%	100%	95.1%	

¹ These include face to face meetings and tele/video conferences as follows: an annual strategic planning meeting of the Board; quarterly meetings of the Board and its Committees; and regular or ad hoc teleconferences as required.

² Member appointed to the Audit Committee as of September 2007.

Organizational Structure



As of March 31, 2008

- Executive Summary
- Introduction
- Tax Services
- Benefit Programs
- Program Activities
- Agency Governance
- Schedules

Schedule B – Other Items of Interest

This schedule contains detailed Action Plans; Sustainable Development; and Benefit Programs and Benefit-Related Services delivered by the CRA.

Detailed Tax Debt Management Action Plans

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

Risk Management

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

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

PAC Reference #2

Specific Commitment(s) and Deliverables	Target Date	Progress
<p>1. Establish processes to use new Risk Assessment Tools, build Risk Models and Scores, and implement.</p> <ul style="list-style-type: none"> – Risk models will be built in 2006-2007 and are currently scheduled for release over 2007-2008 for testing. – Fully operational risk scores will be available for individual income tax accounts by March 2009. 	<p>Target date of Fiscal Year 2009-2010</p> <p>Release 2.0 – April 2009</p> <p>Release 2.1 – October 2009</p>	<p>In progress and on track</p> <p>Piloting a model that predicts the collections yield of a non-filer population. Initial results are very positive.</p> <p>The last report indicated that IRC would use a release strategy (Release 2.0 and 2.1) to mitigate risk. Subsequently, a decision was made to advance Data Mining Model (DMM) 07 from Release 2.1 (October 2009) to Release 2.0 (April 2009) to fit within the new debt determine action processing window.</p> <p>Release 2.0 – April 2009 includes:</p> <ul style="list-style-type: none"> • Developing the data infrastructure to support the research for the development of various risk models. • Open business rules in IRC for the Individual Taxpayer (T1) Accounts Receivable (A/R) Risk Management decision making business processes. • 100% of the Individual Taxpayer (T1) population in IRC. Initial release of What If and Champion/Challenger will provide the ability to challenge complete strategies or particular steps within a strategy on a portion of a population prior to its implementation on all of the population. • Developing a taxpayer profile that will include debtor history and various risk scores to assist in determining the next appropriate taxpayer treatment action. • DMM07 that predicts the likeliness of the taxpayer paying a debt voluntarily within the first 90 days. <p>Release 2.1 – October 2009 includes:</p> <ul style="list-style-type: none"> • Use third party financial health scores to help determine CRA action towards a taxpayer. • Three data mining models are being developed for IRC Release 2.1: <ul style="list-style-type: none"> – DMM03 – Predicts the complexity as a factor of time and effort to resolve a debt. – DMM06 – Predicts the likelihood that a debt will eventually be written off superseding DMM06. – DMM08 – Predicts the tax potential for a debtor for an outstanding return for any of the previous three tax years.
<p>2. Fully operational risk scores are scheduled for business programs by 2011.</p>	<p>2011</p>	<p>Deferred until funding source is secured</p> <p>Current funding and activities exclusively dedicated to T1 individuals</p>

File Management

The CRA's strategy to improve the file management of its collections program will address the **OAG's recommendation (8.65)** that:
"The Canada Revenue Agency should minimize the number of collectors who work on each account, record their actions in a more systematic way, and improve the case management tools they have at their disposal."

Specific Commitment(s) and Deliverables	Target Date	Progress
<p>1. Improved file management capacity is currently scheduled for March 2009 for individual income tax collections and compliance.</p> <p>Components:</p> <ul style="list-style-type: none"> - Integrated Taxpayer View Workbench - Integrated Compliance Platform - Workload Management Component 	Target date of October 2009	<p>In progress and on track</p> <p>As stated in the last update, the project will only be implementing a portion of File Management in Release 2.1.</p> <p>The T1 Taxpayer View Mainframe Macro Application (MMA) will be deployed to the T1 Accounts Receivable sites in September 2008. The Non-filer/Non-registrant Taxpayer View is currently in the build phase and will be deployed to all Tax Services Offices starting in January 2009.</p> <p>Subsequent to the last report a decision was made to increase the scope of this deliverable to assist in the management of inventory for Corporate (T2), Individual (T1), GST and Payroll Deductions. This application is currently in development.</p>
<p>2. Business programs are currently scheduled to use the same components for improvements to file and workload management in 2011.</p>	2011	<p>Deferred until funding source is secured</p> <p>Current funding and activities exclusively dedicated to T1 individuals</p>

Performance Reporting

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

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

Specific Commitment(s) and Deliverables	Target Date	Progress
1. Improved performance reporting tools for individual income tax programs will be available beginning late in 2007, with fully operational reporting at the national, regional, local office, and individual officer levels scheduled for individual income tax programs by March 2009.	Target date of April 2009	In progress and on track <ul style="list-style-type: none"> Enhanced data accessibility provided through an updated version of All Revenues Table that was re-released into production as of June 2008. The work continues to enhance data access and inventory management reporting for program managers. Improved operational and corporate reporting, with increased access to information and flexibility, for T1 (individuals) will be delivered starting in April 2009. This new tool will allow reporting of both Taxpayer actions and CRA actions thereby more accurately measuring the results of collection actions. Three different data marts have been built to support data analysis, research and performance reporting capabilities. These tools facilitate access to CRA information formerly available only via system selects and manual statistics. Enhanced data analysis will lead to improved decision making based on facts such as a full understanding of the make-up of the tax debt and effectiveness of collections steps and strategies.
2. Performance reporting tools are currently scheduled to be progressively implemented throughout all major business revenue lines by 2011.	2011	In progress and on track <ul style="list-style-type: none"> Reporting for Individuals will progressively incorporate other business lines.
3. The CRA will collect information on collector actions through continued enhancement of its performance measurement systems by way of the Integrated Revenue Collections (IRC) project, which is scheduled to have its first major phase implemented by March 2009.	Target date of April 2009.	In progress and on track <ul style="list-style-type: none"> Progress continues to be made on improving performance information on the results of actions of individual collectors. Activities are underway in the development of the Taxpayer Folder concept which will store front-end automated collections actions in addition to the taxpayers actions.

Debt Management Research

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

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

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

PAC Reference #4

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

Outstanding 1994 OAG Recommendations

PAC Recommendation #1:

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

NOTE:

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

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

Remaining PAC Recommendations

PAC Recommendation #5:

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

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

Remaining OAG Recommendations

OAG Recommendation 8.65:

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

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

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

Specific Commitment(s) and Deliverables	Target Date	Progress
1. A study of files managed by collectors will be conducted to validate the OAG observations and identify improvements to practices.	September 2007	<p>COMPLETED</p> <p>The file reviews have been completed and initial findings on lower value and complexity accounts demonstrated that additional measures are needed to assure quality of work. This item has now been completed insofar as delivering on the management response to this 2006 observation.</p> <p>For information:</p> <p>Accounts Receivable Division has implemented two tools to improve the quality of work done by collection officers. The first is the Work Assessment Checklist, which is a joint Union/Management initiative, and to be used by the team leader to enhance performance management. The second was the roll out of an On-Site Quality Assurance Review process (OSQAR). The goal is to review the work done at the TSO level, identify negative trends and training needs, and addressing findings in a timely manner. Both programs were implemented in 2007-2008.</p>

Sustainable Development

Protecting our environment and pursuing efficient operations go hand in hand at the CRA. By using fewer resources, while optimizing our services, we reduce our operating costs and preserve valuable natural resources. One illustration of this principle is our use of office paper. The table below shows that, since the implementation of our paper reduction strategy in 2002-2003, the overall trend reveals a reduction in the amount of paper used per employee as well as lower office paper expenditures.

Annual Office Paper Consumption

Fiscal Year	Average Consumption per FTE in Sheets	Office Paper Expenditures
2002-2003	7,011	\$2.43 million
2003-2004	7,399	\$2.42 million
2004-2005	7,234	\$1.81 million
2005-2006	6,407	\$1.56 million
2006-2007	5,761	\$1.45 million
2007-2008	5,721	\$1.48 million

Our employees are essential and willing partners in our pursuit of environmental excellence. A 2007 survey indicated that 89% of employees were aware of the sustainable development efforts in our organization. Of those, 94% have reduced paper consumption, 92% have increased recycling, and 91% have reduced their energy consumption.

Our current efforts are guided by our 2007-2010 Sustainable Development Strategy. The strategy sets out our agenda for reducing the impact of our operations on the environment, delivering our programs in a more sustainable way, engaging our employees, and building essential support systems for sustainable development.

For more information on our Sustainable Development performance, please visit: <http://www.cra-arc.gc.ca/gncy/sstnbl/prfrmnc/menu-eng.html>.

Benefit Programs and Benefit-Related Services Delivered by the CRA

Five Federal Benefit Programs
<ul style="list-style-type: none"> • Canada Child Tax Benefit • Universal Child Care Benefit¹ • Goods and Services Tax / Harmonized Sales Tax Credit • Children's Special Allowances • Disability Tax Credit

¹ On behalf of Human Resources and Social Development Canada.

18 Ongoing Benefit Programs for Provinces and Territories	1 st Year
• British Columbia – BC Family Bonus	1996
• British Columbia – BC Earned Income Benefit	1998
• Alberta Family Employment Tax Credit	1997
• Saskatchewan Child Benefit	1998
• Saskatchewan Sales Tax Credit	2000
• Yukon Child Benefit	1999
• Northwest Territories Child Benefit	1998
• Northwest Territories – Territorial Worker's Supplement	1998
• Nunavut Child Benefit	1999
• Nunavut Territorial Worker's Supplement	1999
• New Brunswick Child Tax Benefit	1997
• New Brunswick Working Income Supplement	1997
• Nova Scotia Child Benefit	1998
• Newfoundland and Labrador Child Benefit	1999
• Newfoundland and Labrador – Mother Baby Nutrition Supplement	2001
• Newfoundland Harmonized Sales Tax Credit	1997
• Newfoundland and Labrador Seniors' Benefit	1999
• Ontario Child Tax Benefit	2007

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

46 Data Exchange and Data Transfer Services
<ul style="list-style-type: none"> • Twenty-three income verification data exchanges with provinces to support programs • Eleven NCB Supplement data exchanges with provinces and territories to facilitate calculation of social assistance • Four data transfers with provinces to support top-ups for CRA-administered child benefit programs • Two data transfers of income and child information to support administration of the Ontario Child Care Supplement and Quebec Family Allowance programs • Two data exchanges and transfers to support the new Nova Scotia Pharmacare program and to assist the ministère du Revenu du Québec in the administration of the Quebec <i>Income Tax Act</i> • Four data exchanges and data transfers to support federal administration of EI Family Supplement, Canada Learning Bond, Additional Canada Education Savings Grant, and Guaranteed Income Supplement

Schedule C – Web Links for Additional Information

Subject	CRA Web Sites
Annual Report 2006-2007	www.cra-arc.gc.ca/gncy/nnnl/2006-2007/menu-eng.html
Board of Management biographies	www.cra-arc.gc.ca/gncy/brd/bgrphs-eng.html
Canada Child Tax Benefit	www.cra-arc.gc.ca/bnfts/cctb/menu-eng.html
CRA Commissioner's biography	www.cra-arc.gc.ca/gncy/cmssnr/menu-eng.html
CRA E-services (Government On-Line)	www.cra-arc.gc.ca/esrvc-srvce/gol-ged/menu-eng.html
CRA: The First Five Years	www.cra-arc.gc.ca/gncy/rvw/2005/menu-eng.html
External (User) Charging Revenues	www.cra-arc.gc.ca/users/
GST/HST credit	www.cra-arc.gc.ca/bnfts/gsthst/menu-eng.html
Information for Newcomers to Canada	www.cra-arc.gc.ca/tx/nnrstdnts/ndvdl/nwcmr-eng.html
Interactive Information Service	www.cra-arc.gc.ca/tx/ndvdl/tpcs-ndx/a-gen-eng.html
Making a Difference for Canadians	www.cra-arc.gc.ca/gncy/dffrc/menu-eng.html
Minister of National Revenue	www.cra-arc.gc.ca/gncy/mnstr/menu-eng.html
National Child Benefit	www.cra-arc.gc.ca/bnfts/ncb-eng.html
Summary of Corporate Business Plan 2008-2009 to 2010-2011	www.cra-arc.gc.ca/gncy/bsnss_plns/2008/menu-eng.html
Our Service Standards	www.cra-arc.gc.ca/servicestandards/
Sustainable Development	www.cra-arc.gc.ca/gncy/sstnbl/menu-eng.html
Taxpayer Bill of Rights	www.cra-arc.gc.ca/gncy/frnss/menu-eng.html
Taxpayer Relief Provisions	www.cra-arc.gc.ca/gncy/frnss/fr-prv-eng.html
Taxpayers' Ombudsman	www.taxpayersrights.gc.ca/menu-eng.html
Voluntary Disclosures Program	www.cra-arc.gc.ca/gncy/nvstgtns/vdp-eng.html

Subject	Additional Web Sites
Accenture Report, Leadership in Customer Service	www.accenture.com/Global/Services/By_Industry/Government_and_Public_Service/
Access to Information Act	laws.justice.gc.ca/en/A-1/
Canada Border Services Agency	www.cbsa.gc.ca/
Citizenship and Immigration Canada	www.cic.gc.ca/
Department of Finance	www.fin.gc.ca/
Department of Justice	www.justice.gc.ca/
Excise Tax Act	laws.justice.gc.ca/en/E-14.1/index.html
Family Orders and Agreement Enforcement Act	laws.justice.gc.ca/en/F-1.4/index.html
Government of Canada	www.canada.gc.ca/
House of Commons	www.parl.gc.ca/
Human Resources and Social Development Canada	www.hrsdc.gc.ca/
Income Tax Act	laws.justice.gc.ca/en/showtdm/cs/l-3.3/index.html
Management, Resources and Results Structure	www.tbs-sct.gc.ca/dpr-rmr/2007-2008/presentations/mssr-sggr/page01-eng.asp
Organisation for Economic Co-operation and Development (OECD)	www.oecd.org
Privacy Act	laws.justice.gc.ca/en/P-21/index.html
The Senate of Canada	www.sen.parl.gc.ca/
Treasury Board of Canada Secretariat	www.tbs-sct.gc.ca/

Schedule D – Glossary

Term	Description
Accrual accounting	A method in 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 succeed in reaching our telephone service.
Cancellation	The reversal of a penalty or interest that has already been assessed.
Cash receipts	Money received by the CRA or its agents during the fiscal year ended March 31, the majority of which is deposited to the federal government's Consolidated Revenue Fund. Any money not yet deposited is referred to as 'cash on hand'.
Commodity taxes	Federal tax collected on the purchase of goods or services made by the final consumer.
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.
Contract Payment Reporting	An initiative that is aimed at deterring underground economic activity by requiring all construction businesses to record payments that are made to subcontractors who provide construction services.
Corporate Business Plan	Outlines the CRA's major challenges, directions, and objectives for a three-year period; the strategies to achieve those objectives; and the performance measures to be used to measure progress.
Dispute	General term to designate a disagreement, objection, or appeal to the Minister of National Revenue made by or on behalf of a taxpayer or benefit recipient, related to a CRA decision.
Eligible taxpayer/benefit recipient	One who meets the requirements to qualify to receive a specific service or payment/credit.
Enforcement	Actions taken by the CRA to identify and address cases of non-compliance.
Entitlement	The amount due to an eligible person for a specific period.
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.
Fiscal impact	Additional tax identified through our compliance activities. This includes federal and provincial tax (excluding Quebec), federal tax refund offset, or reduced interest and penalties; and present value of future tax assessable.
Full-time equivalent	A unit measuring a length of time for employment cost purposes in an operating budget. It includes incidental time necessarily used for annual leave, training, etc.
Governance	A comprehensive term that denotes the institutions and processes by which an organization is directed or controlled.
Indicator	The qualification or quantification of a characteristic that is measured to assess the extent to which an expected result is achieved. In other words, it is a means of knowing whether or not we have achieved a desired result.
Individual Identification System	An electronic system that maintains basic information about an individual, such as address and date of birth, for purposes of tax and benefits administration.
Insolvency	The condition of being unable to pay debts as they become due.
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.
National Collection Call Centres	Handles high-volume/non-complex collection and GST/HST compliance related calls.
National Collection Pool	Virtual office handling non-complex new T1 and GST/HST collection intake.
Non-tax debt	Debt arising from defaulted Canada Student Loans, Canada Pension Plan Overpayments, and Employment Insurance overpayments, that the CRA is responsible for collecting on behalf of Human Resources and Social Development Canada, and as yet has not collected.

Term	Description
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 for an opinion.
Performance	A term used to define what the CRA did with its resources to achieve its results compared to what the CRA intended to achieve and how well lessons learned have been identified.
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 using 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 of the level of performance that citizens can expect to encounter from the CRA under normal circumstances.
Set-off	A service provided by the CRA that allows tax refunds and GST/HST credits for individuals to be transferred (set off) to pay debts owed to other federal, provincial, or territorial governments programs.
Small and medium enterprises	Small Enterprises: Individuals who are in business, trusts, and private corporations with less than \$1 million annual revenues. Medium Enterprises: Typically, corporations with annual revenues between \$1 million and \$250 million and often involve subsidiary corporations and branch operations.
Strategic outcome	A description of the difference an organization is mandated to make that provides long-term benefits to Canadians.
T1	Income Tax and Benefit Return for Individual
T2	Corporation Income Tax Return
T3	Trust Return
T4	Statement of Remuneration Paid
T5	Return of Investment Income
Tax Alert	A Tax Alert is a media product utilized by the CRA when it wishes to communicate matters of particular importance to Canadians that are normally time sensitive and aimed at protecting their interest and providing important information that could directly affect them. This may include information on tax shelters, investments, tax strategies, and fraud that targets taxpayers.
Tax debt	Taxes and other revenues assessed or estimated by the CRA but not yet collected.
Taxpayer Relief Provisions	Legislation introduced in the early 1990s that provides relief (e.g., forgiveness of interest and penalties) to taxpayers in specific circumstances beyond their control.
Taxpayer Segments	Groups of taxpayers who have common compliance requirements and characteristics, service needs, preferences for accessing information or services, or expectations of the CRA, such as individuals; small, medium and large businesses, both incorporated and unincorporated; and charities.
Tax shelter	Tax shelters are defined in the <i>Income Tax Act</i> . In very general terms, a tax shelter includes either a gifting arrangement or the acquisition of property where it is represented to the purchaser or donor that the tax benefits and deductions arising from the arrangement or acquisition will equal or exceed the net costs of entering into the arrangement or the property. Also, a gifting arrangement where the donor incurs a limited recourse debt related to the gift is considered to be a tax shelter. Generally, a limited recourse debt is one where the borrower is not at risk for the repayment.
Underground economy	Economic activity that is neither reported nor recorded.
Voluntary Disclosures Program	A program that provides taxpayers with the opportunity to correct past errors or omissions, and to report, without penalty or prosecution, their tax obligations to the CRA.
Waiver	When penalties or interest have not yet been charged, the decision not to charge the amount, either at the taxpayer's request or at the CRA's own initiative.

Schedule E – Acronyms and Abbreviations

AWP	Agency Workforce Plan	IRC	Integrated Revenue Collections
BoMOF	Board of Management Oversight Framework	JITSIC	Joint International Tax Shelter Information Centre
CAP	Core Audit Program	MAF	Management Accountability Framework
CBHRM	Competency Based Human Resources Management	MOU	Memorandum of Understanding
CCTB	Canada Child Tax Benefit	N/A	Not applicable
CEO	Chief Executive Officer	n/a	Not available
CFO	Chief Financial Officer	NF/NR	Non-filer/Non-registrant
CPP	Canada Pension Plan	OECD	Organisation for Economic Co-operation and Development
CRA	Canada Revenue Agency	PA	Program Activity
CSA	Children's Special Allowance	PPSC	Public Prosecution Service of Canada
CTAO	Corporate Tax Administration for Ontario	PQP	Pre-Qualification Process
DTC	Disability Tax Credit	PST	Provincial Sales Tax
EI	Employment Insurance	RRSP	Registered Retirement Savings Plan
FTE	Full-time Equivalent	SP	Services and Programs
GST	Goods and Services Tax	TBS	Treasury Board of Canada Secretariat
HRSDC	Human Resources and Social Development Canada	TSO	Tax Services Office
HST	Harmonized Sales Tax	UCCB	Universal Child Care Benefit
IIRP	Individual Identification Renewal Project	UE	Underground Economy

Financial Statements

Financial Statements Table of Contents

- Statement of Management Responsibility 109
- Audited Financial Statements – Agency Activities 111
 - Financial Statements Discussion and Analysis – Agency Activities..... 129
- Canada Revenue Agency Financial Statements – Administered Activities..... 133
 - Financial Statements Discussion and Analysis – Administered Activities 150
- Unaudited Supplementary Financial Information 155
 - Financial Performance Information – Parliamentary Appropriations..... 157
 - Financial Performance Tables 159

Statement of Management Responsibility

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

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

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

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

Approved by:



William V. Baker
Commissioner and Chief Executive Officer



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

Ottawa, Ontario
September 16, 2008

Audited Financial Statements – Agency Activities



Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

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

I have audited the statement of financial position of the Agency Activities of the Canada Revenue Agency as at March 31, 2008 and the statements of operations, net liabilities and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on my audit.

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

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Agency Activities of the Canada Revenue Agency as at March 31, 2008 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
September 16, 2008

Canada Revenue Agency Statement of Financial Position – Agency Activities

As at March 31
(in thousands of dollars)

	2008	2007
ASSETS		
Financial assets		
Cash	104	133
Due from the Consolidated Revenue Fund	268,417	363,669
Accounts receivable (Note 4)	25,209	193,403
	293,730	557,205
Non-financial assets		
Prepaid expenses	16,070	15,531
Capital assets (Note 5)	456,471	389,753
	472,541	405,284
TOTAL	766,271	962,489
LIABILITIES		
Accrued salaries	127,952	101,309
Accounts payable and accrued liabilities	143,442	280,404
Lease obligations for capital assets (Note 6)	5,366	2,510
Vacation pay and compensatory leave	158,864	152,301
Employee severance benefits (Note 7)	509,479	495,031
Other liabilities	1,738	1,367
	946,841	1,032,922
NET LIABILITIES (Note 8)	(180,570)	(70,433)
TOTAL	766,271	962,489

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

Approved by:



William V. Baker
Commissioner and Chief Executive Officer



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

Canada Revenue Agency Statement of Operations – Agency Activities

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

	2008	2007
EXPENSES (Note 9)		
Reporting compliance	1,401,813	1,314,423
Assessment of returns and payment processing	951,074	917,477
Accounts receivable and returns compliance	826,265	844,485
Taxpayer and business assistance	443,517	420,625
Appeals	227,444	203,626
Benefits programs	177,648	162,284
TOTAL EXPENSES	4,027,761	3,862,920
NON-TAX REVENUE (Note 10)		
Reporting compliance	80,386	51,345
Assessment of returns and payment processing	121,039	104,138
Accounts receivable and returns compliance	168,004	185,297
Taxpayer and business assistance	71,519	42,294
Appeals	22,542	17,291
Benefit programs	16,163	14,008
TOTAL NON-TAX REVENUE	479,653	414,373
NET COST OF OPERATIONS	3,548,108	3,448,547

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

Canada Revenue Agency Statement of Net Liabilities – Agency Activities

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

	2008	2007
Net liabilities, beginning of year	(70,433)	(268,935)
Net cost of operations	(3,548,108)	(3,448,547)
Current year Parliamentary appropriations used (Note 3(a))	3,609,138	3,201,564
Non-tax revenue not credited to Vote 1 (Note 3(c))	(217,082)	(184,451)
Change in net cash not affecting appropriations in the current year (Note 3(c))	(69,886)	71,889
Services received without charge from other government agencies and departments (Note 11)	211,053	436,296
Change in Due from the Consolidated Revenue Fund	(95,252)	121,751
NET LIABILITIES, END OF YEAR	(180,570)	(70,433)

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

Canada Revenue Agency Statement of Cash Flow – Agency Activities

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

	2008	2007
Operating activities		
Net cost of operations	3,548,108	3,448,547
Items not affecting cash		
Amortization of capital assets	(79,805)	(58,006)
Net loss on disposal/write-off of capital assets	(2,063)	(484)
Services received without charge from other government agencies and departments (Note 11)	(211,053)	(436,296)
Change in financial assets other than Due from the Consolidated Revenue Fund	(168,223)	180,060
Change in prepaid expenses	539	1,982
Change in liabilities other than lease obligations for capital assets	88,937	(162,688)
Cash used by operating activities	3,176,440	2,973,115
Capital investing activities		
Acquisition of capital assets funded by current year appropriations (Note 3 (b))	143,814	113,604
Acquisition of capital assets not funded by current year appropriations	4,822	2,464
Change in lease obligations for capital assets	(2,856)	(131)
Proceeds from disposal of capital assets	(50)	(50)
Cash used by capital investing activities	145,730	115,887
Net cash provided by the Government of Canada	3,322,170	3,089,002

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

Notes to the Financial Statements – Agency Activities

1. Authority and objectives

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

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

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

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

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

- (a) Reporting compliance: Verifies complete and accurate disclosure by taxpayers of all required information to establish tax liabilities;
- (b) Assessment of returns and payment processing: Processes and validates taxpayer returns; registers, establishes, and maintains taxpayer accounts and; receives payments;
- (c) Accounts receivable and returns compliance: Identifies and addresses non-compliance with taxpayer filing and remittance requirements;
- (d) Taxpayer and business assistance: Assists taxpayers in meeting their obligations under the self-assessment;
- (e) Benefit programs: Provides Canadians certain income-based benefits, credits and other services on behalf of federal, provincial (except Québec), and territorial governments; and
- (f) Appeals: Provides a dispute resolution process for taxpayers who disagree with decisions taken by the Agency.

2. Summary of significant accounting policies

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

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

(a) Parliamentary appropriations

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

(b) Net cash provided by the Government of Canada

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

(c) Expense recognition

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

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

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

(e) Revenue recognition

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

(f) Capital Assets

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

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

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

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

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

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

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

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

(ii) Severance benefits

Employees are entitled to severance benefits, as provided for under labour contracts and conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. The obligation resulting from the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

(i) Vacation pay and compensatory leave

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.

(j) Employee benefit plan

The Government of Canada sponsors an employee benefit plan (health and dental) in which the Agency participates. The Agency's contributions to the plan are recorded at cost and charged to personnel expenses in the year incurred. They represent the Agency's total obligation to the plan. Current legislation does not require the Agency to make contributions for any future unfunded liabilities of the plan.

(k) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable, the Agency's best estimate of the contingency is disclosed in the notes to the financial statements.

(l) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenue and expenses reported on the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. Employee severance benefits, contingent liabilities, the useful life of capital assets, services received without charge and the allowance for doubtful accounts are the most significant items where estimates are used. Actual results could differ significantly from the current estimates. The estimates are reviewed periodically and, as adjustments become necessary, they are reported in the financial statements in the period in which they become known.

3. Parliamentary appropriations

The Agency receives most of its funding through annual Parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary appropriations in prior, current, or future years. Accordingly, the Agency has different net results of operations for the year on a government funding basis than on an accrual accounting basis. These differences are reconciled below.

(a) Reconciliation of Parliamentary appropriations provided and used:

	2008	2007
	(in thousands of dollars)	
Parliamentary appropriations — provided:		
Vote 1– CRA operating expenditures	3,160,637	2,890,491
Amounts available for spending per section 60(2) of the <i>CRA Act</i>	171,763	134,446
Spending of proceeds from disposal of surplus Crown assets	126	210
Statutory expenditures:		
Statutory contributions to employee benefits plan	402,012	385,489
Transfers to provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i>	603,602	–
Children’s Special Allowance Payments ¹	208,163	197,768
Energy Cost Benefit ¹	992	4,073
Private collection agency fees	12,431	12,377
Other	437	992
	4,560,163	3,625,846
Less:		
Appropriations available for future years ² :		
Operating	(134,871)	(167,724)
Appropriation lapsed ²	(2,333)	(52,998)
Expenditures related to Administered Activities ¹	(813,821)	(203,560)
	(951,025)	(424,282)
Total Parliamentary appropriations used	3,609,138	3,201,564

¹ In accordance with the division of activities for financial reporting purposes outlined in Note 2, the ex-gratia payments for Relief for Heating Expense, which were authorized through Vote 1 – CRA (Operating expenditures), as well as the payments for Children’s Special Allowance and Energy Cost Benefit, are reported as federal administered expenses on the Statement of Administered Expenses and Recoveries of the Agency’s Administered Activities financial statements.

² Pursuant to section 60(1) of the *CRA Act*, the balance of money appropriated by Parliament for the use of the Agency that remains unexpended at the end of the fiscal year lapses at the end of the following fiscal year.

(b) Reconciliation of net cost of operations to total Parliamentary appropriations used:

	2008	2007
	(in thousands of dollars)	
Net cost of operations	3,548,108	3,448,547
Expenses not requiring use of current year appropriations:		
Amortization of capital assets (Note 9)	(79,805)	(58,006)
Adjustment to prior years' accruals	1,220	1,660
Loss on disposal/write-off of capital assets	(2,103)	(514)
Services received without charge from other government agencies and departments (Note 11)	(211,053)	(436,296)
Other	12,347	(13,441)
	<u>(279,394)</u>	<u>(506,597)</u>
Asset acquisitions funded by current year appropriations:		
Capital assets	143,814	113,604
Prepaid expenses	539	1,982
	<u>144,353</u>	<u>115,586</u>
Net changes in future funding requirements:		
Employee severance benefits	(14,448)	(34,033)
Vacation pay and compensatory leave	(6,563)	(6,390)
	<u>(21,011)</u>	<u>(40,423)</u>
Non-tax revenue not credited to Vote 1 (Note 10):		
Non-tax revenue available for spending	173,068	134,120
Non-tax revenue not available for spending	44,014	50,331
	<u>217,082</u>	<u>184,451</u>
Total Parliamentary appropriations used	<u>3,609,138</u>	<u>3,201,564</u>

(c) Reconciliation of net cash provided by the Government of Canada to Parliamentary appropriations used:

	2008	2007
	(in thousands of dollars)	
Net cash provided by Government of Canada	3,322,170	3,089,002
Non-tax revenue not credited to Vote 1 (Note 10):		
Non-tax revenue available for spending	173,068	134,120
Non-tax revenue not available for spending	44,014	50,331
	<u>217,082</u>	<u>184,451</u>
Change in net cash not affecting appropriations in the current year:		
Net changes in accounts payable, accrued liabilities, accrued salaries and other liabilities	(109,948)	122,265
Net changes in cash and accounts receivable	168,223	(180,060)
Other adjustments	11,611	(14,094)
	<u>69,886</u>	<u>(71,889)</u>
Total Parliamentary appropriations used	<u>3,609,138</u>	<u>3,201,564</u>

4. Accounts receivable

	2008	2007
	(in thousands of dollars)	
Accounts receivable – Related parties (Note 11)	17,969	187,991
Accounts receivable – External	2,594	1,039
Advances to employees	2,154	2,193
Salary overpayments	2,816	2,548
	25,533	193,771
Less: Allowance for doubtful accounts	(324)	(368)
	25,209	193,403

Effective March 27, 2007, all Employment Insurance (EI) costs that had been paid by Human Resources and Social Development Canada (HRSDC) are now recovered directly from the EI Account. As a result, in 2007, an amount of \$152,354,000 for EI costs was recorded as a receivable from the EI Account.

5. Capital assets

	(in thousands of dollars)					
Asset Class	Opening costs	Net additions (disposals)	Closing costs	Accumulated amortization	2008 Net book value	2007 Net book value
Machinery, equipment and furniture	15,070	(292)	14,778	10,464	4,314	4,763
Software (purchased and in-house developed and/or in development)	378,124	102,171	480,295	126,101	354,194	294,244
Vehicles and other means of transportation	2,427	(103)	2,324	1,373	951	1,234
Information technology equipment including leased assets (Note 6)	243,642	42,072	285,714	188,702	97,012	89,512
Total	639,263	143,848	783,111	326,640	456,471	389,753

The costs of assets under construction or development, which are not amortized, are \$130,045,789 in software and \$142,395 in information technology equipment as at March 31, 2008 (\$190,595,511 and \$741,797 respectively as at March 31, 2007). The amortization expense for the year is \$79,804,525 (2007 – \$58,005,644) (Note 9). Disposals for the year totaled \$4,787,753 (2007 – \$7,396,817) and the related accumulated amortization was \$2,708,242 (2007 – \$6,851,022).

6. Lease obligations for capital assets

The Agency has entered into agreements to rent information technology equipment under capital leases with a cost of \$12,777,282 and accumulated amortization of \$6,783,114 as at March 31, 2008 (\$3,761,926 and \$1,142,820 respectively as at March 31, 2007). The obligations for the upcoming years include the following:

	2008	2007
	(in thousands of dollars)	
2007-2008	–	1,823
2008-2009	5,443	761
Total future minimum lease payments	5,443	2,584
Less: imputed interest (3.86%-6.55%)	77	74
Balance of lease obligations for capital assets	5,366	2,510

7. Employee future benefits

(a) Pension benefits

The Agency and all eligible employees contribute to the Public Service Pension Plan, which is sponsored by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plans benefits and they are indexed to the increase in the Consumer Price Index.

The Agency's and employees' contributions to the Public Service Pension Plan for the year were as follows:

	2008	2007
	(in thousands of dollars)	
Agency's contributions	293,066	284,105
Employees' contributions	128,115	119,018

The Agency's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada.

(b) Severance benefits

The Agency provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2008	2007
	(in thousands of dollars)	
Employee severance benefits, beginning of year	495,031	460,998
Cost for the year	49,265	67,084
Benefits paid during the year	(34,817)	(33,051)
Employee severance benefits, end of year	509,479	495,031

8. Net liabilities

Net liabilities represents liabilities incurred by the Agency, net of assets, which have not yet been funded through appropriations. Significant components of these amounts are employee severance benefits and vacation pay and compensatory leave. These amounts are expected to be funded by appropriations in future years as they are paid.

9. Expenses by category

In the Statement of Operations, expenses are presented by program activity. The following presents expenses by category.

	2008	2007
	(in thousands of dollars)	
Personnel		
Salaries	2,072,227	1,991,198
Other allowances and benefits (including employee benefits described in Note 7)	846,454	848,281
	2,918,681	2,839,479
Accommodation	246,170	226,298
Professional and special services	210,344	186,568
Transportation and communications	195,354	180,125
Federal sales tax administration costs by the Province of Quebec	140,663	157,369
Repair and maintenance	117,631	84,048
Amortization of capital assets (Note 5)	79,805	58,006
Equipment purchases	55,731	61,084
Materials and supplies	39,989	38,163
Other services and expenses	10,928	20,286
Advertising, information and printing services	6,503	5,213
Equipment rentals	5,962	6,281
TOTAL EXPENSES	4,027,761	3,862,920

10. Non-tax revenue by category

In the Statement of Operations, non-tax revenues are presented by program activity. The following presents non-tax revenues by category. The nature of each category is defined by the treatment permitted from a Parliamentary appropriations perspective.

	2008	2007
	(in thousands of dollars)	
Non-tax revenue credited to Vote 1 – CRA (Operating expenditures)		
Fees for administering the <i>Employment Insurance Act</i>	140,344	124,347
Fees for administering the <i>Canada Pension Plan</i>	122,227	105,575
	262,571	229,922
Non-tax revenue available for spending		
Services fees	141,668	100,493
Administration fees – provinces and territories	28,401	30,369
Ruling fees	2,043	2,071
Miscellaneous spendable revenue	956	1,187
	173,068	134,120
Non-tax revenue not available for spending		
Recovery of employee benefit costs relating to non-tax revenue credited to Vote 1 and revenue available for spending	41,650	41,617
Miscellaneous non-tax revenue	2,364	8,714
	44,014	50,331
TOTAL NON-TAX REVENUE	479,653	414,373

11. Related party transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Agency also receives services, which are obtained without charge from other government departments as presented in part (a). All related party transactions entered into by the Agency are in the normal course of business and on normal trade terms applicable to all individuals and enterprises.

(a) Services received without charge from other government agencies and departments:

During the year, the Agency received various services without charge from other government agencies and departments. The estimated costs for significant services provided without charge include:

	2008	2007
	(in thousands of dollars)	
Employer's contribution to the health insurance plan and employee benefit plans – Treasury Board Secretariat (TBS)	154,143	158,610
Legal services – Justice Canada	50,761	46,800
Audit services – Office of the Auditor General of Canada	2,470	2,110
Workers' compensation benefits – HRSDC	2,090	1,806
Payroll services – Public Works and Government Services Canada (PWGSC)	1,589	1,635
Accommodation – PWGSC ¹	–	225,335
	211,053	436,296

¹ Effective April 1, 2007, accommodations services are no longer received without charge from PWGSC. The cost of these services is now funded through annual Parliamentary appropriations provided to the CRA for operating expenditures.

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

	2008	2007
	(in thousands of dollars)	
Accounts receivable (Note 4)	17,969	187,991
Accounts payable	12,937	126,101

12. Board of Management

Pursuant to the *CRA Act*, a Board of Management is appointed to oversee the organization and administration of the Agency and the management of its resources, services, property, personnel and contracts. Expenses relating to the Board's activities during the year total \$1,540,790 (2007 – \$1,406,487) and are included in the net cost of operations. This includes payments in respect of the Board of Management, secretariat staff, travel, and other expenses.

13. Contingent liabilities

The Agency is a defendant in certain cases of pending and threatened litigation which arose in the normal course of operations. The current best estimate of the amount to be paid in respect of the cases identified as likely to be lost has been recorded in Accounts payable and accrued liabilities. All other cases, excluding those assessed as unlikely to be lost, are considered contingent liabilities and the related amounts are disclosed whenever the amount of the contingency can be reasonably estimated. As at March 31, 2008, contingent liabilities for claims and pending and threatened litigation have been estimated at \$64,058,083 (\$61,570,833 as at March 31, 2007).

14. Contractual obligations

The nature of the Agency's activities can result in multiyear contracts and obligations whereby the Agency will be committed to make future payments when the goods are received and/or the services are rendered. Significant contractual obligations, other than lease obligations for capital assets (Note 6), that can be reasonably estimated are as follows:

	2009	2010	2011	2012	2013 and thereafter	Total
	(in thousands of dollars)					
Operating leases	1,588	1,111	1,007	28	5	3,739
Total	1,588	1,111	1,007	28	5	3,739

15. Comparative figures

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

Financial Statements Discussion and Analysis – Agency Activities

Introduction

This section of the Financial Statements provides unaudited supplementary information on Agency Activities, as reported in the audited Financial Statements – Agency Activities. The information is on an accrual basis.

Financial Statements Highlights

There are four significant program administration changes which have resulted in considerable variances contained in the Financial Statements.

1. Transfer of fiduciary responsibility for accommodation services from Public Works and Government Services Canada (PWGSC) to Canada Revenue Agency (CRA)

Effective April 1, 2007, CRA and PWGSC successfully implemented a new regime that governs the accommodation and real property funding portfolio. In previous years, CRA, as with most other government departments and agencies, received accommodation services without charge from PWGSC. The value of these services was appropriately reflected in CRA's financial statements as cost of operations, however, the funding for these costs were voted to PWGSC and, as such, were reflected in PWGSC budget rather than CRA's. The implementation of this change has resulted in the transfer of this budgetary element from PWGSC to CRA as a voted appropriation.

The agreement governing the new real property regime between PWGSC and CRA was made possible as a result of the 1999 passage of the *Canada Customs and Revenue Agency Act*. The change in status from department to agency provided CRA with increased authority and responsibility for the administration and delivery of its programs and services. Accommodation services and real property is one such area where CRA has increased accountability and authority and accomplishing the agreement with PWGSC is a direct result of this governance change.

The financial effect of this initiative is reflected in the statements as a \$225 million decrease in 'Services received without charge from other government agencies and departments'.

2. Treasury Board of Canada Secretariat (TBS) establishment of direct funding source governing the recovery of Employment Insurance (EI) administration costs

Effective March 27, 2007, the approval of a joint Treasury Board Submission between Human Resources and Social Development Canada (HRSDC) and CRA provided a new funding model for the recovery of administrative costs incurred by CRA in the course of administering elements of the EI program which legislatively are the responsibility of CRA.

Prior to this Submission, CRA was required to recover the administrative costs of administering these EI related activities by establishing a debt under CRA accounts payable and accrued liabilities. At the culmination of each fiscal year this debt would be settled through a payment from the EI fund via HRSDC. The March 2007 agreement provided CRA with the appropriate authority to acquire the resources directly from the EI fund without necessitating HRSDC involvement.

This new funding practice, specific to EI administration, more accurately reflects CRA's legislative responsibility for these activities mandated by legislation. Furthermore, the funding model mirrors the process that was in place for the Canada Pension Plan.

The transition to this new funding model has created several extraordinary variances between fiscal year 2007 and 2008 that are evident in the CRA financial statements. Specifically, it has resulted in a \$111 million decrease in the Due from the Consolidated Revenue Fund and a corresponding decrease of the same amount in the accounts payable and accrued liabilities which resulted from the fact that the TBS agreement was finalized late in the 2007 fiscal year. The funding model change has also caused a \$171 million variance in the accounts receivable which reflects a billing adjustment made late in fiscal year 2007.

From fiscal year 2008 forward, these variances will no longer appear in the CRA financial statements as the funding model will be consistent in year to year comparisons and accurately reflect CRA's legislative authority.

3. Increased investment in Information Technology (IT) systems

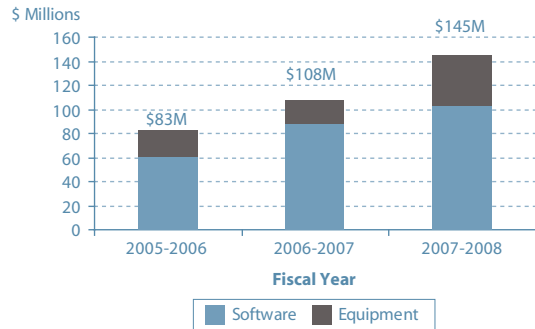
Over the course of fiscal year 2008, the CRA had several large-scale projects that required substantial investments in the development of IT systems: the Integrated Revenue Collection System, Compliance Systems Redesign, Individual Identification Renewal Project, and the completion of the GST Redesign Project. Together, these projects have combined for \$145 million of investment in in-house developed software and the acquisition of IT hardware such as mainframe processors and tape storage solutions.

The value of these new capital assets has been considerably offset due to a high proportion of amortization that became eligible in the same fiscal year. Large-scale IT projects, by nature, generally require multi-year investments as the project develops and advances. These incremental investments add to the overall capital assets of the CRA as they occur, however, the associated amortization of these assets only commences once a project is completed and the system enters production. Due to this restriction, CRA experienced considerable amortization in fiscal year 2008 as systems from previous projects entered production mode and became eligible for amortization. The total amortization claimed by CRA in 2008 was \$80 million.

The combination of these two factors has resulted in a pronounced variance in the year over year comparison of the capital assets reflected in CRA's Statement of Financial Position.

The following figure outlines investments in IT that have been accounted for as capital assets in the last three years.

Figure 26 Information Technology Investment in Capital Assets



4. Increased service fees received from Canada Border Services Agency (CBSA)

The CRA financial statements demonstrate a noticeable increase in non-tax revenue which is largely generated from a \$42 million increase in service fees. This amount can be directly attributed to the increase in IT related services that CRA performs on behalf of CBSA.

Analysis of Net Cost of Operations

The Agency's 2007-2008 net cost of operations increased by \$100 million from 2006-2007. Agency expenses totaled \$4,028 million in 2007-2008 (2006-2007 – \$3,863 million) (see Note 9 of the Financial Statements – Agency Activities for the breakdown of expenses by type). When adjusting for non-tax revenue of \$480 million (2006-2007 – \$414 million), the net cost of operations amounts to \$3,548 million, as illustrated below:

Details on the net cost of operations

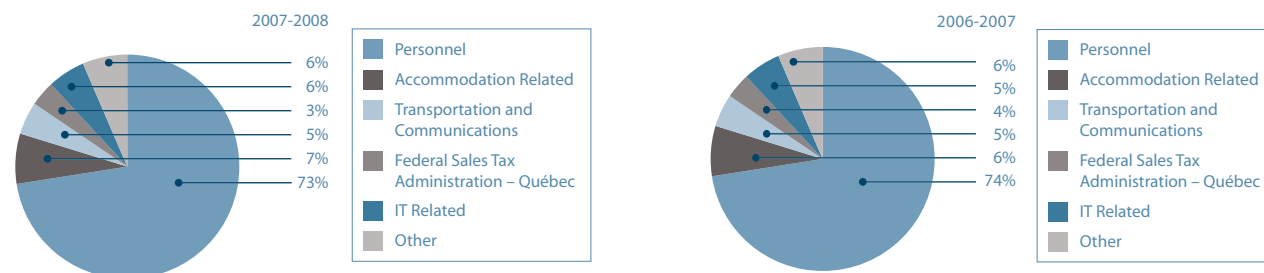
Expenses	2008	2007
	(in thousands of dollars)	
Personnel	2,918,681	2,839,479
Accommodation related	290,362	248,748
Information technology related	230,853	211,556
Transportation and communications	195,354	186,574
Federal sales tax administration costs – Province of Québec	140,663	157,369
Other	251,848	219,194
Total expenses	4,027,761	3,862,920
Less: Non-tax revenue	479,653	414,373
Net cost of operations	3,548,108	3,448,547

The Agency's expenses are composed of 73% in personnel expenses (salaries, other allowances and benefits) and 27% in non-personnel expenses, as illustrated in the figure below.

Personnel expenses are the primary drivers for the Agency. A number of factors contributed to the net increase of \$80 million for this type of expenses in 2007-2008. These include salary revisions pursuant to collective agreements provisions, initiatives announced in recent Federal Budgets, as well as costs related to the National Initiative to address Inter-provincial Tax Avoidance by Corporations, the Corporate Tax Administration for Ontario and the administration of the *Softwood Lumber Products Export Charge Act, 2006*.

Significant elements of non-personnel expenses are mostly made up of accommodation, information technology and transportation and communications expenses, which are, for the most part, linked to personnel expenses. Federal sales tax administration costs by the Province of Québec also account for a large portion of non-personnel expenses. In total, non-personnel expenses increased by \$86 million. This is mainly attributable to accommodation related cost, which increased by \$41 million due to program growth, rental rate escalation, and higher fit-up costs. The growth in information technology costs are linked to investment projects and infrastructure growth and renewal. The increase in transportation and communications is attributable to investments in our voice and data communications services and infrastructure. Growth in amortization, which is directly related to significant investments in IT related capital assets over the last three years, contributed to the increase in other expenses. A decrease in the federal sales tax administration costs by the Province of Québec partly offsets these increases. The decline is attributable to additional costs incurred in the previous fiscal year to upgrade their information technology systems.

Figure 27 Total Expense by Type



Canada Revenue Agency Financial Statements – Administered Activities



Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

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

I have audited the statement of administered assets and liabilities of the Canada Revenue Agency as at March 31, 2008 and the statements of administered revenues, administered expenses and recoveries and administered cash flows for the year then ended. This financial information is the responsibility of the Agency's management. My responsibility is to express an opinion on this financial information based on my audit.

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

In my opinion, these statements present fairly, in all material respects, the administered assets and liabilities of the Canada Revenue Agency as at March 31, 2008 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
September 16, 2008

Canada Revenue Agency Statement of Administered Assets and Liabilities

as at March 31
(in thousands of dollars)

	2008	2007
ADMINISTERED ASSETS		
Cash on hand	5,472,607	3,449,847
Amounts receivable from taxpayers (net of allowance for doubtful accounts of \$8,612,494 in 2008 and \$6,392,320 in 2007) (Note 3)	64,527,046	65,197,183
TOTAL ASSETS	69,999,653	68,647,030
ADMINISTERED LIABILITIES		
Amounts payable to taxpayers (Note 4)	48,997,229	41,353,461
Amounts payable to provinces (Note 5)	322,097	415,078
Deposit accounts (Note 6)	103,068	56,927
	49,422,394	41,825,466
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others (Note 7)	20,577,259	26,821,564
TOTAL LIABILITIES	69,999,653	68,647,030

Contingent liabilities (Note 8)

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

Approved by:



William V. Baker
Commissioner and Chief Executive Officer



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

Canada Revenue Agency Statement of Administered Revenues

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

	2008	2007
Federal administered revenues		
Income Tax Revenues		
Personal and trust	113,157,564	110,574,565
Corporate	40,627,679	37,745,403
Non-resident	5,692,904	4,876,871
	<u>159,478,147</u>	<u>153,196,839</u>
Other Taxes, Duties and Charges		
Goods and Services Tax (Note 9)	11,547,915	11,108,769
Energy taxes	5,047,662	5,070,665
Other Excise taxes and duties	3,156,001	3,189,945
Miscellaneous charges (Note 10)	807,621	1,080,083
	<u>20,559,199</u>	<u>20,449,462</u>
Total Tax Revenues	180,037,346	173,646,301
Employment Insurance Premiums	16,877,137	17,109,170
Interest, penalties and other revenues (Note 11)	5,198,578	4,150,639
Revenues Administered on behalf of the Government of Canada	202,113,061	194,906,110
Interest expense	(1,055,683)	(716,913)
Net Revenues Administered on behalf of the Government of Canada	201,057,378	194,189,197
Provincial and Territorial Governments and First Nations administered revenues		
Income Tax Revenues		
Personal and trust	50,249,280	47,201,421
Corporate	4,834,497	3,995,943
	<u>55,083,777</u>	<u>51,197,364</u>
Harmonized Sales Tax	1,039,154	942,514
Other Revenues (Note 12)	235,627	216,323
Revenues Administered on behalf of Provincial and Territorial Governments and First Nations	56,358,558	52,356,201
Revenues Administered on behalf of the Canada Pension Plan (Note 13)	35,437,908	32,455,339
Total Net Administered Revenues	292,853,844	279,000,737

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

Canada Revenue Agency Statement of Administered Expenses and Recoveries

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

	2008	2007
Federal administered expenses		
Child tax benefits	9,419,853	9,429,887
Universal child care benefits	2,474,298	1,784,359
Children's special allowances	208,163	197,768
Relief for heating expenses	1,161	1,719
Energy cost benefits	992	4,073
Transfers to provinces for Softwood Lumber products export charge	397,073	206,529
Provision for doubtful accounts (Note 3)	3,895,042	3,478,000
Federal administered recoveries		
Old Age Security benefits	(963,098)	(1,087,335)
Employment Insurance benefits	(154,427)	(160,953)
Net Expenses and Recoveries Administered for the Federal Government	15,279,057	13,854,047
Provincial and Territorial administered expenses		
British Columbia climate action dividend	391,341	-
Family benefit programs	329,382	179,720
Sales tax credits	52,828	47,407
Ontario home electricity payments	2,247	102,603
Alberta resource rebate	2,032	27,335
Net Expenses Administered for Provinces and Territories	777,830	357,065
Provision for doubtful accounts Administered for the Canada Pension Plan (Note 3)	92,224	100,247
Total Net Administered Expenses and Recoveries	16,149,111	14,311,359

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

Canada Revenue Agency Statement of Administered Cash Flows

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

	2008	2007
Total Net Administered Revenues	292,853,844	279,000,737
Provincial revenues paid directly to provinces:		
Revenues administered for Nova Scotia workers' compensation (Note 12)	(219,333)	(205,449)
Total Net Administered Expenses and Recoveries	(16,149,111)	(14,311,359)
Change in administered assets and liabilities:		
Change in cash on hand	(2,022,760)	1,424,468
Change in amounts receivable from taxpayers net of allowance for doubtful accounts	670,137	(7,255,204)
Change in amounts payable to taxpayers	7,643,768	2,978,742
Change in amounts payable to provinces	(92,981)	204,041
Change in deposit accounts	46,141	7,281
Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada	282,729,705	261,843,257
Consisting of:		
Cash deposits to the Consolidated Revenue Fund	367,470,419	346,302,126
Cash refunds/payments from the Consolidated Revenue Fund	(84,740,714)	(84,458,869)
Net Cash Deposited in the Consolidated Revenue Fund of the Government of Canada	282,729,705	261,843,257

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

Canada Revenue Agency

Notes to the Financial Statements – Administered Activities

1. Authority and objectives

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

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

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

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

In the province of Quebec, the Ministère du Revenu du Québec (MRQ) acts as an agent of the Agency for the administration and enforcement of the GST. The Agency monitors cash transfers made by the MRQ, reports the GST revenues administered on its behalf, and transfers funds out of the Consolidated Revenue Fund to the MRQ for the issuing of refunds.

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

2. Summary of significant accounting policies

The financial statements – Agency Activities include those operational revenues and expenses, which are managed by the Agency and utilized in running the organization. Tax-related assets, liabilities, revenues and expenses are excluded from those financial statements because they can only accrue to a government, not the tax agency that administers those transactions. The purpose of these Administered Activities statements is to present additional information about the tax-related revenues, expenses, assets, and liabilities that CRA administers on behalf of the federal government, provincial governments, and other organizations.

As required by section 88(2)(a) of the *CRA Act*, CRA reports against accounting principles that are consistent with those applied in the preparation of the financial statements of the Government of Canada. As such, the CRA Administered Activities stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

A summary of the significant accounting policies follows:

(a) Revenue recognition

Revenues are recognized in the year in which the event that generates the revenue occurs. The following policies are applied for specific revenue streams:

- (i) Income taxes, Canada Pension Plan contributions, and Employment Insurance premiums:

Income tax revenues are recognized when the taxpayer has earned the income subject to the tax. Income earned is determined net of tax deductions and credits allowed under the *Income Tax Act*, including refundable taxes resulting from current year activity. Canada Pension Plan (CPP) contributions are recognized as revenue when the employee or the self-employed person has earned pensionable income. Employment Insurance (EI) premiums are recognized as revenue when the employee has earned insurable earnings.

These revenues are measured from amounts assessed/reassessed and from estimates of amounts not yet assessed/reassessed based on cash received that relates to the fiscal year ended March 31. Revenues for the fiscal year also include adjustments between the estimated revenues of previous years and actual amounts, as well as revenues from reassessments relating to prior years. No additional estimate of future reassessments is made except in cases where amounts for taxes previously assessed are under objection or are being appealed to various courts and where a reasonable estimate of the adjustment can be made.

Reassessments include changes made to previously assessed taxes payable at the request of the taxpayer, for example to claim a subsequent loss carry-back, or are initiated by the Agency as a result of applying reporting compliance procedures such as taxpayer audits.

- (ii) Other taxes, duties and charges:

Goods and Services Tax (GST) and Harmonized Sales Tax (HST) revenues on domestic goods and services are recognized at the time of the sale of goods or the provision of services. Revenues are reported net of the Input Tax Credits (ITC), GST rebates, and the GST quarterly tax credit. ITC is the recovery of GST/HST paid or owed on purchases related to domestic and imported commercial activities of the taxpayer. The GST quarterly tax credit for lower-income families is recorded in the period to which it relates. It is intended to offset the cost of the tax for lower-income individuals and families.

For Excise taxes, revenue is recognized when a taxpayer sells goods taxable under the *Excise Tax Act*. For Excise duties, revenue is recognized when the taxpayer manufactures goods taxable under the *Excise Act* and the *Excise Act, 2001*.

These revenues are measured from amounts assessed, and from estimates of amounts not yet assessed based on cash received that relate to the fiscal year ended March 31.

Miscellaneous charges are recognized as revenue when they are earned.

- (iii) Interest, penalties and other revenues:

Interest, penalties and other revenues are recorded when earned. All interest and penalty revenues are reported as revenues administered for the federal government as per the terms of the tax collection agreements with the provinces and territories. Interest and penalties are recorded net of amounts waived under the various tax acts.

(iv) Assessment definition:

An assessment (or reassessment) of tax is defined as all decisions and other steps made or taken by the Minister of National Revenue and officials of the Agency under the federal, provincial and territorial acts or sections of the acts administered by the Agency to determine tax payable by taxpayers. When verifying a taxpayer's return, the Agency uses applicable provisions of the various tax acts it administers as well as other internally developed criteria which are designed to substantially meet the provisions of these acts.

(v) Completeness of tax revenues:

The Canadian tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Agency has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records where determined necessary by the Agency. Such procedures cannot be expected to identify all sources of unreported income or other cases of non-compliance with tax laws. The Agency does not estimate the amount of unreported tax.

(b) Expenses

(i) Interest expense:

The Agency incurs interest expenses as a result of late refund payments. These are largely due to the resolution of long standing corporate tax files in favour of the taxpayer. Interest accrues from the date that the tax instalment was initially paid to the date that the case is resolved, at which time it is recorded by the Agency.

(ii) Administered expenses:

Expenses relating to the child tax benefits, the universal child care benefits, the energy cost benefits, the children's special allowances, and the provincial and territorial administered expenses are recorded in the year to which they relate based on the period in which the recipients were determined to be entitled to receive the benefit or the allowance. Transfers to provinces for Softwood Lumber products export charge are recorded as an expense in the same year as the related softwood lumber products export charge revenues are recognized.

(iii) Administered recoveries:

Recoveries of Old Age Security and Employment Insurance benefits are recognized when assessed, with an estimate for amounts not yet assessed. Only recoveries assessed through the personal income tax system are reported by the Agency. Recoveries determined by other federal government departments are not reported in these financial statements.

(c) Cash on hand

Cash on hand represents amounts received in the Agency's offices or by agents of the Agency as at March 31 but not yet deposited to the credit of the Consolidated Revenue Fund of the Government of Canada.

(d) Amounts receivable from taxpayers

Amounts receivable from taxpayers represent taxes and other revenues assessed or estimated by the Agency but not yet collected. A significant portion of the receivable balance is due to the recording of accrued receivables, which relate to the current fiscal year but are not due to be paid by taxpayers until the next fiscal year.

(e) Allowance for doubtful accounts

The allowance for doubtful accounts reflects management's best estimate of the collectibility of amounts assessed but not yet paid. The allowance for doubtful accounts has two components. A general allowance is calculated based on the age of the accounts. 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 Expenses and Recoveries. Except for the portion related to the CPP contributions, the provision is charged entirely to expenses administered for the federal government as it assumes all collection risks, as per the terms of the tax collection agreements with the provinces and territories.

(f) Amounts payable to taxpayers

Amounts payable to taxpayers represent refunds and related interest 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 and recoveries reported. Estimates are used to record unassessed tax revenues and the related amounts receivable and payable, as well as the allowance for doubtful accounts. Actual results could differ from the estimates and any difference would be recorded in the year the actual amounts are determined. The effect of changes to such estimates and assumptions in future periods could be significant. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable.

3. Amounts receivable from taxpayers

The following table presents details of the amounts receivable from taxpayers as reported in the Statement of Administered Assets and Liabilities. These amounts include related interest and penalties receivable. Amounts receivable from individuals and employers include Canada Pension Plan contributions and Employment Insurance premiums as applicable.

	2008			2007
	Gross	Allowance for Doubtful Accounts	Net	Net
	(in thousands of dollars)			
Income Taxes				
Individuals	37,163,685	(3,837,980)	33,325,705	31,430,027
Employers	13,914,031	(767,757)	13,146,274	14,007,015
Corporations	10,686,448	(1,456,133)	9,230,315	8,610,455
Non-Residents	1,116,347	(179,674)	936,673	1,014,522
GST	9,183,064	(2,083,936)	7,099,128	9,134,199
Excise taxes and duties and miscellaneous charges	1,075,965	(287,014)	788,951	1,000,965
Total	73,139,540	(8,612,494)	64,527,046	65,197,183

Changes in the allowance for doubtful accounts are as follows:

	Allowance for Doubtful Accounts	Provision for Doubtful Accounts	Write-Offs	Allowance for Doubtful Accounts
	April 1, 2007	Accounts		March 31, 2008
	(in thousands of dollars)			
Income Taxes				
Individuals	(3,490,428)	(1,261,673)	914,121	(3,837,980)
Employers	(555,087)	(360,467)	147,797	(767,757)
Corporations	(1,054,676)	(779,724)	378,267	(1,456,133)
Non-Residents	(65,755)	(110,526)	(3,393)	(179,674)
GST	(1,204,240)	(1,205,094)	325,398	(2,083,936)
Excise taxes and duties and miscellaneous charges	(22,134)	(269,782)	4,902	(287,014)
Total	(6,392,320)	(3,987,266)	1,767,092	(8,612,494)

The provision of \$3,987 million (\$3,578 million in 2007) reported above includes an amount of \$3,895 million (\$3,478 million in 2007) recorded as an expense administered on behalf of the federal government (see Note 2 (e)) and \$92 million (\$100 million in 2007) charged against expenses administered on behalf of the Canada Pension Plan.

During the year, the Agency revised its management processes for estimating the general portion of its allowance for doubtful accounts. The new estimation model incorporates historical loss experience to arrive at separate loss factors by revenue stream stratified by the size and age of tax receivables.

4. Amounts payable to taxpayers

The following table presents details of the amounts payable to taxpayers as reported in the Statement of Administered Assets and Liabilities:

	2008	2007
	(in thousands of dollars)	
Individuals, Employers, and Non-Residents	29,788,021	24,757,375
Corporations	11,406,118	10,328,521
GST	7,768,233	6,192,111
Excise taxes and duties and miscellaneous charges	34,857	75,454
Total	48,997,229	41,353,461

5. Amounts payable to provinces

The following table presents details of amounts payable to provinces as reported in the Statement of Administered Assets and Liabilities:

	2008	2007
	(in thousands of dollars)	
Softwood Lumber Products Export Charge net of costs incurred by the Federal Government	64,140	206,529
Amounts payable to Quebec:		
Personal income tax withholdings	199,043	140,272
GST refunds issued by Quebec	57,687	66,663
Nova Scotia worker's compensation	1,177	1,575
Ontario Opportunities Fund	50	39
Total	322,097	415,078

Amounts payable to provinces, territories and other organizations, which are settled by other departments such as the Department of Finance for Provincial, Territorial, and First Nations taxes, are not recorded in these financial statements because these amounts are outside of the Agency's responsibility.

6. Deposit accounts

Deposit accounts are established to record cash and securities required to guarantee payment of GST as it relates to non-resident registrants and certain licensees as it relates to excise taxes, which are both payable pursuant to the *Excise Tax Act*. The following table presents activity on the deposit accounts as reported in the Statement of Administered Assets and Liabilities:

	2008	2007
	(in thousands of dollars)	
Balance, beginning of year	58,652	51,279
Receipts and other credits	115,753	16,957
Payments and other charges	(69,614)	(9,584)
Balance, end of the year	104,791	58,652
Securities held in trust	(1,723)	(1,725)
Net deposit accounts	103,068	56,927

7. Net amount due to the Consolidated Revenue Fund

The net amount due to the Consolidated Revenue Fund (CRF) on behalf of the Government of Canada and others is the difference between administered assets (taxes not yet received and/or deposited in the CRF) and other administered liabilities payable by the Agency out of the CRF.

The net cash deposited in the CRF of the Government of Canada includes amounts received on behalf of the federal government, provinces, territories, and other organizations by the Agency and deposited in the CRF, less refunds and payments issued from the CRF during the year.

The change in the net amount due to the CRF during the fiscal year is presented in the table below:

	2008	2007
	(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	26,821,564	24,180,892
Total net administered revenues	292,853,844	279,000,737
Provincial revenues paid directly to provinces:		
Revenue administered for Nova Scotia workers' compensation (Note 12)	(219,333)	(205,449)
Total net administered expenses and recoveries	(16,149,111)	(14,311,359)
Net cash deposited in the Consolidated Revenue Fund of the Government of Canada	(282,729,705)	(261,843,257)
Net amount due to the Consolidated Revenue Fund on behalf of the Government of Canada and others at the end of the year	20,577,259	26,821,564

8. Contingent liabilities

Contingent liabilities include previously assessed taxes where amounts are under objection or are being appealed to the Tax Court of Canada, the Federal Court of Canada or the Supreme Court of Canada. As at March 31, 2008, an amount of \$10,353 million was under objection at the Agency level (\$10,027 million for 2007) and an amount of \$2,134 million was being appealed to the courts (\$2,164 million for 2007). The Agency has recorded, in the amounts payable to taxpayers, the estimated amount of objections or appeals that are considered likely to be lost and that can be reasonably estimated.

9. Goods and Services Tax (GST) revenues

The GST reported on the Statement of Administered Revenues is net of Input Tax Credits (ITC), rebates and the GST quarterly tax credit for low income individuals and families administered by the Agency. It does not include GST revenues on imported goods of \$19,643 million in 2008 (\$21,368 million in 2007), which are administered and reported by the Canada Border Services Agency (CBSA). The Canada Revenue Agency has sole responsibility for the administration of all ITC including those claimed on imported goods. ITC relating to GST on imports are not accounted for separately from ITC 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:

	2008	2007
	(in thousands of dollars)	
GST revenues net of ITC	20,135,983	19,348,704
GST rebates	(5,078,511)	(4,776,014)
GST quarterly tax credits for low income individuals and families	(3,509,557)	(3,463,921)
GST net revenues	11,547,915	11,108,769

10. Miscellaneous charges

The following table presents details of miscellaneous charges administered by the Agency for the federal government as reported in the Statement of Administered Revenues:

	2008	2007
	(in thousands of dollars)	
Softwood Lumber Products Export Charge	421,770	228,681
Air Travellers Security Charge	385,713	357,096
Charge on Refund of Duty Deposits for Softwood Lumber	138	494,306
Total	807,621	1,080,083

The Agency, pursuant to the *Softwood Lumber Products Export Charge Act*, 2006, assessed \$138,000 of charges on one-time refunds of certain softwood lumber related duty deposits paid to the United States in 2008 (\$494 million in 2007). These charges relate only to specified persons that did not elect to sell their rights to the duty deposit refund through the alternative refund mechanism managed by the Government of Canada.

11. Interest, penalties, and other revenues

Various tax legislation gives the Agency the authority, under certain conditions, to collect interest and penalties related to taxes due and regulations not met by taxpayers. The Agency has the authority to waive the interest and penalties that would normally be charged under certain circumstances such as Agency processing delays, financial hardship by taxpayers, or other extraordinary circumstances.

Other revenues consist of miscellaneous fees and charges such as court fines and administration charges for dishonoured payments instruments.

The following table presents details on interest, penalties and other revenues administered by the Agency for the federal government as reported in the Statement of Administered Revenues:

	2008	2007
	(in thousands of dollars)	
Gross interest and penalties	5,504,207	4,498,333
Interest and penalties waived under authority of the:		
<i>Income Tax Act</i>	(320,565)	(321,112)
<i>Excise Tax Act</i>	-	(35,941)
	(320,565)	(357,053)
Net interest and penalties	5,183,642	4,141,280
Other revenues	14,936	9,359
Interest, penalties, and other revenues	5,198,578	4,150,639

12. Other revenues

The following table presents details of other revenues administered by the Agency for the Provincial and Territorial Governments and First Nations as reported in the Statement of Administered Revenues:

	2008	2007
	(in thousands of dollars)	
Nova Scotia workers' compensation	219,333	205,449
First Nations Sales Tax and GST	14,742	9,442
First Nations Income Tax	1,552	1,432
Total	235,627	216,323

13. Revenues administered on behalf of the Canada Pension Plan

The following table presents details of the revenues administered by the Agency on behalf of the Canada Pension Plan (CPP) as reported in the Statement of Administered Revenues:

	2008	2007
	(in thousands of dollars)	
Contributions	35,251,900	32,282,184
Interest and penalties	186,008	173,155
CPP revenues	35,437,908	32,455,339

14. Related party transactions

The Agency is related in terms of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Agency deposits all monies received to the CRF, the Department of Finance makes payments out of the CRF to provinces, territories, and other organizations for revenue amounts such as Provincial, Territorial, and First Nations taxes, for which the Agency administers the revenue collection process. Old Age Security benefit recoveries, Canada Pension Plan contributions, net of overpayments refunded by the Agency, and Employment Insurance premiums are credited to the department of Human Resources and Social Development Canada (HRSDC) which administers the Old Age Security program, the Canada Pension Plan, and the Employment Insurance Account. The Agency also administers a refund set-off program by which tax refunds of individuals may be used to pay debts owed by clients under federal, provincial or territorial programs.

The Agency provides collection services to CBSA under Part V.I of the *Customs Act*. As well, effective August 1, 2005 the Agency provides to the department of HRSDC collection services for certain accounts receivable under the *Canada Education Savings Act*, the *Canada Student Loans Act*, the *Canada Student Financial Assistance Act*, the *Canada Pension Plan and the Old Age Security Act*. The related payments are paid directly to either CBSA or HRSDC who are responsible for their deposits to the CRF, as well as their accounting and reporting. These payments are not recorded in the Agency's accounts.

Employment Insurance premiums administered on behalf of the Federal Government include the employer's share of Employment Insurance paid by the Federal Government. GST declared to the Agency includes the GST paid by the federal government to its suppliers on domestic purchases. GST collected by other federal government departments is deposited to the CRF, declared to the Agency, and are included in the GST domestic revenues.

15. Comparative figures

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

Financial Statements Discussion and Analysis – Administered Activities

Introduction

The Financial Statements – Administered Activities reflect the total assets and liabilities, tax and non-tax revenues, expenses and recoveries, and cash flows administered by the Canada Revenue Agency 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 applicable deductions and credits allowed under various Acts.

Tax Revenues

The Canada Revenue Agency collects the majority of Federal Tax Revenues. However, other agencies and departments, such as the Canada Border Services Agency, account for the balance of total Federal Revenues. For further information on revenue collected by the Government of Canada as a whole, please refer to the Annual Financial Report of the Government of Canada, available at www.fin.gc.ca/purl/afr-e.html.

Revenues Administered on Behalf of the Government of Canada

Federal Administered Revenues (\$000)	2007-2008	2006-2007	+/-	%
Income Tax				
Personal and trust	113,157,564	110,574,565	2,582,999	2.3%
Corporate	40,627,679	37,745,403	2,882,276	7.6%
Non-Resident	5,692,904	4,876,871	816,033	16.7%
	<u>159,478,147</u>	<u>153,196,839</u>	<u>6,281,308</u>	<u>4.1%</u>
Other Taxes, Duties and charges				
Goods and Services Tax	11,547,915	11,108,769	439,146	4.0%
Energy Taxes	5,047,662	5,070,665	(23,003)	-0.5%
Other Excise taxes and duties	3,156,001	3,189,945	(33,944)	-1.1%
Miscellaneous charges	807,621	1,080,083	(272,462)	-25.2%
	<u>20,559,199</u>	<u>20,449,462</u>	<u>109,737</u>	<u>0.5%</u>
Employment Insurance Premiums	16,877,137	17,109,170	(232,033)	-1.4%
Interest, penalties, and other revenues	5,198,578	4,150,639	1,047,939	25.2%
Interest expense	(1,055,683)	(716,913)	(338,770)	47.3%
	<u>21,020,032</u>	<u>20,542,896</u>	<u>477,136</u>	<u>2.3%</u>
Net Revenues Administered on behalf of the Government of Canada	201,057,378	194,189,197	6,868,181	3.5%

Net Revenues were \$201.1 billion in 2007-2008, some \$6.9 billion higher than in 2006-2007. All administered revenues were higher except Energy Taxes, Other Excise taxes and duties, Miscellaneous Charges, and Employment Insurance Premiums.

Personal Income Tax

Personal Income Tax revenues increased by \$2.6 billion, or 2.3%. This increase reflected solid growth in employment, wage levels, and labour income, combined with the progressivity of the personal income tax system. This was partially offset by tax relief measures announced in Budget 2007 and in the October 2007 Economic Statement.

Corporate Income Tax

Corporate Income Tax revenues increased by \$2.9 billion or 7.6%. This increase is consistent with the growth in corporate profits, particularly in the banking, retail, wholesale, and petroleum refining industries.

Non-Resident Income Tax

Non-Resident Income Tax revenues increased by \$816 million or 16.7%. This growth is consistent with strong growth in foreign direct investment in Canada.

Goods and Services Tax

Goods and Services Tax (GST) revenues increased by \$439.1 million or 4.0%. This growth reflects a rise in retail sales and a decline in Input Tax Credits on Imports, which resulted from the 10.5% appreciation of the Canadian dollar. This was offset in part by the January 1, 2008 cut in the GST rate from 6% to 5%.

Energy Taxes

Energy taxes fell by \$23.0 million or 0.5%. This modest decline resulted from a shift in consumption from gasoline to diesel fuel.

Other Excise taxes and duties

Other Excise taxes and duties decreased by \$33.9 million or 1.1%. This decline was attributable to lower tobacco duties, and was offset in part by higher liquor and beer duties.

Miscellaneous charges

Miscellaneous charges decreased by \$272.5 million or 25.2%. This reflected the drop from the one time Softwood Lumber Charge on Refund of Duty. However, this was partly offset by the Softwood Lumber Export Charge, which was only implemented in the middle of fiscal 2006-2007. Air Traveller Security Charge revenues were moderately higher due to the increased number of air travellers.

Employment Insurance Premiums

Employment Insurance premiums decreased by \$232.0 million or 1.4%. This was due to a decline in the EI rate over the past three years. However, this decline was offset in part by growth in employment, income, and maximum insurable earnings.

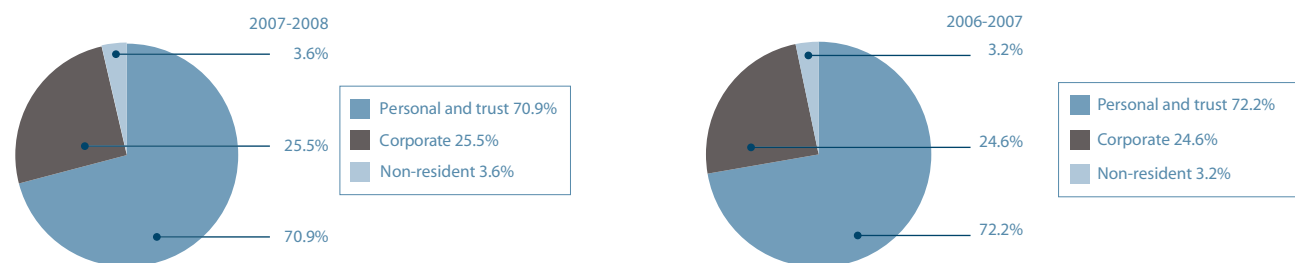
Interest, penalties, and other revenues

Interest, penalties, and other revenues rose by \$1.0 billion or 25.2%. Interest revenues increased due to large reassessments, the streamlining of GST prescribed interest rates, and growth in arrears balances.

Interest Expense

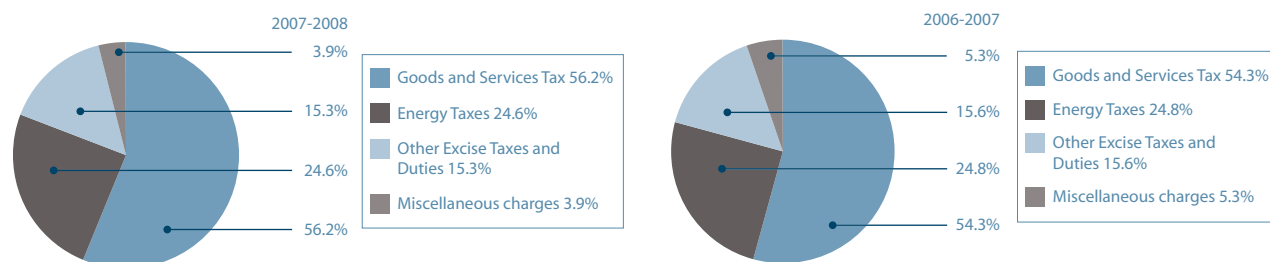
Interest Expense rose by \$338.8 million or 47.3%. The growth is attributable in part to reassessments of corporate taxpayers, a higher GST prescribed interest rate on payable balances, and some large corporate transactions.

Figure 28 Direct Tax Revenues



As shown in Figure 28, the largest component of Direct Tax Revenues was Personal and Trust Income Tax, followed by Corporate Income Tax and Non-Resident Income Tax. The proportion of Personal Income Tax decreased slightly from the previous year, due to the strong growth in Corporate Income Taxes assessed.

Figure 29 Indirect Tax Revenues



As shown in Figure 29, the largest component of Indirect Tax Revenues was GST, followed by Energy taxes, Other Excise taxes and duties, and Miscellaneous charges. Although these proportions were generally stable compared to the previous year, the proportion of Miscellaneous charges decreased due to the one time Softwood Lumber Charge on Refund of Duty.

Revenues Administered on Behalf of the Provincial, Territorial Governments, First Nations and Canada Pension Plan

Provincial, Territorial, Governments, First Nations, and Canada Pension Plan (\$000)	2007-2008	2006-2007	+/-	%
Income Tax – Personal and trust	50,249,280	47,201,421	3,047,859	6.5%
Income Tax – Corporate	4,834,497	3,995,943	838,554	21.0%
Harmonized Sales Tax	1,039,154	942,514	96,640	10.3%
Other Revenues	235,627	216,323	19,304	8.9%
Revenues Administered on behalf of Provincial, Territorial Governments, and First Nations	56,358,558	52,356,201	4,002,357	7.6%
Revenues Administered on behalf of Canada Pension Plan	35,437,908	32,455,339	2,982,569	9.2%

Provincial, Territorial, and First Nations Revenues were \$56.4 billion in 2007-2008, some \$4.0 billion higher than in 2006-2007. Canada Pension Plan Revenues were \$35.4 billion, \$2.9 billion higher than in 2006-2007.

Income Tax Revenues – Personal and Trust

Personal Income Tax revenues increased by \$3.0 billion, or 6.5%. The percentage increase is in line with growth in employment and income earned. Growth in federal tax revenues was lower than growth in provincial tax revenues due to the tax relief measures announced in Budget 2007 and in the October 2007 Economic Statement.

Income Tax Revenues – Corporate

Corporate Income Tax revenues increased by \$838.6 million or 21.0%. This is much higher than the 7.6% growth exhibited by Federal Tax revenues. This resulted from much higher economic growth in provinces whose corporate taxes are administered by the CRA compared to the growth in non-participating provinces.

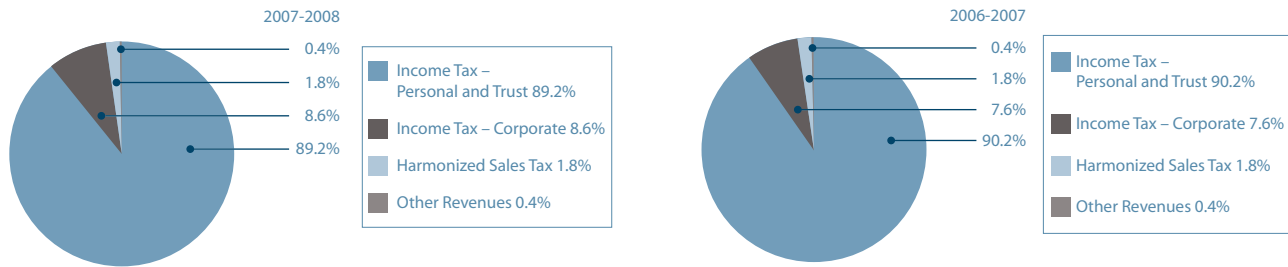
Harmonized Sales Tax (HST)

HST revenues increased by \$96.4 million or 10.3%. The increase in HST was due to the decline in Input Tax Credits on Imports, which resulted from the 10.5% appreciation in the Canadian dollar.

Revenues Administered On Behalf of the Canada Pension Plan

Canada Pension Plan revenues rose by \$2.9 billion or 9.2%. This increase resulted from strong growth in employment, wages, and salaries. CPP revenues also rose due to the increase in the maximum pensionable amount from \$43,700 in 2007 to \$44,900 in 2008.

Figure 30 Revenues Administered on behalf of the Provincial, Territorial governments, and First Nations



As shown in Figure 30, Personal and Trust Income Tax represented the largest component of revenues administered on behalf of the Provincial, Territorial governments, and First Nations. This was followed by Corporate Income Tax and Harmonized Sales Tax. The proportion of Personal Income Tax has decreased slightly from the previous year, due to strong growth in Corporate Income Tax revenues.

Expenses and Recoveries Administered on Behalf of the Government of Canada, Provincial, and Territorial Governments

Administered Expenses and Recoveries (\$000)	2007-2008	2006-2007	+/-	%
Federal Administered Expenses				
Child tax benefits	9,419,853	9,429,887	(10,034)	-0.1%
Universal child care benefits	2,474,298	1,784,359	689,939	38.7%
Children's special allowances	208,163	197,768	10,395	5.3%
Relief for heating expenses	1,161	1,719	(558)	-32.4%
Energy cost benefits	992	4,073	(3,081)	-75.6%
Transfers to provinces for Softwood Lumber	397,073	206,529	190,544	92.3%
Provision for doubtful accounts	3,895,042	3,478,000	417,042	12.0%
Federal Administered Expenses	16,396,582	15,102,335	1,294,247	8.6%
Federal Administered Recoveries				
Old Age Security benefits	(963,098)	(1,087,335)	124,237	-11.4%
Employment Insurance Benefits	(154,427)	(160,953)	6,526	-4.1%
Federal Administered Recoveries	(1,117,525)	(1,248,288)	130,763	-10.5%
Net Expenses and Recoveries Administered for the Federal Government	15,279,057	13,854,047	1,425,010	10.3%
Provincial and Territorial Administered Expenses				
British Columbia climate action dividend	391,341	-	391,341	N/A
Family benefit programs	329,382	179,720	149,662	83.3%
Sales tax credits	52,828	47,407	5,421	11.4%
Ontario home electricity payments	2,247	102,603	(100,356)	-97.8%
Alberta resource rebate	2,032	27,335	(25,303)	-92.6%
Net Expenses Administered for Provinces and Territories	777,830	357,065	420,765	117.8%
Provision for doubtful accounts Administered for the Canada Pension Plan	92,224	100,247	(8,023)	-8.0%
Total Net Administered Expenses and Recoveries	16,149,111	14,311,359	1,837,752	12.8%

Net Federal Expenses and Recoveries were \$15.3 billion in 2007-2008, \$1.4 billion higher than in 2006-2007. Net Provincial and Territorial Expenses were \$777.8 million, \$420.8 million higher than in 2006-2007.

Federal Administered Expenses

Federal Administered Expenses grew by \$1.3 billion or 8.6%. This was largely as a result of the Universal Child Care Benefit, which commenced in July 2006, as well as a higher provision for doubtful accounts. Part of the increase in the provision for doubtful accounts is attributable to the implementation of a new methodology to estimate the allowance for doubtful accounts (ADA) based principally on the age of amounts receivable, combined with an annual review of all accounts over \$10 million. As a result of the implementation of this methodology, the growth in amounts receivable and additional specific provisions required for some outstanding accounts, the ADA increased by \$2.2 billion of which \$879 million is related to Goods and Services Tax receivables and \$559 million to personal income tax accounts. The new methodology will improve the timeliness and accuracy of this significant management estimate of the collectibility of amounts receivable from taxpayers.

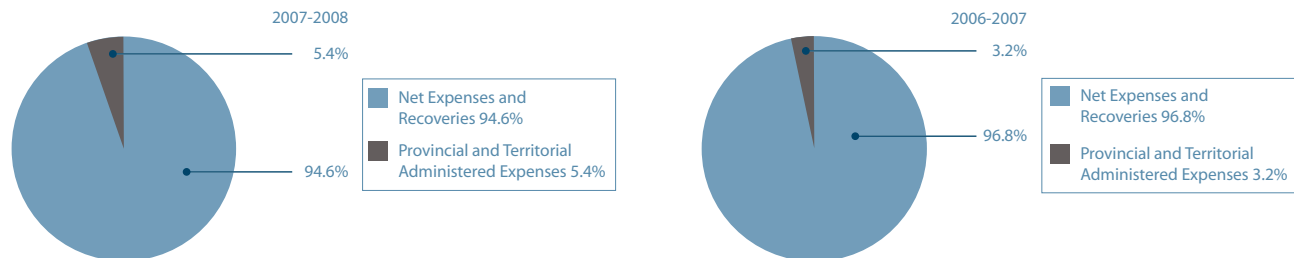
Federal Administered Recoveries

Federal Administered Recoveries fell by \$130.8 million or 10.5%. This largely resulted from lower Old Age Security recoveries, as changes to pension-splitting legislation led to lower incomes for taxpayers aged 65 and over.

Net Expenses Administered for Provinces and Territories

Net Expenses Administered for Provinces and Territories increased by \$420.8 million or 117.8%. This growth was due to the implementation of the British Columbia climate action dividend as well as the Ontario Child Benefit. Although the entitlement for the British Columbia climate action dividend was determined in 2007-2008 for the purpose of the financial statements – Administered Activities, the dividend will not be included as a one-time provincial payment in the Benefit Programs Activities section of the Annual Report until after the first payment is issued, which is scheduled for 2008-2009.

Figure 31 Expenses and Recoveries Administered on Behalf of the Government of Canada, Provincial, and Territorial Governments



As shown in Figure 31, Net Expenses and recoveries administered for the Federal Government made up most of the Expenses and Recoveries administered on Behalf of the Government of Canada, Provincial, and Territorial Governments. The proportion of Federal Administered Expenses and recoveries has decreased due to the introduction of the British Columbia climate action dividend and the Ontario Child Benefit.

Unaudited Supplementary Financial Information

Financial Performance Information – Parliamentary Appropriations

Introduction

This section of the *CRA Annual Report to Parliament 2007-2008* provides the details of the Agency's Resource Management performance for the purpose of reporting to Parliament on the use of appropriations in 2007-2008. This complements the information provided in the spending profile sections under each Program Activity and satisfies the reporting requirements set for departmental performance reports.

Financial reporting methodologies

The CRA's funding is provided by Parliament through annual appropriations (modified cash accounting basis) and the CRA reports its expenditures and performance to Parliament, together with details on the management of Parliamentary appropriations on the same basis. In addition to the above reporting requirements, the CRA is also required to prepare its annual financial statements in accordance with the accounting principles applied in preparing the financial statements of the Government of Canada (full accrual accounting basis). Accordingly, the audited Statement of Operations – Agency Activities on page 116 includes certain items such as services received without charge from other government departments and federal agencies. A reconciliation can be found in Table 3, page 163.

CRA financial information

Activities of the Agency

	2007-2008 (in thousands of dollars)
Canada Revenue Agency	
Main Estimates	\$3,379,924
Planned Spending	\$3,480,177
Total Authorities	\$4,560,163
Actual Spending	\$4,422,959

The Financial Statements – Agency Activities reports \$3,609.1 million as total Parliamentary appropriations used (Note 3 b on page 123 shows the reconciliation to the net cost of operations). The difference from the \$4,423.0 million reported in this section is explained by four items reported in the Financial Statements – Administered Activities: the payments to provinces under the *Softwood Lumber Products Export Charge Act*, 2006 \$603.6 million; the Children's Special Allowance, \$208.2 million; the payments under the *Energy Costs Assistance Measures Act*, \$1.0 million, and the Relief For Heating Expenses, \$1.1 million (part of Vote 1, Program Expenditures).

Overview

For 2007-2008, Parliament approved \$3,379.9 million through the Main Estimates, as shown in CRA's *2007-2008 to 2009-2010 Corporate Business Plan*.

The 2007-2008 Main Estimates have been adjusted to include:

- \$603.6 million for the Statutory Payments related to the 2006 Canada/US Softwood Lumber Agreement and an additional \$15 million for its preparation, implementation and administration;
- \$257.1 million transferred from Public Works and Government Services Canada (PWGSC) for Accommodation Services;
- \$167.7 million for the Carry-forward from 2006-2007;
- \$61.3 million for Maternity and Severance payments;
- \$45.2 million for Budget measures arising from the 2007 Federal Budget;
- \$28.1 million increase for Respendable Revenue adjustment mainly for information technology services provided to Canada Border Services Agency (CBSA);
- \$21.5 million for the implementation of a single administration of corporate tax for the Province of Ontario;

- \$19.3 million for the National Initiative to address inter-provincial tax avoidance by corporations;
- \$12.6 million for Collective Agreements;
- \$10.5 million for Budget measures arising from the 2006 Federal Budget;
- \$4.6 million for Legal and Income Tax Debt Set-off Activities of the Collection Litigations Advisory Services;
- \$3.2 million for the Children's Special Allowance Statutory Payments;
- \$1.0 million for the administration of the one-time Energy Cost Benefit payments;
- \$0.8 million transferred from Justice Canada for Legal Costs;
- \$0.7 million for National Anti-Drug Strategy;
- \$0.6 million for Electronic Services for Business Advertising Campaign;
- \$0.5 million for Court Awards and Crown Assets Disposal;
- \$0.2 million for other minor adjustments.

Offsetting these increases, the CRA returned \$41.8 million related to Canada Pension Plan and Employment Insurance; \$22.1 million pending the approval of the Offshore Trusts Initiative legislation and some \$8.6 million in funding to the Treasury Board related to Payments to Private Collection Agencies. Agency Budgets were also adjusted by \$0.7 million for Employee Benefits Plans reductions. This resulted in total approved authorities of \$4,560.2 million for 2007-2008, representing an in-year increase of 35% over the Main Estimates.

Of the \$4,560.2 million total authority, CRA's actual spending totalled \$4,423.0 million resulting in \$137.2 million unexpended at year-end. After adjusting for unused resources related to the Residual Offshore Trusts and Charities Outreach Program, the remaining \$134.9 million is available for use by the Agency in 2008-2009. This amount is within 5% of the total authority.

The \$134.9 million carry forward to 2008-2009 will be directed primarily to selected strategic investments related to:

- Major project spending (Compliance Systems Redesign, Agency Classification Standards, Non-Tax Collections Systems Integration, GST Redesign);
- Special purpose funding (Softwood Lumber, Charities Outreach Program, Charities Public Security Anti-Terrorism Measures, Corporate Tax Administration for Ontario, Ministère du revenu du Québec for the Administration of the GST);
- Other operational and workload pressures.

Revenues administered by the Agency

Net revenues administered by the CRA totalled some \$292.9 billion, an increase of 5% from the \$279 billion administered in 2006-2007.

	2006-2007	2007-2008
	(in thousands of dollars)	
Federal Government	194,189,197	201,057,378
Provincial, Territorial Governments and First Nations	52,356,201	56,358,558
Canada Pension Plan	32,455,339	35,437,908
Total	279,000,737	292,853,844

Financial Performance Tables

Introduction

The following tables provide financial information about the performance of the Agency during the 2007-2008 fiscal year. The tables compare Main Estimates and Planned Spending, as shown in the 2007-2008 Report on Plans and Priorities, with total authorities at year-end and actual expenditures for the fiscal year.

The information is presented at the Agency level, the Program Activity level, as well as by authority and type of revenue and expense.

Financial Tables Index	Page
Table 1 Comparison of Planned to Actual Spending (including FTEs)	160
Table 2 Voted and Statutory Items	161
2.1 Authorities approved after tabled Main Estimates	162
Table 3 Reconciliation to the Statement of Operations	163

The following tables can be found on the TBS web site at:

<http://publiservice.tbs-sct.gc.ca/dpr-rmr/2007-2008/index-eng.asp>.

Table 4 Sources of Respendable and Non-Respendable Non-Tax Revenue	
4.1 Respendable Non-Tax Revenue	
4.2 Non-Respendable Non-Tax Revenue	
Table 5 User Fees/External Fees	
5.1 a <i>User Fees Act (UFA)</i> – Advance Income Tax Ruling Fee	
5.1 b Policy on Service Standards for External Fees – Advance Income Tax Ruling Fee	
5.2 a <i>User Fees Act (UFA)</i> – Taxation Statistical Analyses and Data Processing Fee	
5.2 b Policy on Service Standards for External Fees – Taxation Statistical Analyses and Data Processing Fee	
5.3 a <i>User Fees Act (UFA)</i> – Access to Information Processing Fee	
5.3 b Policy on Service Standards for External Fees – Access to Information Processing Fee	
Table 6 Details on Project Spending	
Table 7 Details on Transfer Payment Programs (TPPs)	
7.1 Children's Special Allowance Payments (CSA) (Statutory)	
7.2 Energy Cost Assistance Measures Expenses (Statutory)	
7.3 Payments to Provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i> (Statutory)	

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

(in thousands of dollars)	2005-2006 Actual ¹	2006-2007 Actual ¹	2007-2008			
			Main Estimates	Planned Spending	Total Authorities	Actual
Taxpayer and Business Assistance ²	331,972	319,608	281,264	296,711	1,007,143	985,885
Assessment of Returns and Payment Processing ³	811,333	801,844	806,202	839,892	911,122	871,315
Accounts Receivable and Returns Compliance ⁴	651,903	645,262	652,428	662,292	713,143	695,321
Reporting Compliance	1,120,846	1,165,717	1,159,454	1,195,958	1,380,228	1,333,748
Appeals	121,858	121,654	146,333	149,545	163,387	156,127
Benefit Programs ⁵	669,502	351,039	334,243	335,779	385,140	380,563
Total	3,707,414	3,405,124	3,379,924	3,480,177	4,560,163	4,422,959
Less:						
Non-Tax Revenues						
Respendable Revenue – Pursuant to CRA Act ⁶	129,357	134,446	143,637	143,637	171,763	171,763
Non-respendable Revenue ⁷	37,497	50,331	N/A	37,597	N/A	44,014
Plus:						
Cost of services received without charge	475,458	436,296	N/A	461,610	N/A	211,053
Net Cost of Agency	4,016,018	3,656,643	N/A	3,760,553	N/A	4,418,235
Full-Time Equivalents	37,577	38,179	N/A	38,756	N/A	38,356

¹ Excludes the payments made to Justice Canada during the fiscal year as directed by TBS (\$3.6 million in 2005-2006 and \$15.4 million in 2006-2007).

² Starting in 2007-2008, included in this Program Activity are the Softwood Lumber Statutory Payments (\$603.6 million in 2007-2008).

³ Includes payments to the Ministère du Revenu du Québec in respect of the joint administration costs of Federal and Provincial sales taxes (\$131.4 million in 2005-2006, \$157.4 million in 2006-2007 and \$140.7 million in 2007-2008).

⁴ Includes Payments to Private Collection Agencies (\$12.4 million in 2006-2007 and \$12.4 million in 2007-2008).

⁵ Includes a) Relief for Heating Expenses (a relief program announced in 2000) (\$2.9 million in 2005-2006, \$1.7 million in 2006-2007 and \$1.1 million in 2007-2008); b) Energy Costs Assistance Measures expenses (a relief program announced in the Fall of 2005) (\$357.7 million in 2005-2006; \$4.1 million in 2006-2007 and \$1.0 million in 2007-2008); and c) Children's Special Allowance payments (\$169.6 million in 2005-2006, \$197.8 million in 2006-2007 and \$208.2 million in 2007-2008).

⁶ The increase in Respendable Revenue is mainly related to Information Technology services provided to the Canada Border Services Agency (CBSA).

⁷ These figures reflect the approach taken in the Agency's Audited Financial Statements where a clear distinction is made between Agency activities and administered activities. Interest and penalties collected for personal, corporate and other taxes, which are part of the Agency's administered activities rather than Agency's activities, are excluded. For more details, see Table 4.2 on the TBS Web site at www.tbs-sct.gc.ca/dpr-rmr/2007-2008/index-eng.asp.

Table 2 Voted and Statutory Items

Vote	2007-2008 (in thousands of dollars)			
	Total Main Estimates	Total Planned Spending	Total Authorities ¹	Actual
Canada Revenue Agency				
1 Program expenditures and recoverable expenditures on behalf of the <i>Canada Pension Plan</i> and the <i>Employment Insurance Act</i>	2,607,505	2,696,011	3,160,637	3,023,433
(S) Minister of National Revenue – Salary and motor car allowance	75	75	71	71
(S) Spending of revenues received through the conduct of its operations pursuant to section 60 of the <i>Canada Revenue Agency Act</i>	143,637	143,637	171,763	171,763
(S) Contributions to employee benefits plans	402,675	414,422	402,012	402,012
(S) Children's Special Allowance payments	205,000	205,000	208,163	208,163
(S) Payments to private collection agencies pursuant to section 17.1 of the <i>Financial Administration Act</i>	21,032	21,032	12,431	12,431
(S) Payments under the <i>Energy Costs Assistance Measures Act</i>			992	992
(S) Payments to provinces under the <i>Softwood Lumber Products Export Charge Act</i>			603,602	603,602
(S) Spending of proceeds from the disposal of Surplus Crown Assets			126	126
(S) Court Awards			366	366
Total Agency	3,379,924	3,480,177	4,560,163	4,422,959

¹ For more details on the authorities approved after the Main Estimates, see Table 2.1.

Table 2.1 Authorities approved after tabled Main Estimates

The following table details the authorities approved for the Agency after the Main Estimates and reconciles with the Total Authorities shown in Table 2.

	(in thousands of dollars)
2007-2008 Main Estimates	3,379,924
Single administration of corporate tax for the Province of Ontario	48,508
National initiative to address inter-provincial tax avoidance by corporations	22,550
Canada/US Softwood Lumber Agreement	16,994
Budget measures arising from the 2006 Federal Budget	12,201
Planned Spending (RPP)	3,480,177
Statutory Payments related to Canada/US Softwood Lumber Agreement	603,602
Transfer from PWGSC for accommodation services	257,146
Carry Forward from 2006-2007	167,724
Maternity and Severance Payments	61,323
Funding to address budget measures arising from the 2007 Federal Budget	45,228
Respendable Revenue Adjustment primarily for Information Technology services provided to CBSA	28,126
Collective Agreements	12,559
Legal and Income Tax Debt Set-off Activities of the Collection Litigations Advisory Services	4,606
Children's Special Allowance adjustment	3,163
Energy Cost Assistance Measures Statutory Payment	992
Transfer from Justice Canada for legal costs	773
National Anti-Drug Strategy (NADS)	660
Electronic Services for Business Advertising Campaign	550
Court Awards	366
Public Service Modernization Act (PSMA)	205
Crown Assets Disposal	126
Transfer from Western Economic and Diversification in support of Minister's Regional Office in Saskatchewan	100
Federal Accountability Act – Evaluation Resources	91
Cabinet Directive on Streamlining of Recommendations	59
Adjustment to Corporate Tax Administration for Ontario (CTAO) from Planned Spending	(23,371)
Adjustment to EI administration costs	(22,796)
Offshore Trusts Initiative	(22,081)
Adjustment to CPP administration costs	(19,039)
Reduction to rates – Employee Benefits Plans	(11,090)
Adjustment to Payments to Private Collection Agencies	(8,601)
Transfer to Foreign Affairs and International Trade in support of Missions Abroad	(231)
Transfer to Public Service Human Resources Management Agency of Canada to support National Managers' Community	(200)
Minister's Salary and Motor Car Allowance	(4)
Total Authorities at year-end	4,560,163

Table 3 Reconciliation to the Statement of Operations

(in thousands of dollars)	2007-2008 Total Agency
Total Actual Spending¹	4,422,959
Financial Statements Adjustments	
Agency Activities	
Services provided without charge (See Financial Statements – Note 11)	211,053
Non-Tax Revenue – Respendable (see Financial Statements – Note 10)	(173,068)
Non-Tax Revenue – Non-Respendable (See Financial Statements – Note 10)	(44,014)
Other adjustments to accrual from modified cash	(55,001)
Administered Activities	
Transfers to Provinces under the <i>Softwood Lumber Products Export Charge Act, 2006</i>	(603,602)
Children’s Special Allowance (CSA)	(208,163)
Energy Cost Assistance Measures	(992)
Relief for Heating Expenses	(1,064)
Total Net Cost of Operations (from Statement of Operations – Agency Activities)²	3,548,108

¹ Actual spending, on a modified cash basis, is net of revenues credited to the Vote 1.

² Net cost of Operations (Expenses less Non-Tax Revenue) from the Statement of Operations – Agency Activities on page 116 is presented on the accrual basis of accounting.

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

*Director
Planning and Annual Reporting Division
Corporate Planning, Governance and Measurement Directorate
Canada Revenue Agency
6th Floor, 555 MacKenzie Avenue
Ottawa, Ontario K1A 0L5*