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EVIDENCE BRIEF

The **Social Sciences and Humanities Research Council** in collaboration with the **Future Skills Centre**

SSHRC's Imagining Canada's Future initiative mobilizes social sciences and humanities research to address emerging economic, societal and knowledge needs for Canada, and help guide decision-making across all sectors toward a better future. This evidence brief addresses the Future Challenge Area of: **Skills and Work in the Digital Economy**

Canada Revenue Agency and tax administration: Re-envisioning tax and benefit administration in the age of digitalization

About the project

COVID-19 laid bare a lack of sophistication and marked incapability of Canada's tax system to respond adequately in a time of real crisis. Since tax filing only occurs once a year, Canada's system could not respond to the dramatic in-year income shocks due to the pandemic. Additionally, the government struggled to verify income lost in real time, particularly for those in precarious and gig work. Moreover, as there is no universal requirement to file taxes, no super-database of all Canadians exists that could be used to issue quick payments. In essence, Canada's tax system proved too clunky, archaic and unresponsive to deliver emergency pandemic income support.

This knowledge synthesis project extends our knowledge about improving tax administrative practices using advances in digitization to address barriers to access and responsiveness.

We are particularly interested in how other countries have harnessed such technological advances and how they could be used to revolutionize not only day-to-day tax and benefit administration but also the provision of emergency income support during times of crisis.

The specific objective of this research is to identify digital technologies that could be used to modernize Canada's tax system and make it more responsive and streamlined. This includes both the identification of knowledge gaps in the application of digitization to tax and benefit administration, as well as creating a knowledge base from which policy-makers can draw in exploring the modernization of Canada's tax system.

Key findings

Following an extensive review of the literature and case studies, our work found that Canada's tax system is unusual throughout the world in that it is not just used to raise revenue; it is also an important instrument for achieving various social objectives. Because so many key income-support benefits are either delivered through the tax system or reliant on information assessed by the tax system, Canada's tax system is now closely intertwined with the income-support system. Unfortunately, a number of features of Canada's tax administration system hamper its ability to be effective in delivering on social objectives associated with these benefits.

First, Canada's tax system is based on a self-assessment model that requires individuals to complete a tax return each year, reporting any income and calculating the tax or refund owing. This self-assessment process has remained

fundamentally unchanged since 1918, and while it works well for calculating tax liability, it is a highly flawed approach to benefit administration. It places the onus on individuals to file a tax return, even when filing a tax return is not required. This means that individuals who do not initiate a tax filing are excluded from being assessed for and receiving, if eligible, any benefits delivered through the tax system or benefits delivered outside the tax system that require tax filing to determine eligibility. Evidence from Canada shows that about 12 per cent of working-age Canadians do not file a tax return and this is heavily concentrated in individuals whose income is below the poverty line. Based on benefits solely delivered through the tax system, this means that at least \$1.7 billion in benefits are left unclaimed—not including benefits that require tax filing to prove eligibility. To be a more effective benefit administrator, the tax authority needs to ensure that everyone who is entitled to benefits receives those benefits.



Second, this model is predicated on an annual process where individuals must file an income tax form for the previous calendar year by April 30th. Eligibility for and the amount of the various benefits is then determined based on this information. As a result, benefits delivered through the tax

system are not responsive to within-year income shocks, and individuals experiencing a sudden and large decline in income may be driven into financial insecurity. The Canada Revenue Agency needs to be more responsive to real-time fluctuations in income.

Policy implications

Canada's tax system needs to be modernized. Several types of reforms are needed for it to become a true benefit administrator. An improved tax system has the potential to both weaken administrative barriers facing Canadians and better respond to widespread disruptions, such as those brought on by a pandemic. Digitization has significant potential to aid with a reimagining of existing systems for day-to-day tax and benefit administration, as well as mechanisms for supplying emergency income support in a crisis. These include:

- Canada needs to move its tax system from a model of self-assessment to one of administrative assessment, which shifts the onus for tax filing from the individual to the tax authority.
- To support this shift, Canada needs to expand and automate the various forms of information being provided by employers and other entities.
- This information needs to be reported in real time, aided by a system where payroll software used by employers is integrated into the gathering system used by the tax authority.
- Changes need to be done within a larger framework of shifting toward the concept of Government as a Platform, where all levels of government share software, data and services to improve the efficiency and effectiveness of government.

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FURTHER INFORMATION

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The Future Skills Centre (FSC) is a forward-thinking centre for research and collaboration, dedicated to preparing Canadians for employment success. As a pan-Canadian community, we are collaborating to rigorously identify, test, measure and share innovative approaches to assessing and developing the skills Canadians need to thrive in the days and years ahead.
