

Canada Revenue Agency Report Card

A Small Business Audit of CRA

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This report is the fifth in a series of reports examining the performance of the Canada Revenue Agency (CRA) in its interactions with small and medium sized enterprises (SMEs). Overall, CRA received a grade of “C” from the majority of small business owners and tax practitioners. While there were some areas in which CRA has improved since we last conducted this survey three years ago, there have also been some worrying trends and developments that mitigate the positive impact of those improvements. Positive changes were seen in areas like staff knowledge and usage of electronic tools but improvements still needed in many areas including auditing and awareness of CRA initiatives.

Introduction

Small businesses are the lifeline of the Canadian economy. Nearly 78 percent of all private jobs created in Canada from 2002 to 2012 were generated by small businesses, and around 60 per cent of private sector workers are employed by a business with fewer than 500 employees.¹ However, small businesses face a myriad of challenges every day such as long working hours, high taxes, a shortage of skilled labour, limited financial capital and stiff competition. On top of all this, small businesses spend a significant amount of their time and resources complying with their tax obligations. In 2013, 79 per cent of small businesses cited their overall tax burden as the most challenging issue they faced.² In recent years CFIB has worked closely alongside CRA

to try and improve the service provided to small business owners by CRA. Examples of successful initiatives include the introduction of a taxpayer bill of rights, requiring agents to provide their ID number to callers and creating more online services through My Business Account to make tax filing easier.

“Any dealings I’ve ever had with the CRA leave me feeling like a criminal. I dislike that and try to avoid dealing with them. I routinely pay more than I have to just to stay off their radar. I am afraid of the CRA.”

Manufacturer, Ontario

Despite all this, many business owners still feel that CRA is unapproachable, and that audits are extremely stressful and burdensome. The necessity of dealing with

¹ Industry Canada Key Small Business Statistics, August 2013.

² Our Members Opinion (OMO) Survey, CFIB, January-March 2014.

CRA means that it should strive to achieve the highest possible levels of customer service and operate in an efficient, accountable and transparent manner as well as be fair in its decisions and judgements. To help ensure CRA is meeting these important objectives, CFIB regularly measures through member surveys how well CRA is meeting its obligations.

Methodology

This report is the fifth report card that CFIB has published regarding the performance of CRA. Previous reports were published in 2001, 2004, 2008 and 2011. As was done in previous reports, two slightly different surveys were sent out to CFIB members. The first survey was sent out to business owners asking more general questions. The second survey was sent specifically to businesses classified as tax practitioners and asked more detailed and specific questions. The business owners survey received 11,574 responses while the tax practitioner survey received 426 responses.

CRA's Overall Grade: "C"

As in previous reports small business owners and tax practitioners gave CRA a low overall grade, with a majority giving CRA a grade of "C" or lower (see Figure 1). Half (50 per cent) of the small business owners gave CRA a rating of C (satisfactory), while 17 per cent gave it a D (poor) and 5 per cent an F (fail). Overall, 72 per cent of business owners gave CRA a ranking of satisfactory or lower. Only 24 per cent of business owners gave CRA a rating of A or B (excellent or good).

Tax practitioners were even more critical of the overall performance of CRA, with 47 per cent giving it a rating of C, 25 per cent a D and 8 per cent an F. Overall, 80 per cent of tax practitioners gave CRA a ranking of satisfactory or lower. Only 20 per cent of tax practitioners gave CRA a rating of A or B. Despite minor improvements from the previous report card, where 81 per cent of small businesses and 82 per cent of tax practitioners gave CRA a ranking of satisfactory or lower, there is still much room for improvement.

Figure 1

How would you grade CRA's overall service to small business?
(% response)



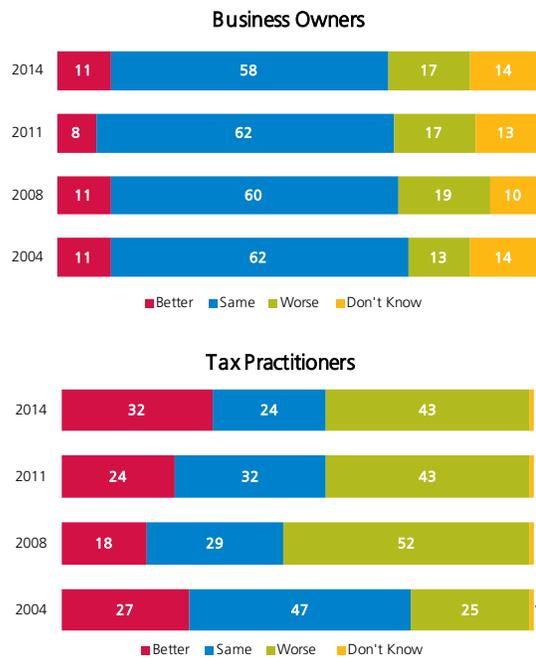
Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

Generally, the survey results revealed that tax practitioners have higher levels of dissatisfaction and more critical opinions of CRA than small business owners. The lowest levels of dissatisfaction were found in Quebec where 15 per cent of small business respondents were dissatisfied with the service they received from CRA compared to 22 per cent nationally, a difference of nearly 7 per cent. This may be because some federal taxes in Quebec are not administered by CRA but by Revenue Quebec. Thus, respondents in Quebec are less likely to interact with CRA than respondents in the rest of the country. This finding was consistent throughout this survey.

When looking at the overall picture, only 1 in 10 business owners said that the service they received had slightly improved in the last 3 years but overall there was little change since 2011 (Figure 2).

Figure 2

How has the service you received from the Canada Revenue Agency (CRA) changed over the past 3 years? (% response)



Source: CFB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

However, among tax practitioners there was some improvement. Around 32 per cent of tax practitioners thought that service had improved in the past 3 years, which is an 8 per cent increase since 2011. But 43 per cent of tax practitioners said service had gotten worse, which is consistent with results from 2011. A plurality of tax practitioners still think service has gotten worse, which mitigates some of the improvements that have been made. Overall, while there are some reasons to be optimistic, there is still much work to be done.

Small Business/CRA Relations

Perceptions about CRA play an important role in shaping the overall attitude business owners have towards the agency. Respondents were given a series of statements and asked about their level of agreement with the statement, ranging from strongly agree to strongly disagree. It is concerning that 59 per cent of business owners felt intimidated by CRA, and

55 per cent felt as though they were treated as if they had done something wrong (Figure 3). This is a complaint that is commonly levelled against CRA by small business owners, and ought to be taken very seriously.

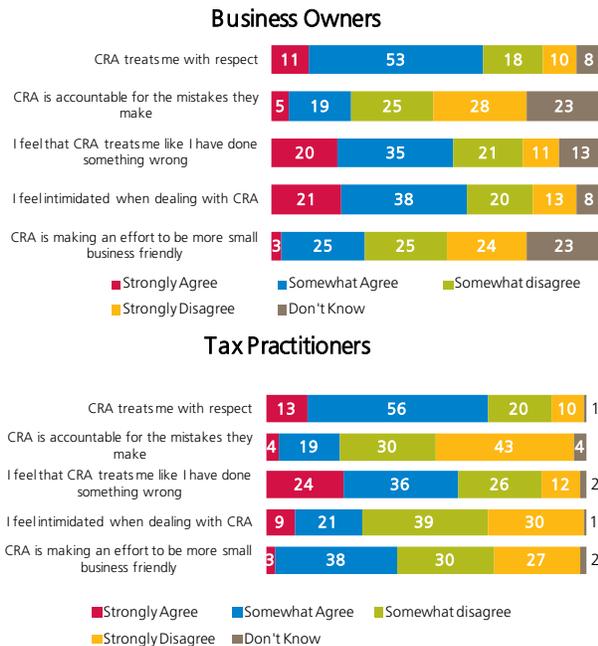
It is not unusual for business owners to describe their treatment by CRA using phrases like “guilty until proven innocent.” Only 28 per cent of business owners thought that CRA was trying to be small business friendly and only 24 per cent thought CRA was accountable for its mistakes. But, the good news is that there was a 12 per cent increase since 2011 in the number of small business owners who felt they were treated with respect (64 per cent now).

The results are somewhat different for tax practitioners. Around 69 per cent of tax practitioners said they were treated with respect, but 60 per cent felt as though they were treated like they had done something wrong. Despite being trained professionals who deal with CRA on a frequent basis, 30 per cent still said they felt intimidated by CRA. What is really telling is that only 23 per cent of tax practitioners thought CRA was accountable for its mistakes. Around 41 per cent thought CRA was trying to be more small business friendly. Compared to previous reports, improvements have been minor. Worryingly, there was a 5 percentage point drop in the number of tax practitioners who think that CRA is accountable for the mistakes it makes. Overall, the perception tax practitioners have of CRA has improved slightly, but has not improved enough to significantly alter the overall attitude tax practitioners have towards CRA.

“Guilty until proven innocent if the auditor does not know if the client has complied with the tax act.”

Accountant, Ontario

Figure 3
To what extent do you agree or disagree with the following statements? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

The way both business owners and tax practitioners perceive CRA is of critical importance. Business owners have no choice other than to deal with CRA, and their interactions with CRA should be professional and friendly, not intimidating and stressful. Much work and effort is still needed to achieve this level of customer service and CRA must continue to make this a priority.

Service quality

One of the most important issues for business owners when dealing with CRA is the service that they receive during their interactions with the agency. Our survey asks multiple questions designed to measure the quality of the service business owners received in their various interactions with CRA.

According to CRA, “service standards publicly state the level of performance that citizens can reasonably expect to encounter from the

Canada Revenue Agency (CRA) under normal circumstances.”

In previous years, CRA has considered its service targets met (percentage of which a standard will be considered to be met) if it achieves a success rate of 80 per cent. This is a remarkably low service standard target as it means that 1 in 5 business owners are not receiving service considered acceptable. Considering the consequences of poor service to small business owners could mean mistakes and misunderstandings that result in potentially crippling fines, a target of 80 per cent is not acceptable. The most recent 2014-2015 service standards contained some updated targets that include many new targets of 90 per cent. This is a positive improvement made by CRA and demonstrates a commitment to increasing levels of customer service. However, many standards still retain the 80 per cent target rate, which means that still more work needs to be done to bring those standards to a more acceptable range.

Three major areas of customer service were examined in the survey; staff, knowledge and information, and clarity and efficiency.

“Most auditors don’t seem to have any real world or small business experience. They therefore don’t seem to understand the dynamics and all-encompassing nature of running a business.”

Accountant, British Columbia

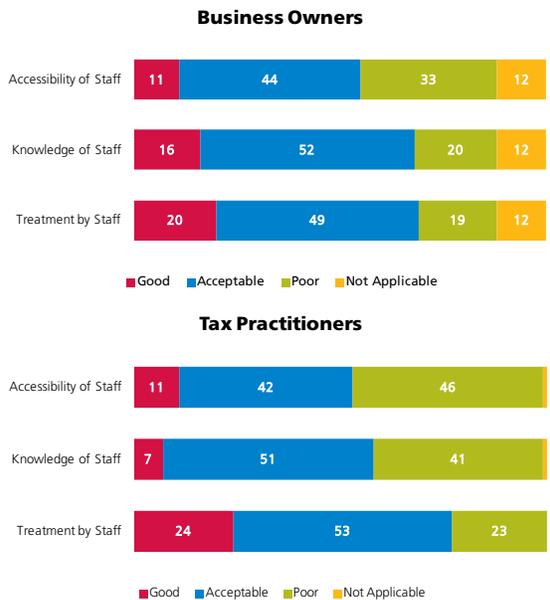
Staff

When business owners interact with CRA they will almost always have to deal at some point with someone from CRA. Although the introduction of online services has reduced the amount of direct interaction business owners have with CRA staff, it is virtually unavoidable that direct contact with CRA will be required at some point. Figure 3 illustrated that the

majority (59 per cent) of business owners feel intimidated when dealing with CRA. To further understand this, CFIB asked business owners and tax practitioners to rate the accessibility, knowledge of, and treatment by staff when interacting with CRA.

Figure 4

How do you rate the current service of CRA on each of the following measures? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

When business owners have questions, they need to be able to speak to representatives from CRA if they cannot find the answer themselves. This means that it must be easy to contact CRA and easy to speak to an appropriate representative. Accessibility of staff received the lowest rating of the three categories, with only 11 per cent rating it as good and 44 per cent as acceptable. Just 16 per cent of business owners said that the knowledge of staff was good, while 52 per cent said it was acceptable, and 20 per cent said it was poor. One in five, or 20 per cent of business owners said that their treatment by staff was good, while 49 per cent said it was acceptable and 19 per cent said it was poor. Results in all these areas have not improved in any substantial way since 2011.

Tax practitioners are a lot more critical of staff than business owners. Just 11 per cent said

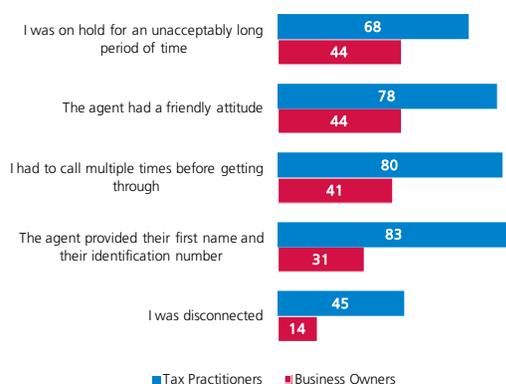
that the accessibility of staff was good and 42 per cent said it was acceptable. Almost half (46 per cent) of tax practitioners said it was poor. Just 7 per cent of tax practitioners said knowledge of staff was good, 51 per cent said it was acceptable and 41 per cent said it was poor. Nearly one quarter said treatment by staff was good, 53 per cent that it was acceptable and 23 per cent that it was poor. These results reveal no significant improvement.

These results should be of concern to CRA. Business owners and tax practitioners do not think service has improved in the past three years. A plurality of tax practitioners think that accessibility and knowledge of CRA staff is poor, and only 25 per cent of business owners or tax practitioners think that staff accessibility, knowledge or treatment is good.

The survey asked respondents about their experience when contacting CRA. These results are quite positive. The percentage of small business respondents who reported being disconnected declined slightly since 2011. The percentage that had to call multiple times before getting through declined by 6 percentage points. The number that were on hold for too long declined by 5 percentage points to 44 per cent. There was also a 12 percentage point increase in the number of agents who provided their name and ID, although the percentage is still very low at 31 per cent. Overall, these results point to an improvement in this area by CRA, and is a good sign that improvements are being noted by taxpayers. However, there was an 8 percentage point decline in the number who said the agent had a friendly attitude.

Figure 5

In the past 3 years, have you experienced any of the following when you contacted CRA by phone? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

The percentage of smaller businesses reporting that agents were giving them their agent ID and first name, while improving, is still quite low. Smaller businesses are less likely to have an accountant or employees specifically hired to handle taxes and thus are less likely to know their rights and fully understand the tax system. CRA should continue to ensure staff automatically states this information to increase the accountability and transparency of the information it provides.

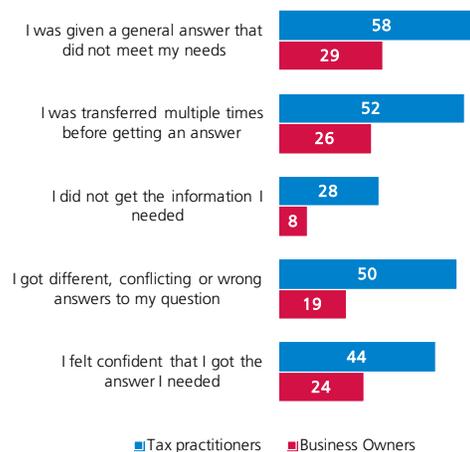
The story is slightly different for tax practitioners. The only category where there was an improvement was in agents stating their caller ID, which improved to 83 per cent from 28 per cent, an increase of 55 percentage points. This is a very important step in helping to increase accountability, and CRA should be applauded for its efforts. But in every other category results slightly worsened. Similar to results from previous questions, business owners saw either slight improvement or no change since 2011 while tax practitioners generally felt there had been little change in service standards. Improving staff quality by increasing service standards that focus on the resolution of problems and not simply engaging with business owners would go a long way in helping to improve the reputation of CRA among business owners.

Knowledge and information

When dealing with business owners and members of the public it is crucial that CRA staff give information that is clear and accurate. This becomes even more important when information is given out via a telephone call. CFIB supports measures taken by CRA to include process to allow small business taxpayers to ask for advice using electronic communication through 'My Business Account', as this provides a form of written evidence that if later proven to be incorrect in an audit, will not be held against the business owner. However, since the majority of interaction is still done over the phone, the accuracy of the information given by staff is crucially important. As a result we asked whether or not respondents experienced five different situations in the past three years (Figure 6).

Figure 6

In the past 3 years, have you experienced any of the following when you contacted CRA by phone? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

The results show a clear improvement from the previous survey, but still leave plenty of room for further improvement. Twenty nine per cent of business owners said they had been given a general answer that did not meet their needs, while 58 per cent of tax practitioners had this experience as well. Around 26 per cent of business owners and 52

per cent of tax practitioners were transferred multiple times before getting an answer.

Just 19 per cent of business owners and 50 per cent of tax practitioners said they got different, conflicting or wrong answers to their questions. Only 8 per cent of business owners and 28 per cent of tax practitioners said they had experienced situations where they simply did not get the information they were looking for. What is most concerning however is that only 24 per cent of business owners, and 44 per cent of tax practitioners thought they got the answer that they needed. This means that over 75 per cent of business owners were not confident that the information they were given was correct.

Although many of these figures are still worryingly high, there is at least a broad trend toward positive change. The number of business owners who said they were given a general answer declined by 7 per cent since 2011. There was a 6 per cent decrease in the number of business who said they had been transferred multiple times. There was also a 5 per cent decline in the number of tax practitioners who said they did not get the information they needed and a 6 per cent decline in the number of business owners who said that they got different, conflicting or wrong answers to their question. These trends are all positive, and CRA should work to continue to improve the accuracy of information given to business owners by its staff.

Once again, tax practitioners are much more critical of CRA. The only category in which tax practitioners were more positive than business owners was that they were more confident in the answer they received. Tax practitioners handle the taxes of many businesses and clients and thus they spend much more time dealing with CRA than a business owner. Thus, it is not surprising that tax practitioners have had more negative experiences over the phone, simply because they have likely called CRA more often and are more likely to understand the tax code.

In 2013, CFIB released a report entitled 'CRA Call Centre Report Card', which rated the level of phone service at CRA call centres. Exactly

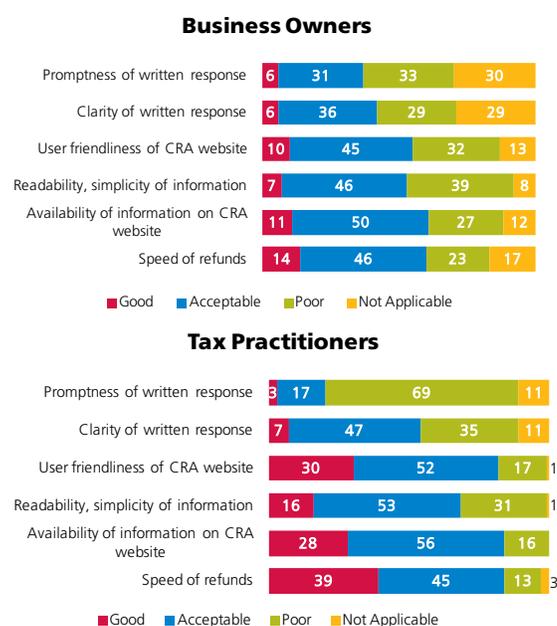
145 calls were made to CRA call centres in the study to test the customer service and quality of information given by CRA representatives. The study found that only 61 per cent of calls to CRA resulted in a successful connection to an appropriate representative and the correct information being given.³ Taken alongside the findings of this report, it is clear that there is still room for improvement by CRA in this category, and while current trends seem to indicate improvement, these efforts must continue.

Clarity and Efficiency

The last service standard measured was the clarity and efficiency of information given by CRA. It is important that when CRA does provide tax advice to business owners it makes the information clear and responds to the request in a timely manner in order to minimize delays. Generally, small business owners and tax practitioners felt that CRA had made small improvements in this area as well (Figure 7).

Figure 7

How do you rate the current service of CRA on each of the following customer service measures? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

³ CFIB, CRA Call Centre Report Card, 2013

The highest rated aspect of information provided by CRA by small business owners was the availability of information online and speed of refunds (about 60 per cent rated them good or acceptable). This was followed by just over half saying that CRA website was user friendly and that information was readable and simple. The areas in most need of improvement are clarity of written responses (42 per cent rated it good or acceptable, while 29 per cent rated it poor) and promptness of written responses (only 37 per cent rated it good or acceptable and 33 per cent rated it poor).

Among tax practitioners the trend was quite similar and even more positive than small business owners with one exception. Over 80 per cent of tax practitioners found speed of refunds, user friendliness and availability of information on the CRA website was either good or acceptable. Readability and simplicity of CRA information (69 per cent) and clarity of written responses (54 per cent) were also thought to be good or acceptable by the majority of tax practitioners.

However, one area where there has been a decline in standards for tax practitioners is the promptness of written responses by CRA with 69 per cent of tax practitioners rating it poor. But, overall the results are positive and CRA should work to continue these trends.

Auditing the Auditor

When CRA decides to audit a small business it is normally done to ensure compliance. On top of having to file and organize their tax returns, a business owner that is audited is forced to give up a significant portion of their time, and potentially face crippling fines. CRA also tries to use audits to maintain public confidence in the fairness of the system. However, our members often indicate that the exact opposite is happening, and the ordeal of having to go through an audit often leaves businesses far more suspicious of CRA.

Members often describe audits as being arbitrary, and complain about being treated as though they were guilty of deliberately trying

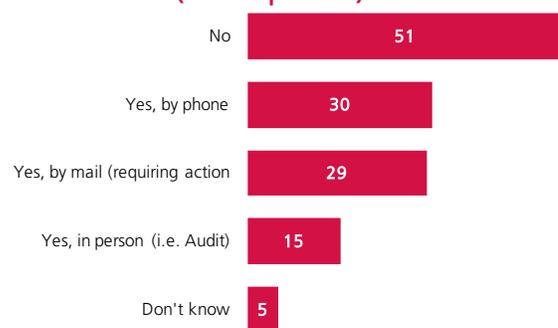
to deceive CRA when this is almost always not the case.

In previous years, we simply asked whether business owners had been audited in the previous three years. The most recent survey modified this question slightly. Instead of simply asking respondents if they had been audited, it asked respondents whether or not they had been contacted by CRA, and what kind of action was required. Given that many business owners feel intimidated by CRA, any kind of contact initiated by CRA with small business owners can feel like an audit even if it is a simpler request not defined as an 'audit' by CRA.

Asking the question this way has provided different results from previous years. Namely, a significantly smaller portion of businesses claim to have been audited. The reason for this is that, in previous years, many were likely not sure as to what exactly constituted an audit. Thus, small business owners may have claimed to have been audited when in fact they were simply contacted by CRA or required to do something else that may have appeared to them like an audit, but was not according to CRA's definition of an audit.

Figure 8

Has your business been contacted by CRA in the past 3 years?
(% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

Approximately 30 per cent of business owners claimed to have been contacted by CRA by phone, and 29 per cent by mail (requiring action such as filing additional documents or providing extra information). However, even though these businesses were not necessarily

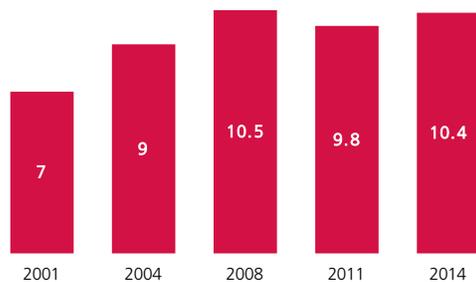
audited by CRA, it does not mean that they were not required to give up extra time in order to meet their obligations. Another 15 per cent of respondents say they have been contacted by CRA in person so we will assume that these are the businesses that have most likely undergone an audit.

There are some interesting results when looking deeper at the businesses that have been audited in the past 3 years. It appears that larger businesses have a higher chance of being audited. Notably, 28 per cent of businesses with 20 or more employees have been audited, almost double the 15 per cent of small businesses overall that have been audited.

There is also some variation by sector, with certain sectors having a much higher frequency of being audited than others. They include: Natural resources (23 per cent); administration and management (21 per cent); manufacturing (19 per cent); and construction (18 per cent).

Figure 9

Number of days spent by SMEs complying with CRA audit



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

We also asked our members how long they spent complying with a CRA audit. Although CRA does not specify how long an audit should take, given the varying complexity of business tax records and different levels of record keeping, they should still be done in the most efficient and timely way possible. If a business is audited, they are required to devote a significant portion of their time to complying with the auditor's demands and requests, time that could be spent running

their business. Business owners and their accountants often complain that auditors do not really seem to know what they are looking for, or do not organize their own records well enough and ask for the same records multiple times. Duplication of records is one of the most frustrating things a business owner can face, as it takes up even more time and causes more unnecessary delays.

The amount of time spent complying with an audit is now an average of 10.4 days. Compared to previous years this is almost the highest levels we have seen since the report was first published in 2001. The highest previous levels were recorded in 2008 when it took an average of 10.5 days to complete an audit. Since 2001, there has been a long term worrying trend towards audits taking up more and more of a business owner's time. In 2001 when the first report card was published, it took a business owner an average of 7 days to complete an audit. Thirteen years later it took over 3 days longer.

The amount of time it takes to comply with an audit also varies significantly by sector and size. It takes a business with over 100 employees an average of over 14 days to comply with an audit. It takes businesses in the arts, recreation and information sector an average of 17 days, those in social services and hospitality businesses take an average of 15 days and transportation companies take an average of 14 days to comply with an audit.

Business owners and tax practitioners were also asked to rate their satisfaction with the professionalism and knowledge of the auditor, as well as whether or not complying with the audit was an effective use of their time. The results are similar to almost all of the other results in that tax practitioners are far more critical of CRA than business owners (Figure 10).

Three-quarters of business owners and tax practitioners agreed that the professionalism of the auditor was good or acceptable (Figure 10). While 80 per cent of business owners and 65 per cent of tax practitioners said the knowledge of the auditor was good or acceptable.

Finally, 68 per cent of business owners and 57 per cent of tax practitioners said the effectiveness of their time to comply with an audit as good or acceptable.

“Auditor didn’t have basic knowledge of deductible expenses. Auditor was on vacation, courses, etc., and took way too long to complete the audit. Auditor asked for information that was already in their possession.”

Accountant, British Columbia

businesses in the agriculture sector thought that the audit was a waste of time, and numerous comments from business owners and tax practitioners criticized the lack of knowledge and understanding that auditors had for businesses in the agriculture sector. A common recommendation we received from tax practitioners was for CRA to train auditors specifically for agriculture businesses as they are unique in the business community.

“A farmer getting audited had an auditor who had no knowledge of farming. She took over 30 months to complete the audit after numerous visits and requesting the same info over and over again. Initial assessment was approximately \$110,000 with final balance after appeals \$8,000 and our fees at approx \$200,000. Have been in practice for 41 years and seen many sad stories.”

Accountant, Alberta

Figure 10

How would you rate CRA audit on each of the following? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

Certain sectors were a lot more critical of CRA auditors. More than one-quarter (28 per cent) of businesses in the finance sector and in the transportation sector, as well as 40 per cent of businesses in the arts and recreation sector were unhappy with the knowledge of the auditor. One specific sector that was particularly critical of auditors was businesses in the agriculture sector. About 42 per cent of

Audits are the most burdensome and time consuming aspect of tax collection that business owners have to endure. Because of this, it is important that CRA acts to ensure audits are fair, transparent, efficient and timely. Audits generally receive higher satisfaction ratings from business owners than other aspects of interaction with CRA but, long term trends are indicating an increase in the amount of time spent complying with an audit and a decline in the levels of knowledge and professionalism. This increase in the time taken to complete an audit, and decline in the level of service needs to be addressed.

Current Performance

Awareness of CRA initiatives

Since CFIB began producing report cards on CRA in 2001 the Agency has responded with a variety of initiatives and reforms, many of which have been supported by CFIB. However, many of these initiatives have been significantly limited by a lack of awareness

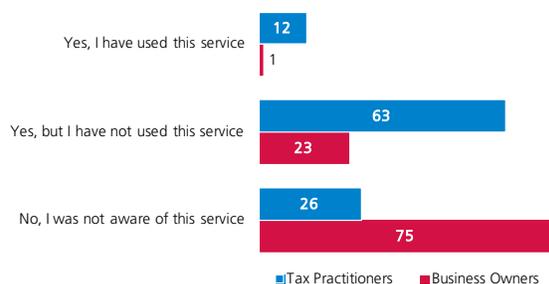
among not just business owners and the general public, but also tax practitioners. It does not matter how effective initiatives are if no one is aware that they exist to take advantage of them. The last CRA report card asked tax practitioners to rate the effectiveness of 11 CRA initiatives, including taxpayer relief and the taxpayer bill of rights. On average, 43 per cent of tax practitioners were unaware of the initiatives. When almost half the tax experts are unaware of these initiatives, awareness is clearly a major problem for CRA and its attempt to become more small business friendly.

This survey focused on awareness of a specific initiative, the Taxpayers Ombudsman office. The Ombudsman's office works to help resolve taxpayer service-related disputes and conducts investigations of CRA's interactions with taxpayers independent of CRA. It also focuses on a variety of measures introduced by CRA in recent years to improve service.

It becomes clear when looking at the results that initiatives and reforms implemented by CRA are well supported and popular when people are aware of them, but that a significant majority of small business owners and many tax practitioners are not aware they exist.

Figure 11

Are you aware of the Taxpayers Ombudsman's office and its role to help resolve taxpayer service related disputes? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

The Taxpayers Ombudsman's office is a good indicator of the education and awareness problem at CRA (Figure 11). Only 1 per cent of business owners have used this service, while

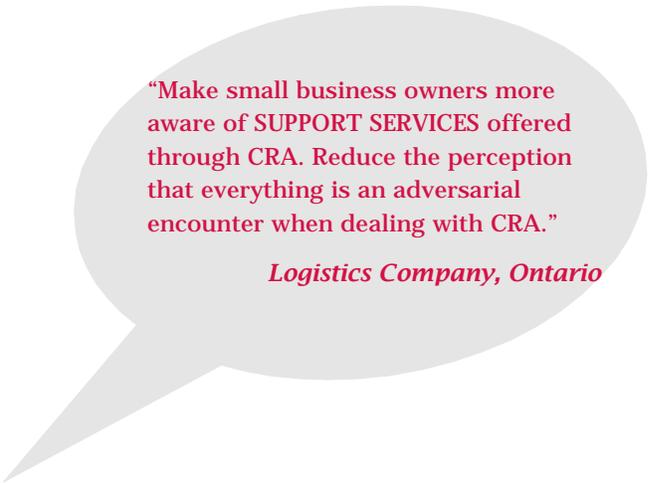
only 23 per cent of business owners had even heard of the service. Three out of every four business owners (75 per cent) have never heard of it. Among tax practitioners, only 12 per cent have used the service but 63 per cent had heard of it and 25 per cent had not heard of it at all. This is actually an improvement on the previous results. In 2012, 56 per cent of tax practitioners were unaware of this service, meaning there has been a 30 per cent increase in the last three years. While the results for tax practitioners are not as problematic as the results for business owners, it is still concerning that 1 in 4 tax practitioners are not even aware of this service. Clearly outreach and awareness are a continuing problem for the Taxpayers Ombudsman, which is an important tool that could help CRA when conflict arises between them and small business owners.

Lack of awareness is not just limited to the Taxpayer Ombudsman office but also to a variety of other CRA initiatives designed to help small business owners (Figure 12). In previous reports, CFIB has measured the effectiveness of new initiatives, but the results consistently showed that a significant majority of business owners were not aware of these initiatives. When business owners are not aware of initiatives then they will never use them, and thus will not help to solve any problems.

Just 16 per cent of business owners are aware of the ability to get written advice through My Business Account, but 85 per cent of business owners are supportive. Only 39 per cent of business owners are aware that call centre agents must provide their ID but 95 per cent of business owners are supportive. Only 24 per cent of business owners are aware that CRA has increased source deduction threshold limits, but 83 per cent of business owners are supportive. These measures have been in place for some time now, and so the lack of knowledge that business owners have of them limits their impact.

Only 8 per cent of business owners are aware of the introduction of Liaison officers, but 93 per cent of business owners are supportive. Finally, 9 per cent of business owners are aware of the proposal to require tax preparers

to register with CRA but 89 per cent of business owners are supportive. These measures are extremely new, thus we should not expect many business owners or tax practitioners to be aware of them yet but there is clearly strong support for these kinds of initiatives.



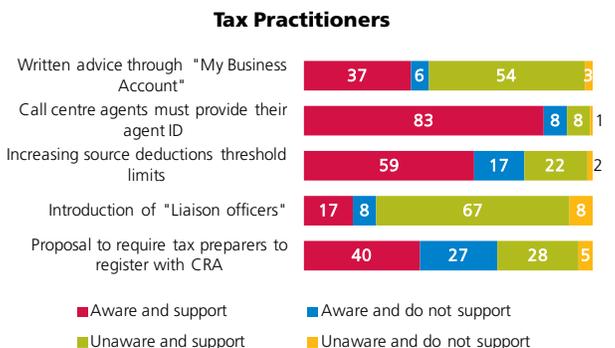
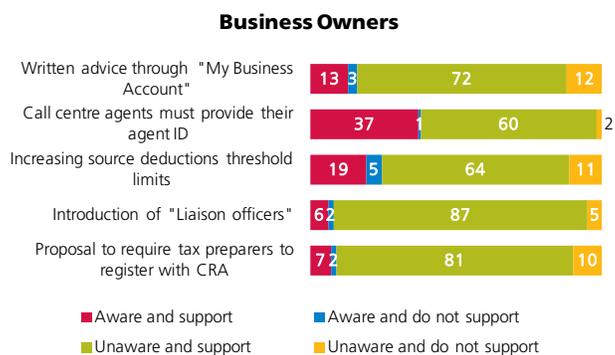
Alternatively, almost half (43 per cent) of tax practitioners are aware of the ability to get written advice through My Business Account, but 91 per cent are supportive. Most (91 per cent) of tax practitioners are aware that call centre agents must provide their ID, and just as many are supportive. Over three-quarters (76 per cent) of tax practitioners are aware that CRA has increased source deduction threshold limited, and 81 per cent are supportive of the newer initiatives, and like small business owners, tax practitioners are less aware of them. Only one-quarter (25 per cent) of tax practitioners are aware of the introduction of Liaison officers, but 84 per cent are supportive and two-thirds (67 per cent) of tax practitioners are aware of the proposal to require tax preparers to register with CRA, and a similar percentage (68 per cent) are supportive. This is an initiative that will directly impact many tax practitioners so there is no surprise that the level of support is mixed. CRA should continue its efforts to reach out to them to ensure they take their concerns into account as they design the process. However, overall the message is clear, when business owners and tax practitioners are aware of these measures the vast majority of them are supportive.

When we break our analysis down a bit further some interesting results emerge. For almost all

of the initiatives that respondents were asked about, businesses that are smaller and businesses that are newer are less likely to be aware of them.

Figure 12

CRA has developed a number of new initiatives. Indicate your level of awareness and support for each of the following (% response):



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

Often it is the small businesses that have the least time and money to spare and so they are less likely to be able to afford to hire accountants and lawyers to help them with their taxes or defend them if they run into any issues. Initiatives discussed in the survey are of most use to these smaller and new businesses because they give them more protection and accountability when dealing with CRA, but because of financial and time constraints they are the least able to access them.

The lack of awareness surrounding these programs significantly hampers the ability of CRA to help small businesses solve problems and improve its service. The introduction of

Liaison officers or providing written advice through My Business Account are just a few great examples of how CRA has tried to improve its service to small business and should be commended for their efforts. Having streamlined tools to help businesses solve issues they face is an easy way to reduce the tax burden on small business, but unless business owners are aware of these measures then they will continue to be limited in their use. CRA must find new and creative ways to educate and inform small business owners about new measures and initiatives created to help small businesses with their CRA issues.

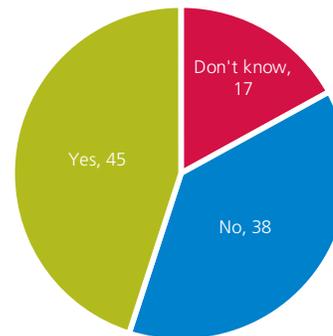
Electronic tools

In recent years CRA has been active in moving more and more of its service online. Not only does this help reduce the costs associated with the tax system, it should also help simplify and increase the transparency and accountability of the complex Canadian tax system. CFIB has been a strong supporter of these changes, provided that traditional options are still available for businesses unable or uncomfortable with switching to online services. In order for these electronic services to be useful to small business owners they need to be reliable, affordable, accessible, and easy to use.

The usage of electronic services has continued to increase, albeit at a slower pace than it has in previous years. Between 22 and 36 per cent of businesses have not used any of CRA's electronic services (Figure 15). While slightly more people are using online services than in 2011 the uptake is slow. Between 18 and 26 per cent of business owners did not know or think that these online services applied to their business. This is very worrying, as it demonstrates that efforts to help smaller businesses by giving them easy-to-use online tools will be wasted unless significant effort is made by CRA to educate business owners about these tools.

Figure 13

Does your business have an online My Business Account with CRA?



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

My Business Account is one of the main online services CRA has created that provides an opportunity to interact electronically with Canada Revenue Agency (CRA) on various business accounts. Business accounts include GST/HST, payroll, corporate income taxes, excise taxes, and more. CFIB frequently receives feedback and comments from members who think that they are simply too small to use or benefit from many of the services offered by CRA. This should be of great interest to CRA, as it stifles the positive impact of initiatives and services offered by CRA to help small businesses.

My Business Account gives business owners an easy-to-access and consolidated location for many of their tax needs, and should help to significantly reduce the time and effort it takes for businesses to file their taxes, and help to reduce the overall burden on small businesses. Almost half (45 per cent) of businesses use My Business Account, while 38 per cent do not and 17 per cent are unsure (Figure 13). Older businesses are even less likely to use My Business Account.

When business owners were asked why they had not used My Business Account, the most common reason they cited (30 per cent) was that they had never heard of it (Figure 14). The second most frequent response (29 per cent) was that the registration process was too complicated, while 14 per cent said an authorized representative managed their account on their behalf, reducing their need to use the service. Although the move towards

online services will help simplify the tax process for small businesses, not all business owners are willing to make this switch. In fact, a quarter of business owners said they were not comfortable providing their personal information online, which is a choice that CRA must respect.

Figure 14

Why have you not used My Business Account? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

“I don’t support CRA going paperless. Internet in our country – ESPECIALLY rural Southeast Manitoba is not available to many customers and is unreliable at best in many other places. Please respect us.”

Construction Company, Manitoba

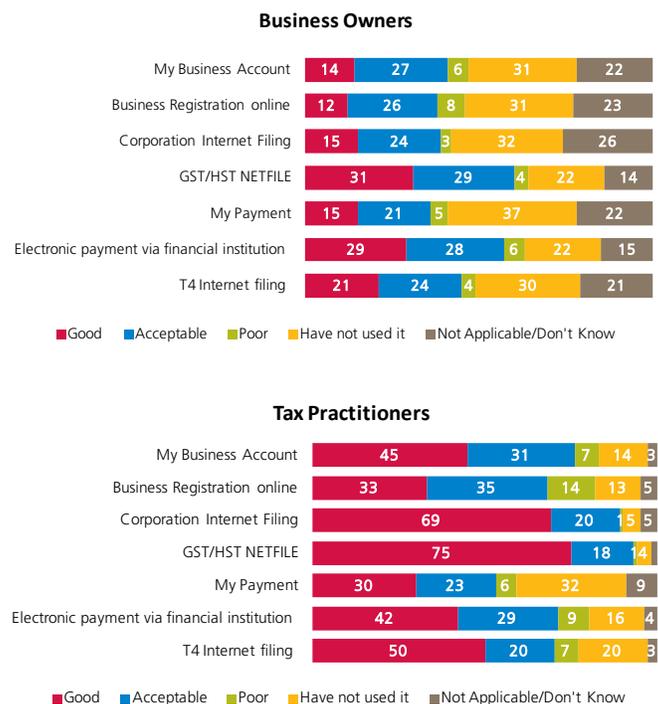
Electronic services are well liked when they are used, but their lack of usage and the lack of awareness among business owners of most of these services mean that their effectiveness is limited. Better explaining and educating business owners about these services would no doubt increase their usage, and given the positive feedback we have received about these tools, it would help increase CRA’s overall service.

Figure 15 illustrates very clearly that the vast majority of those who have used electronic services have generally found the service to be good or acceptable. Around 41 per cent of business owners thought that My Business Account was good or acceptable, while only 6

per cent thought it was poor. But, this is a decline since the previous report, where 46 per cent thought it was good or acceptable, and 7 per cent thought it was poor.

Figure 15

How would you rate the following CRA electronic services?



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

Also well liked by small business owners who have used it are online business registration, Corporation Internet Filing, GST/HST NETFILE, electronic payment via financial institution, and T4 Internet Filing. In fact, the largest increase in positive ratings from small business owners since 2011 was the use of GST/HST NETFILE, going from 51 to 60 per cent saying the service was good or acceptable. My Payment was the least well known of the online services, with only 41 per cent of businesses having used it or having knowledge of it. Of the 41 per cent of business owners that had used it, 36 per cent said it was good or acceptable, and 5 per cent said it was poor.

Overall, the issue for small business owners is not whether they like the services but rather if they use the service or are even aware of them. In fact, with the exception of GST/HST

NETFILE and electronic payment via financial institution, the majority of small business owners have not used the service or are unaware of them. Tax practitioners are far more likely to use online services. Apart from My Payment, all the rest of the electronic services were used by a significant majority of tax practitioners (Figure 15). What is important to note here is that in the previous three years there has been a significant uptake in the number of tax practitioners using online services (Figure 16). In 2011 70 per cent of tax practitioners said they were using My Business Account, in 2014 this had increased to 83 per cent. There were similar findings for Business Registration online, going from 75 to 87 per cent, Corporation Internet Filing, going from 80 to 90 per cent, GST/HST NETFILE, going from 81 to 94 per cent, My Payment, going from 50 to 59 per cent, and Electronic Payments via Financial Institutions, going from 74 to 80 per cent.

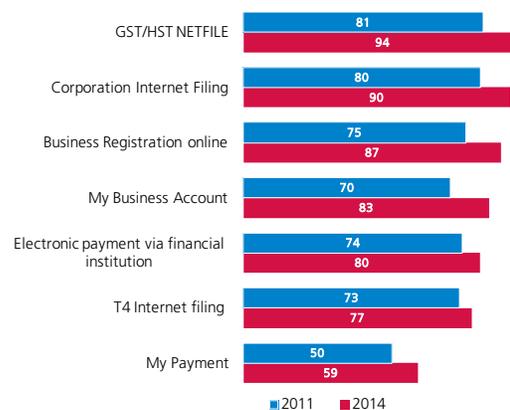
"The My Business Account feature is a tremendous benefit to our business. Hopefully CRA will continue adding other features for easy reporting to CRA and from CRA in regards to our business."

Auto parts distributor, Alberta

Similar to small business owners, tax practitioners that have used online services were generally pleased with them. Tax practitioners rated GST/HST NETFILE the best (93 per cent rated it good or acceptable), followed by Corporation Internet Filing (89 per cent good or acceptable). My Business Account, T4 Internet Filing, Business Registration Online and Electronic payments via financial institution were also all well regarded by tax practitioners overall (Figure 15). My Payment was the least well known of the online services, with just over 50 per cent of tax practitioners having used it or having knowledge of it. Of those that used it, 53 per cent said it was good or acceptable, and 6 per cent said it was poor.

Figure 16

Percentage of tax practitioners that have used CRA's electronic services (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

Electronic services suffer from many of the same problems as other initiatives implemented by CRA. When they are used, electronic services are popular and well liked by both business owners and tax practitioners. But, the success of these tools is hindered by a lack of awareness. If only a small minority of business owners are aware of these tools then only a few will be able to take advantage of them, limiting their overall impact. CRA needs to find better ways to educate business owners about the electronic tools available to them, while at the same time ensuring traditional, non-electronic tax tools are available to business owners who are not comfortable or unable to use them.

Costs and Burden

For smaller businesses that have limited capital available, the cost of taxation can hugely impact whether or not they can remain competitive. Not only is taxation a financial expense, but it also takes up a significant portion of an owner or entrepreneur's time. Business owners will often tell you that apart from capital, the one thing they need to help them grow their business is time. Filing and preparing taxes requires time that could be spent growing a business. In 2014, Canadian businesses spent \$37 billion complying with all regulatory obligations. These costs hit small

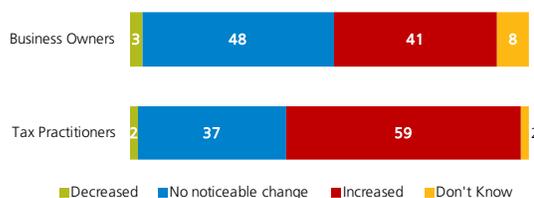
businesses the hardest, who spend the most time per capita complying with their tax obligations.⁴

We asked business owners and tax practitioners to rate whether the burden of their tax obligations had increased, decreased or stayed the same. We also asked business owners and tax practitioners to provide what they thought was the most important thing CRA could do to reduce the tax burden on small businesses and improve service.

Around 41 percent of business owners and 59 percent of tax practitioners thought that the burden of tax obligations had increased. Around 48 per cent of business owners and 37 per cent of tax practitioners thought the burden had remained the same. Only 3 per cent of business owners and 2 per cent of tax practitioners thought the burden had decreased. These results appear to indicate that business owners and tax practitioners think that the burden is steadily getting worse and not better (Figure 17).

Figure 17

How has the overall administrative burden of tax obligations on your business changed during the past 3 years? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

Larger businesses were more likely to say that the burden was increasing as almost half (47 per cent) of businesses with more than 20 employees thought the burden had increased, compared to the 41 per cent overall average. Geographically, business owners in Quebec and Atlantic Canada were less likely to think

⁴ Canada's Red Tape Report, CFIB 2015

that the burden had increased, averaging in the low 30 per cent range. About 54 per cent of businesses in British Columbia thought that the burden had increased, significantly higher than the national average.

Figure 18

What is the most important thing CRA could do to improve its service to small business & reduce your tax compliance burden? (% response)



Source: CFIB, results of Canada Revenue Agency (CRA) 2014 Survey, 2014.

When asked what the most important thing CRA could do to improve its service to small business 54 per cent of business owners and 37 per cent of tax practitioners said that CRA should improve the clarity and quality of information provided to small businesses. This option was the most popular choice of both business owners and tax practitioners. Just over one fifth of tax practitioners (22 per cent) and 11 per cent of business owners said that CRA should improve response times. About 1 in 5 (19 per cent) of business owners and 13 per cent of tax practitioners wanted CRA to reduce the amount of time taken to complete an audit. Around 13 per cent of business owners and 7 per cent of tax practitioners thought the friendliness of CRA staff needed to improve. Overall, it is clear that the priority for both business owners and tax practitioners is improving the clarity of information provided. This is especially important for smaller and newer businesses who are less likely to have or be able to afford to hire, and employ, a professional accountant or expert.

Over half (55 per cent) of business with no employees and 64 per cent of new businesses say this is the most important thing CRA could do to improve service.

It is important that CRA seriously considers these results. The burden that taxes place on small businesses is consistently ranked by CFIB members as the most time consuming and expensive burden they face, and CRA must do all it can to try and reduce this burden. While the number of business owners and tax practitioners who think the burden has increased has shrunk, those who think it is declining has also decreased to an insignificant level. It is not enough for CRA to simply maintain current levels, as this report has shown business owners and tax practitioners are not content with current levels of CRA service and standards. CRA must actively look to lower the burden that taxes place on small businesses in order to help free up time and money that can be used to grow the business. By doing this CRA can directly contribute to making Canada an even better place to be an entrepreneur.

Recommendations

CFIB has been working with CRA in recent years to try and find new ways to improve the service CRA offers to small business. There has been definite improvement, with some measures proposed by CFIB being adopted by CRA. Some recent successes include ensuring agents voluntarily provide their name and identification number to clients, providing written advice to small business clients through My Business Account and a promise by CRA to honour this written advice even if it is later found to be incorrect. These measures help to improve the service small businesses receive from the CRA, and in the long term will help to foster a more trusting and cooperative relationship between small businesses and CRA.

While all these measures demonstrate a commitment by CRA to improve the service they provide to small business there is still much room for improvement. CFIB has the following recommendations:

Improve customer service

Make excellence in customer service a priority

The most important thing the CRA can do to improve its relationship with SMEs is provide consistently good customer service. An emphasis should be placed on helping small businesses meet their obligations, and should not be done with the assumption that business owners understand the complexities of the tax system.

It is crucial that CRA **continue to improve the quality of service of front line staff**. These employees must be accessible, polite, professional and knowledgeable and must give answers that are not simply read off a web page or a piece of legislation.

CRA should also continue to implement **stronger service standards** focusing on the resolution of problems and not simply engagement with taxpayers. These service standards should be regularly updated and should also be done with input from taxpayers and made public.

It is also important that CRA **conduct plain language reviews of key information and communication pieces**. Unclear, technical and complex language is the greatest barrier to tax compliance for the vast majority of business owners (Figure 18). Information needs to be easily understandable and applicable to small business. Information that is publically available from places like the CRA website or through newsletters needs to be simple and written in plain language. It is important that individuals not already familiar with CRA jargon decide what constitutes plain language, and reviews should be done with external help. This will help to ensure that Canadians are able to easily understand and comply with their obligations.

Ensure taxpayers are not forced to file electronically

Despite the positive benefits of CRA's increasing use of electronic tools there remains a significant portion of small businesses that have unreliable or no access to the internet. Many small businesses also have little interest in doing business with government electronically. Thus, we are

concerned by the increasing pressure business face from CRA to use on-line filing, payment and tools. While we support the continued adoption and evolution of technological advances in how CRA interacts with taxpayers, they should also not forget that many small business owners are not able or willing to provide payment and/or financial information via the web. All tools necessary for a business to collect and remit taxes on behalf of the government should be made available to them in the format they desire, even if that requires CRA to mail it to them.

Continue to come up with innovative ways to improve customer service

In introducing well liked and easy-to-use online services like My Business Account, CRA should be praised for its innovative approach to certain problems. CFIB believes a willingness to try new and innovative ideas is key to improving customer service at CRA in the long term. CRA should continue to **make use of social media to get information out to taxpayers and business owners, and try and expand its online presence.**

CRA should also **expand its online call back feature**, known as Smartlinks, so that more and more taxpayers and business owners are able to access it. Smartlinks is an online tool that allows people visiting the website to leave questions on certain topics, with someone from CRA then calling them back to try and answer the question. This is an innovative and positive initiative, and business owners would benefit from an expansion of this service to more pages on the CRA website.

Increase accountability at CRA

Increase accountability of front-line call centre agents

CRA call centre agents should continue to **volunteer their ID numbers to all callers.** This simple measure has helped to ensure that all CRA employees are held accountable on their knowledge and their customer service when providing information and advice to small business owners.

CRA should also consider expanding written advice that is honoured even if it turns out

to be incorrect, to advice given out over the phone. CRA could record and archive calls made to CRA and give the call number to business owners in the same way they do with agent IDs, allowing business owners to dispute the advice if they feel it was bad or incorrect.

Allow taxpayers to rely on information on the CRA website

Similarly the above suggestions, allowing taxpayers to rely on all information on the CRA website—even if archived—especially if later found to be incorrect is a critical component to ensuring taxpayer fairness. Small business owners rely increasingly on the CRA website, both for guidance and to avoid calling into the Call Centre. Information on the CRA web page should be updated as frequently as possible in order to avoid taxpayers relying on outdated information.

Implement impartial third-party reviews of specific disputes.

Appealing a decision made by the CRA is a costly, lengthy and stressful process. Even if the taxpayer knows they are right they often will not appeal simply because it is too costly, or because they are intimidated by the prospect of challenging the CRA. British Columbia's model of third-party reviews for specific disputes should be considered by CRA. This model provides smaller businesses with an alternative method for settling a dispute with CRA. This process would be particularly helpful when interpreting grey areas in current legislation.

Cover the legal costs of taxpayers who successfully appeal CRA rulings

All too often CFIB is contacted by members who have been wrongly accused by the CRA of owing large amounts of money, only to have the ruling changed and significantly reduced after long and costly legal battles. Although these members win their legal case, they are left with significant legal fees and have been forced to lay off employees and even sell their business in order to pay for the legal costs involved in fighting a tax ruling. This is unacceptable, as it means that businesses end up being ruined by the CRA despite having done nothing wrong and having broken no laws. CRA should cover or at least partially

refund the legal costs of business owners that successfully appeal a ruling in order to ensure businesses can fight unfair rulings without having to risk their livelihoods, often putting other jobs at risk.

Increase efforts to improve taxpayer awareness of CRA initiatives

Conduct an international comparison examining policies and approaches of other tax collection agencies

Virtually all states collect some form of tax, and virtually all governments have a tax collection agency that has a role that resembles that of the CRA. Given the number of different tax collection agencies that exist, CRA could learn a lot from its counterparts around the world. While other organizations like the Organization for Economic Co-operation and Development (OECD) already conduct similar assessments, it would be beneficial for CRA to conduct its own studies of other tax agencies worldwide and develop a policy of adopting best practices from these studies. Every country has its own unique way of doing things and CRA could learn a lot from countries leading the way on cutting red tape and lowering the burden on small businesses. Strong candidates would be countries like Australia, New Zealand, Singapore, Hong Kong and the United Kingdom. Doing this would help to transform the CRA into a world class agency and help to dramatically reduce the burden on small businesses by making the CRA a leader in innovation and red tape reduction. CRA should consider formalizing this process by publically releasing reports on a regular basis and creating a formal time schedule for reports to be released.

“During an audit I learned that CRA sends auditors to small businesses to train them. We were levied a \$6,000 fee which had to be paid before filing an appeal. The appeal was accepted because the auditor made two errors that I had personally pointed out to her. She would not change the report. We waited six months to receive our money back. The cost to my business was about \$2,000.”

Retailer, Ontario

Provide registration packages to new business owners when they receive a business number

When businesses register with the CRA they receive a Business Number (BN) that applies to individual businesses. CRA often confirms either by mail or through a telephone call the information that has been provided by the applicant and ensures that the business owner has the right BN. CRA should begin providing a registration package after a business has a BN that provides information about tax filing deadlines, what needs to be provided when filing taxes and any other information specific to the relevant business sector. CRA should not assume that taxpayers and business owners know or understand their obligations. Business owners that are just opening a new business have enough to worry about and a registration package with important information and dates could help to save business owners significant amounts of time and stress when it comes time to file tax information. This registration package should also include information about various CRA initiatives, such as My Business Account or GST/HST NETFILE to help boost awareness of other initiatives.

Reduce the regulatory burden on SMEs

Measure and make publicly available the regulatory burden imposed on SMEs

In 2006, the CRA created the Action Task Force on Small Business Issues in order to identify which of the administrative practices of the Canada Revenue Agency (CRA) imposed the greatest burden on small businesses, developed solutions to reduce the burden, and introduced a systemic approach to burden reduction across the CRA. According to the last update of the Final Report on Action Items, 61 out of 65 action initiatives were completed. However, there is room for improvement. In particular, the reduction of paper burden needs to be renewed and it must start with establishing a permanent, ongoing measurement.

It has been nearly a decade since a task force has conducted a review of CRA practices. CRA

should consider renewing this task force and conducting a new study to identify practices that are the most burdensome on small businesses, and identify new solutions to help reduce this burden.

Reduce the time it takes to complete an audit

The time it takes to complete audits has increased substantially since CFIB began doing this survey. **CRA should minimize any disruptions to the business environment and be sensitive to the fact that business owners have very little additional time to be able to meet extra compliance burdens.**

In addition, CRA should **inform a small business of what they should expect when being audited**, their rights as well as the contact information of the supervisor of the auditor should they face problems during the auditing process. CRA should also inform small businesses why they are being audited. An idea CRA should consider is British Columbia's auditing process, which has been innovative in communicating with business owners. In addition to providing a typical audit flowchart, each auditor provides the small business being audited a video which explains what is an audit, what to expect during and after an audit, as well as the rights and obligations of the business owners. CRA should consider adopting similar measures and ensure it maintains aspects of these ideas already in place such as providing explanatory introduction videos in the Business Audit section of the CRA website.

Introduce specialized auditors

All too often audits are conducted by auditors who have no understanding of the business or sector that they are auditing. This can be incredibly frustrating for business owners and accountants, who often find they have to explain tax policy and legislation to auditors. CRA should train specialized auditors for certain sectors, such as agriculture, and ensure that audits on businesses in these sectors are conducted by auditors who understand the unique requirements and regulations applicable to those sectors. This would help to significantly reduce mistakes, speed up the time of the audit and ensure that businesses

that are audited do not experience unnecessary stress and delays.

Reduce the time it takes to respond to small business questions

Tax questions can often be complex, and information available online or over the phone may simply not be able to answer certain questions. Thus, business owners often have to mail their questions formally to the CRA (or through email via My Business Account). However, all too often answers to these questions do not come in time for business owners, who will file their taxes without having an answer to their question. The consequences for doing this can be severe. CRA should confirm to taxpayers that they have received their question and then guarantee an answer within a reasonable length of time. For questions sent through My Business Account CRA should guarantee an answer within 5- 10 business days with the aim of reducing this over time. If these questions are not answered in time for filing deadlines then business owners should not be punished for mistakes they make, or deadlines should be extended until the business owner receives an answer to their question.

Methodology

This report reveals the findings of a Canada Revenue Agency survey conducted from February 28 – April 29, 2014. The survey was conducted online and by mail.

The response rate for small business owners was 11,574. Findings are statistically accurate to +/- 0.91% per cent 19 times in 20. The response rate for tax practitioners was 426. Findings are statistically accurate to +/- 4.75% per cent 19 times in 20.