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CANADA

TAXATION OF E-COMMERCE

Report of the Standing Committee on Public Accounts

Kelly Block, Chair

**MARCH 2021
43rd PARLIAMENT, 2nd SESSION**

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NOTICE TO READER

Reports from committee presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

FOURTEENTH REPORT

Pursuant to its mandate under Standing Order 108(3)(g) and the motion adopted by the committee on Thursday, November 5, 2020, the committee has studied Report 3, Taxation of E-Commerce, of the 2019 Spring Reports of the Auditor General of Canada and has agreed to report the following:



TAXATION OF E-COMMERCE

INTRODUCTION

About This Report

On 7 May 2019, the 2019 spring reports of the Auditor General of Canada were tabled in the House of Commons. Among them was an audit report entitled “Taxation of E-Commerce.” This report was referred to the House of Commons Standing Committee on Public Accounts (the Committee) for study.¹ On 17 November 2020 and 3 December 2020, the Committee held two meetings on this report with the following in attendance:

Office of the Auditor General (OAG) – Karen Hogan, Auditor General of Canada; Philippe Le Goff, Principal; Mathieu Lequain, Director.

Finance Canada – Paul Rochon, Deputy Minister; Andrew Marsland, Senior Assistant Deputy Minister.

Canada Revenue Agency (CRA) – Bob Hamilton, Commissioner; Ted Gallivan, Assistant Commissioner, Compliance Programs Branch.

Canada Border Services Agency (CBSA) – John Ossowski, President; Peter Hill, Vice-President, Commercial and Trade Branch.²

Background

Definitions

The following definitions apply to the entire report:

- **E-commerce** – Includes physical products purchased online (e.g., clothes, books); digital products purchased and delivered online (e.g., music, videos); digital services (e.g., e-learning services, financial services); and

1 House of Commons, *Debates*, 1st Session, 42nd Parliament, 7 May 2019, 1005.

2 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 17 November 2020, [Meeting No. 6](#), and 3 December 2020, [Meeting No. 11](#).



supplies purchased online that are part of the sharing economy (e.g., accommodation sharing, ride sharing).³

- **Foreign vendor** – A non-resident vendor not registered for the goods and services tax/harmonized sales tax (GST/HST), not carrying on business in Canada and without a permanent establishment (such as a facility, a branch or an office) in Canada.⁴

Audit Objective

The objective of the OAG's audit was to determine whether, according to their respective roles and responsibilities, Finance Canada, the CRA and CBSA "ensured that the sales tax system for e-commerce was neutral" (treated both domestic and foreign vendors equally) with regard to the GST/HST and that "the GST/HST tax base (everything that is taxable) was protected."⁵ The audit covered the period between 1 January 2014 and 15 February 2019. The audit conclusion applies to this period.⁶

Roles and Responsibilities

The roles and responsibilities of the audited organizations are shown in Figure 1.

3 Office of the Auditor General of Canada (OAG), [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.2.

4 Ibid., Definitions.

5 Ibid., para. 3.9.

6 Ibid., [About the Audit](#).

Table 1—Roles and Responsibilities, Taxation of E-Commerce

Organization	Roles and responsibilities
Finance Canada	<ul style="list-style-type: none"> • Helps the Government of Canada develop and implement tax policies and programs; • Provides advice on measures to enhance the fairness, neutrality, competitiveness and efficiency of Canada’s sales tax system.
Canada Revenue Agency	<ul style="list-style-type: none"> • Administers the GST for the Government of Canada and the HST for provinces where applicable; • Adapts its compliance strategies to detect non-compliance; • Enforces deterring measures for e-retailers who should remit the GST/HST under the Excise Tax Act.
Canada Border Services Agency	<ul style="list-style-type: none"> • Facilitates and oversees trade across Canada’s border; • Validates and collects the sales taxes owed to the Government of Canada on imported low-value shipments (greater than \$20, lower than or equal to \$2,500) sent by courier under the Courier Low Value Shipment (CLVS) Program.

Source: Office of the Auditor General, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, paras. 3.6–3.8.

Discussion on the Audit Criteria

An audit criterion is a statement of expectation against which the OAG assesses an organization’s performance. One of the audited organizations, Finance Canada, did not agree with the audit criteria. The criterion concerning Finance Canada reads as follows:

The Department of Finance Canada conducts sound analyses to provide advice on the Canadian tax system to ensure equitable treatment of businesses in regard to the GST/HST on e-commerce transactions while preserving the tax base.⁷

Finance Canada considered that “this audit related to policy decisions of the Government of Canada, which the Department considered to be outside the Auditor

7 Ibid.



General's mandate."⁸ However, the OAG was of the view that the audit criteria "were suitable because they were based on accepted practices in many jurisdictions and the work of the Organisation for Economic Co-operation and Development."⁹

During the Committee's hearing, Paul Rochon, Deputy Minister of Finance Canada, clarified the Department's position:

Our view is that the audit was posing a policy question...Having said that, maybe I should just point out that I think it is important that that was a difference of opinion. It had no bearing on the audit per se. We fully complied with the audit and basically got on with our work.¹⁰

Additional Background

The GST/HST legal obligations for vendors and consumers for digital products or services purchased online or supplies purchased online that are part of the sharing economy are as follows:

- For foreign vendors
 - If GST/HST payable is \$2 or less, there is no legal obligation to pay, collect or remit GST/HST.
 - If not, the consumer must complete a CRA form and remit the GST/HST.
- For domestic vendors
 - If taxable revenue over the past year is greater than \$30,000,¹¹ the vendor must register for then collect GST/HST and remit it to the CRA.

8 Ibid.

9 Ibid.

10 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 17 November 2020, [Meeting No. 6](#), 1145.

11 This applies to consecutive quarters. For example, on 1 April 2020, taxable income must have been greater than \$30,000 from 1 April 2019 to 31 March 2020; similarly, on 1 July 2020, taxable income must have been greater than \$30,000 from 1 July 2019 to 30 June 2020.

- If not, there is no obligation to collect or remit GST/HST unless the vendor is a taxi or ride sharing driver.¹²

The GST/HST legal obligations for physical products imported into Canada after being purchased online are shown in Figure 2.

Table 2—GST/HST Obligations, Physical Products Imported into Canada After Being Purchased Online

Value of the Shipment	Delivery Method	Payment or Collection of GST/HST
\$20 or less	Courier or post	No legal obligation to pay, collect or remit GST/HST
More than \$20 and less than \$2,500	Courier	Courier companies must collect GST/HST and remit it to CBSA
\$2,500 or more	Courier	CBSA assesses and collects GST/HST (outside of audit scope)
More than \$20	Post	CBSA assesses and collects GST/HST (outside of audit scope)

Source: Adapted from Office of the Auditor General, Taxation of E-Commerce, Report 3 of the 2019 Spring Reports of the Auditor General of Canada, [Exhibit 3.1](#).

FINDINGS AND RECOMMENDATIONS

A. Canada's Sales Tax System

1. Estimate of Lost Sales Tax Revenues

The OAG estimates losses of \$169 million in GST on foreign digital products and services sold in Canada in 2017.¹³ These losses result from the fact that foreign vendors are not required to collect GST.¹⁴ The Auditor General of Canada, Karen Hogan, told the Committee that the OAG had updated this information and “estimated that the amount

12 OAG, Taxation of E-Commerce, Report 3 of the 2019 Spring Reports of the Auditor General of Canada, [Exhibit 3.1](#).

13 Ibid., para. 3.13.

14 Ibid., para. 3.28.



was approximately \$247 million in 2019, an increase of almost 50% in two years.”¹⁵ Philippe Le Goff, Principal, OAG, said that these estimates focus “solely on intangible goods and services”¹⁶ and that they “really are conservative.”¹⁷

Finance Canada “calculated the GST tax gap—or the difference between the GST amount that could have been collected and the amount actually collected. However, there was no public report estimating the GST tax gap on e-commerce.”¹⁸

On 17 November 2020, the Committee asked the Department for the value of that estimate. This request was repeated at the meeting of 3 December 2020. Reminders were sent to the Department, and the Chair of the Committee wrote to the Department requesting the estimate. After an incomplete response was received on 5 February 2021, the Committee invited officials from the Department to reappear before the Committee on this topic.

During that hearing, Michael Sabia, the new Deputy Minister of Finance Canada, finally provided the estimate, which turned out to be \$160 million, almost the same amount as the OAG estimate. He also explained that the Department was sometimes reluctant to share estimates that change over time because new data and information become available, and committed to being more transparent in the future:

In the course of briefing ministers and the government, the department as you know produces numerous and successive estimates of the revenues that might be raised from a wide range of potential policy actions, or as a result of economic developments that affect the tax system. These estimates are often for economic activity that is not currently subject to taxation, and for which there are little or no data available on the underlying economic activity itself. As a result, the department's estimates often change and evolve over time, sometimes significantly. Estimates evolve as more and better data become available, and as the department and other agencies such as Statistics Canada come to better understand the nature, scope and prevalence of the underlying economic activity...

We in the Department of Finance very much recognize the value and importance of transparency with this committee... We will endeavour to act in a manner consistent

15 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 17 November 2020, [Meeting No. 6](#), 1105.

16 Ibid., 1140.

17 Ibid.

18 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.28.

with that principle of transparency, recognizing, obviously, as we also do, the importance of our ability to provide confidential advice to ministers.¹⁹

The Committee understands that the public service's advice to the government must remain confidential. In this case, it did not want to know the nature of the recommendations and advice provided to the government, but to obtain an estimate prepared by the Department in order to better understand the issues discussed in the OAG audit report. The Committee wishes to reiterate its intent to obtain information requested from departments and agencies in a timely manner in order to better fulfill its role of reviewing OAG audit reports.

2. Negative Impacts of the Non-taxation of Imported Digital Products and Services

Finance Canada identified the two main negative impacts of not taxing digital products and services imported from foreign vendors as follows:

- **Unfair competition** – The non-taxation (GST/HST) of imported digital products and services, unlike those from domestic vendors, creates a “taxation inequity [that] could [result in] unfair competition for some vendors located in Canada.”²⁰
- **Impediment to foreign direct investment in Canada** – The requirement for Canadian businesses to collect GST/HST on digital products and services sold “could result in fewer international companies wanting to invest in Canada, because they are not required to collect and pay the GST/HST if they operate from abroad. Similarly, Canadian businesses could see an incentive to move their operations outside Canada to avoid the requirement to collect and remit the GST/HST on the digital products and services they sell in Canada.”²¹

19 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, [Meeting No. 21](#), 9 March 2021, 1205.

20 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.30.

21 Ibid.



3. No Recommendation on the Sales Tax System

The OAG made no recommendations to the Government of Canada on Canada's sales tax system. The OAG found that "Finance Canada conducted sound analyses on the implications of e-commerce on GST and HST obligations, including the impact on foreign vendors selling products and services to Canadians and the consequences for domestic vendors."²²

At the Committee's second meeting on the taxation of e-commerce, Paul Rochon said that "the government proposed a number of changes designed to level the playing field for Canadian businesses in terms of applying the goods and services tax, the GST, to all products and services consumed in Canada, regardless of how they are supplied or who supplies them."²³ Because these proposals were made after the OAG report was tabled, they are not discussed further in this report.

B. Compliance Activities

1. Canada Revenue Agency

a) GST/HST Compliance on Physical Products

The OAG found that "even though the [CRA] identified digital commerce as a risk in its corporate risk profiles, it had very few compliance activities"²⁴ to determine whether vendors of physical products were foreign or domestic and therefore required to register for the GST/HST. Moreover, the CRA "did not track the number of audits it completed of e-commerce vendors."²⁵

22 Ibid., para. 3.17.

23 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 3 December, [Meeting No. 11](#), 1110.

24 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.43.

25 Ibid., para. 3.44.

b) GST/HST Obligations for Digital Products

As was the case with physical products, the OAG found that the CRA “had very few compliance activities to evaluate whether vendors of digital products should register for the GST/HST.”²⁶

According to the OAG, of the 60 countries surveyed by the Organisation for Economic Co-operation and Development (OECD), Canada was one of only two countries still relying on consumers to voluntarily declare that they owed taxes and to remit them to the government.²⁷ This practice “of requiring consumers to self-assess the GST/HST is at odds with the recommendation from” the OECD, which “recommends that, when required, digital product vendors collect and remit the sales tax on behalf of consumers in jurisdictions where products and services purchased from foreign vendors are subject to tax.”²⁸

Following the Committee’s first meeting on this study, the CRA provided a written response stating that it “has not actively enforced the requirement for purchasers to self assess GST on the importation of digital services: the low dollar of each amount owing is such that the opportunity cost of forgoing other compliance actions would not be an efficient use of [its] resources.”²⁹ It added that it is focused on “developing systems and norms that would allow the CRA in the future to receive the tax from sellers either with or without legislation.”³⁰

c) Practices to Facilitate GST/HST Compliance

According to the OAG, although the CRA “contributed to the OECD guidelines on sales tax on electronic commerce, it did not have the legislative authority to implement these practices in Canada at the time of [the OAG’s] audit.”³¹ These practices “would facilitate the collection of the GST/HST. Many countries and jurisdictions, such as Quebec,

26 Ibid., para. 3.45.

27 Ibid., para. 3.23.

28 Ibid., para. 3.48.

29 Canada Revenue Agency (CRA), Letter, “Follow-up to the appearance before the Standing Committee on Public Accounts (PACP), November 17, 2020, Report 3, Taxation of E-Commerce, of the 2019 Spring Reports of the Auditor General of Canada.”

30 Ibid.

31 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.49.



adopted these OECD guidelines and introduced initiatives, such as simplified registration.”³²

Moreover, the CRA had conducted four test audits to “determine the scope of the risk the sharing economy posed...[and told the OAG] that it may have completed other audits in the accommodation sharing sector, but it did not track this information.”³³

The OAG also found that the CRA “limited authority to collect data from third parties, such as banks and payment processors, compared with tax agencies in other countries.”³⁴ According to the OAG, “increased access to third-party information would enable the [CRA] to better detect and deter non-compliance.”³⁵

CRA Commissioner Bob Hamilton explained that the Agency has the authority to “go through courts”³⁶ to implement an “unnamed persons requirement”³⁷ to “get from a third party information on activities that are happening in this space.”³⁸ The Commissioner gave assurance that the CRA “takes very seriously its privacy obligations”³⁹ and is “careful about not violating people’s privacy.”⁴⁰

d) Recommendations

As a result, the OAG made two recommendations to the CRA. The first relates to the scope of e-commerce compliance activities and the use of third-party data:

Within its legislative authority, the Canada Revenue Agency should expand its compliance activities and leverage available third-party data to enhance its

32 Ibid.

33 Ibid., para. 3.50.

34 Ibid., para. 3.52.

35 Ibid., para. 3.53.

36 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 17 November 2020, [Meeting No. 6](#), 1135.

37 Ibid.

38 Ibid.

39 Ibid., 1220.

40 Ibid.

ability to detect and deter non-compliance for the GST/HST in e-commerce, including accommodation sharing.⁴¹

The CRA's response to this recommendation is two-fold. The first part is a "complete review of current compliance results, including compliance risks within the sector." Commissioner Hamilton said that that "part of the action plan was completed, in fact, earlier this year."⁴² An updated action plan was provided to the Committee setting out the various initiatives undertaken by the CRA as part of this review, for example:

- the CRA Corporate Risk Profile was updated;
- a dedicated unit (Platform Economy Section) was created, which conducted a study of relevant data sources to assist compliance activities and existing studies were reviewed; and
- compliance risks specific to the digital economy were identified through research and engagement sessions.⁴³

The second part of the response relates to preparing a final compliance strategy, which, in December 2020, had been drafted and is "currently pending senior management approval."⁴⁴ The strategy is based on four themes:

- "the use of business intelligence to identify and target high risk areas of the platform economy;
- the provision of service through education and outreach to inform taxpayers in the platform economy of their tax obligations;
- compliance interventions to address non-compliance;
- the review of policy and legislative alternatives that could facilitate compliance."⁴⁵

41 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.54.

42 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 3 December 2020, [Meeting No. 11](#), 1125.

43 CRA, [Detailed Action Plan](#), pp. 1–2.

44 *Ibid.*, p. 2.

45 *Ibid.*, p. 3–4.



Therefore, the Committee recommends:

Recommendation 1 – on the scope of compliance activities

That the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with: (1) a report detailing its compliance strategy with respect to the Goods and Services Tax/Harmonized Sales Tax in e-commerce, including a plan to better leverage third-party data and better deter non-compliance in the accommodation sharing sector, by 31 May 2021; and (2) a follow-up report on the implementation of this strategy and the compliance activities undertaken as a result of this strategy in 2021-2022, by 31 May 2022.

The OAG's second recommendation to the CRA relates to mechanisms for tracking, monitoring and reporting on compliance activities conducted in the e-commerce sector:

The Canada Revenue Agency should implement mechanisms to track, monitor, and report the number of compliance activities it conducts to manage the risk of non-compliance in e-commerce.⁴⁶

In its action plan, the CRA states that it will “analyze its tracking and monitoring methodology, and will implement feasible changes to improve the CRA’s ability to monitor and track e-commerce activities.”⁴⁷ It should be noted that the OAG recommended implementing mechanisms to “track, monitor, and report the number of compliance activities,”⁴⁸ while the CRA’s response mentions “tracking and monitoring”⁴⁹ only, not reporting.

The CRA’s response to this recommendation is also two-fold. The first part, which has been completed, was to conduct an “analysis of current tracking and monitoring methodology and prepare recommendations for improvements and related system changes.”⁵⁰

46 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.55.

47 CRA, [Detailed Action Plan](#), p. 4.

48 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.55.

49 CRA, [Detailed Action Plan](#), p. 4.

50 Ibid.

The second part, to be completed by June 2021, is to “implement system changes to improve tracking and monitoring of e-commerce activities.”⁵¹ For example, to allow for dedicated tracking and monitoring, project codes were created for compliance actions specific to e-commerce.⁵² Separate tracking “will allow the CRA to report on the compliance risks identified within the platform economy space, as well as to work with business intelligence to adjust risk algorithms, if required.”⁵³

The Committee would like the CRA’s response to include a reporting strategy on the number of compliance activities it conducts to mitigate the risk of non-compliance in e-commerce, as recommended by the OAG. It therefore recommends:

Recommendation 2 – on mechanisms to track compliance activities

That, by 31 August 2021, the Canada Revenue Agency provide the House of Commons Standing Committee on Public Accounts with a report outlining changes to tracking, monitoring and reporting mechanisms for compliance activities conducted in the e-commerce sector.

2. Canada Border Services Agency

a) Poor Data Management of the Courier Low Value Shipment (CLVS) Program

The OAG found that CBSA:

- “required only consolidated summary information about sales taxes paid, even though participating courier companies had detailed information about imported shipments in their own computer systems;”
- “was unable to easily validate information on shipments, such as value, quantity, and type of product, because it did not require invoices for each transaction,” a prevalent practice worldwide;
- “did not take any action to automate its systems,” even though a review of the CLVS Program in 2009 determined that it needed an automated system; and

51 Ibid.

52 Ibid., p. 5.

53 Ibid.



- “relied on the good faith of participating courier companies to declare and remit the correct sales taxes due.”⁵⁴

b) Warning Signs Related to Incomplete Declarations of Sales Taxes

According to the OAG, CBSA had warning signs about incomplete or incorrect sales tax declarations. For example, in 2016, CBSA found that, in 22% of sampled shipments, the declared value of between \$20 and \$2,500 was incorrect. According to the OAG, this “should have triggered a broad review of the program.”⁵⁵ CBSA President John Ossowski himself admitted that the 22% rate was “unacceptable.”⁵⁶

Moreover, in 2017–2018, “the number of shipments valued at \$20 or less under this program increased by 4 million compared with the 2016–17 fiscal year,”⁵⁷ an increase of 33%. No tax was remitted on those shipments. In comparison, the number of shipments valued over \$20 up to \$2,500 – which are taxable – increased by 6% that same year.⁵⁸ CBSA “did not conduct any analysis to determine why there was such a large increase in non-taxable shipments.”⁵⁹

c) Accuracy of Provincial Sales Taxes not Validated

The OAG found that CBSA “could not determine whether it had collected the right amount of provincial sales taxes on behalf of British Columbia, Manitoba, Quebec, and Saskatchewan, as [CBSA] did not validate those numbers.”⁶⁰ Moreover, “the provincial amount of the HST that New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, and Prince Edward Island received may not have been accurate”⁶¹ because

54 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.65.

55 Ibid., para. 3.68.

56 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 17 November 2020, [Meeting No. 6](#), 1240.

57 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.66.

58 Canada Border Services Agency (CBSA), Written response to questions asked during CBSA’s appearance on 17 November 2020 regarding Report 3, Taxation of E-Commerce, of the 2019 Spring Reports of the Auditor General of Canada.

59 OAG, [Taxation of E-Commerce](#), Report 3 of the 2019 Spring Reports of the Auditor General of Canada, para. 3.66.

60 Ibid., para. 3.69.

61 Ibid., para. 3.71.

CBSA “did not validate the accuracy of the total amount of the HST remitted to the government on goods imported”⁶² using the CLVS Program.

d) Recommendations

The OAG therefore made the following recommendation to CBSA:

As soon as possible, the Canada Border Services Agency should review the Courier Low Value Shipment Program to improve the validation and collection of the GST, the HST, and the PST. As part of the review, the Agency should:

- identify the program variables that should be fully reflected in the Agency’s systems and forms, such as provincial sales taxes;
- ensure that it receives shipment data electronically in advance of the goods arriving at the border to facilitate compliance activities; and
- implement a comprehensive e-commerce strategy to make informed risk assessments and improved revenue collection, and report publicly on its progress.⁶³

John Ossowski outlined CBSA’s response to the recommendation:

[W]e are on track to review and enhance the means by which goods under the CLVS program are accounted for in order to ensure that taxes, including provincial sales taxes, are fully reflected.

The agency has also started to implement the multi-year CBSA assessment and revenue management system. This initiative will transform the collection of duties and taxes for goods imported into the country. We are also on track for examining options to further automate the CLVS program, including the ability to receive, process and analyze customs data

[...]

Our e-commerce strategy will enable and transform operations to better respond to the growing volumes of cross-border e-commerce shipment. It will also strengthen the CBSA’s risk-assessment capability by leveraging advanced data analytics and

62 Ibid.

63 Ibid., para. 3.73.



technological enhancements, while addressing gaps in the legal and regulatory frameworks to enhance safety and security.⁶⁴

In its action plan, CBSA proposed a number of ways to improve the CLVS Program, some of which have already been implemented:

- 1) “In July 2020, the CBSA approved internally an end-to-end integrated E-Commerce Customs Framework and Strategy;”⁶⁵
- 2) CBSA implemented “the E-Commerce Customs Strategy that is aligned (e.g., automation of advance data, strengthening legislative frameworks, revenue models), to the greatest extent possible, with the [World Customs Organization’s] global standards and those of our international partners;”⁶⁶
- 3) “The Agency, in response to the audit and the changing retail landscape, has renewed its focus on compliance activities”⁶⁷ in the CLVS Program. “A series of compliance exercises were conducted in FY 2019/2020 to review and assess compliance within the courier stream.”⁶⁸

As to future steps, CBSA will:

- 1) Update “the means by which goods are accounted for so as to ensure that taxes (including provincial sales taxes) are fully reflected”⁶⁹ by 1 April 2022;
- 2) Seek “authority and funding to regulate shipment data in advance and develop a reconciliation process”⁷⁰ (ongoing);

64 House of Commons Standing Committee on Public Accounts, *Evidence*, 2nd Session, 43rd Parliament, 17 November 2020, [Meeting No. 6](#), 1115.

65 CBSA, [Detailed Action Plan](#), p. 1.

66 *Ibid.*, p. 2.

67 *Ibid.*

68 *Ibid.*

69 *Ibid.*, p. 1.

70 *Ibid.*, p. 2.

- 3) Examine “options to further automate” the CLVS Program, “including the ability to receive, process and analyze customs data,”⁷¹ by March 2023.

Therefore, the Committee recommends:

Recommendation 3 – on the Courier Low Value Shipment Program

That the Canada Border Services Agency provide the House of Commons Standing Committee on Public Accounts with reports on improving the validation and collection of sales taxes under the Courier Low Value Shipment Program, including: (1) the means in place to ensure that taxes are fully reflected; (2) requests made and approvals received for regulatory changes to the program; and (3) the automation of the program with respect to receiving, processing and analyzing shipment data. Two progress reports shall be provided to the Committee no later than 31 May 2021 and 31 May 2022, respectively, and a final report shall be provided no later than 31 May 2023.

CBSA’s action plan does not address the part of the OAG’s recommendation that CBSA report publicly on its progress in e-commerce. These reports could be included in a section of CBSA’s departmental performance report.

Therefore, the Committee recommends:

Recommendation 4 – on reporting progress publicly

That, by 31 May 2021, the Canada Border Services Agency provide the House of Commons Standing Committee on Public Accounts with a progress report on its communications strategy pertaining to risk assessment and improved revenue perception in the e-commerce sector.

CONCLUSION

The Committee concludes that Finance Canada conducted sound analyses related to e-commerce with the aim of ensuring that the sales tax system was neutral and the sales tax base was protected.

The Committee also concludes that the CRA was limited by its legislative authority and could not ensure that the sales tax system was applied in a neutral way and that the GST/HST tax base was protected with regard to cross-border e-commerce. However, the

71 Ibid.



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Committee also finds that, in situations in which it had authority, the CRA conducted a limited number of compliance activities.

Finally, regarding shipments imported under the CLVS Program, the Committee concluded that CBSA could not take the actions necessary to ensure that the sales tax system was neutral and that the GST/HST tax base was protected.

In this report, the Committee makes four recommendations to ensure that these two agencies take the actions necessary to protect the GST/HST tax base.

SUMMARY OF RECOMMENDED ACTIONS AND DEADLINES

Table 3—Summary of Recommendations and Deadlines

Recommendation	Recommended action	Deadline
Recommendation 1	The Canada Revenue Agency (CRA) should provide the House of Commons Standing Committee on Public Accounts (the Committee) with: (1) a report detailing its compliance strategy with respect to the Goods and Services Tax/Harmonized Sales Tax in e-commerce, including a plan to better leverage third-party data and better deter non-compliance in the accommodation sharing sector; and (2) a follow-up report on the implementation of this strategy and the compliance activities undertaken as a result of this strategy in 2021-2022	1) 31 May 2021; 2) 31 May 2022.
Recommendation 2	CRA should provide the Committee with a report outlining changes to tracking, monitoring and reporting mechanisms for compliance activities conducted in the e-commerce sector.	31 August 2021
Recommendation 3	The Canada Border Services Agency (CBSA) should provide the Committee with two progress reports and one final report on improving the validation and collection of sales taxes under the Courier Low Value Shipment Program, including: (1) the means in place to ensure that taxes are fully reflected; (2) requests made and approvals received for regulatory changes to the program; and (3) the automation of the program with respect to receiving, processing and analyzing shipment data.	1) 31 May 2021; 2) 31 May 2022; 3) 31 May 2023.



Recommendation 4	CBSA should provide the Committee with a progress report on its communications strategy pertaining to risk assessment and improved revenue perception in the e-commerce sector.	31 May 2021
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APPENDIX A LIST OF WITNESSES

The following table lists the witnesses who appeared before the committee at its meetings related to this report. Transcripts of all public meetings related to this report are available on the committee's [webpage for this study](#).

Organizations and Individuals	Date	Meeting
Canada Border Services Agency John Ossowski, President Peter Hill, Vice-President, Commercial and Trade Branch	2020/11/17	06
Canada Revenue Agency Bob Hamilton, Commissioner of Revenue and Chief Executive Officer Ted Gallivan, Assistant Commissioner, Compliance Programs Branch	2020/11/17	06
Department of Finance Paul Rochon, Deputy Minister Andrew Marsland, Senior Assistant Deputy Minister, Tax Policy Branch	2020/11/17	06
Office of the Auditor General Karen Hogan, Auditor General of Canada Mathieu Lequain, Director Philippe Le Goff, Principal	2020/11/17	06
Canada Border Services Agency John Ossowski, President Peter Hill, Vice-President, Commercial and Trade Branch	2020/12/03	11
Canada Revenue Agency Bob Hamilton, Commissioner of Revenue and Chief Executive Officer Ted Gallivan, Assistant Commissioner, Compliance Programs Branch	2020/12/03	11

Organizations and Individuals	Date	Meeting
Department of Finance	2020/12/03	11
Paul Rochon, Deputy Minister		
Andrew Marsland, Senior Assistant Deputy Minister, Tax Policy Branch		
Office of the Auditor General	2020/12/03	11
Karen Hogan, Auditor General of Canada		
Mathieu Lequain, Director		
Philippe Le Goff, Principal		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 6, 11, 16, 18 and 23](#)) is tabled.

Respectfully submitted,

Kelly Block, M.P.
Chair

