



Mr. John Williamson, M.P.
Chair
Standing Committee on Public Accounts
House of Commons
Ottawa, ON K1A 0A6

Dear Colleague:

The following information is further to the Government's Response (tabled in the House of Commons on July 21, 2021, pursuant to Standing Order 109) to the Fourteenth Report of the Standing Committee on Public Accounts entitled: *Taxation of E-Commerce*.

I am pleased to provide a report on progress in response to recommendation 1 of the Fourteenth Report.

The Government thanks the members of the Committee for their continued interest and attention to the Canada Revenue Agency's (CRA's) efforts to address the issues identified in the Auditor General's audit.

Please find enclosed the CRA's report on progress.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Diane Lebovillier'.

The Honourable Diane Lebovillier, P.C., M.P.

**REPORT ON PROGRESS: FOURTEENTH REPORT OF THE STANDING COMMITTEE ON
PUBLIC ACCOUNTS (RESPONSE TO RECOMMENDATION 1)**

INTRODUCTION

On behalf of the Government of Canada, on July 21, 2021, the Minister of National Revenue tabled the Government's Response to the recommendations contained in the Fourteenth Report of the Standing Committee on Public Accounts entitled: *Taxation of E-Commerce*.

As requested, the Canada Revenue Agency (CRA) is pleased to provide a report on progress related to recommendation 1.

Recommendation 1: *“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.”*

Government Response (as tabled on July 21, 2021): *“The Government of Canada supports this recommendation. The information in the following paragraphs represents the progress report due to the Committee by May 31, 2021.*

As committed in its response to the Auditor General’s 2019 Spring Reports – Report 3 Taxation of E-Commerce, the CRA has developed a comprehensive compliance strategy to better detect and address non-compliance within the platform economy for both GST/HST and Income Tax, including a plan to better leverage third-party data and better deter non-compliance in the accommodation sharing sector. More precisely, the strategy recognizes the risks associated with the platform economy, where platform operators connect buyers and consumers with sellers and service providers.

Four categories of platforms have been identified in the strategy including the sharing economy (which also covers accommodation sharing), the gig economy, peer-to-peer selling and social media influencers. Each category contains unique risks requiring tailored compliance interventions.

The strategy is based on four themes. The first focuses on the development and use of business intelligence to build risk assessment models that identify non-compliance within the platform economy and guide the compliance approaches to be used. The use of legislative tools such as Unnamed Persons Requirements (under the Income Tax Act) to leverage third party data forms part of this process.

The second theme concentrates on improving understanding of the platform participants’ tax reporting obligations. The CRA has already updated its communication venues to provide tax related information on the platform economy and to improve taxpayers’ awareness of their obligations and benefits of reporting income earned from these online activities. As part of these activities, the CRA will leverage external communication channels including social media messaging to increase its communication reach.

The third theme calls for the use of varying compliance interventions based on the level of identified risk and tax dollars at risk. Dedicated audit teams will be established to address platform economy risks in both Income Tax and GST/HST. A range of compliance interventions will be used depending on the nature and level of non-compliance. More precisely, the strategy calls for collaboration with various internal and external stakeholders. For instance, the CRA will work horizontally to proceed with compliance actions across multiple business lines (Offshore Tax, International Tax). Additionally, the CRA will work with partners including provincial governments and other international tax administrations leveraging various compliance tools such as international tax treaties, joint audit initiatives and exchange of information to identify and address non-compliance. Lastly, the strategy identifies opportunities for the CRA will to engage with platform operators in assisting with the identification of risks of sellers using their platforms.

The fourth theme focuses on the identification of possible gaps in compliance policies and the legislative framework, as well as the possible mechanisms required to address these shortcomings in facilitating compliance.

The GST/HST measures proposed in the Budget Implementation Act, 2021, No. 1 propose that certain digital economy businesses (including non-resident vendors supplying digital products or services, distribution platform operators and short-term accommodation platform operators) will have new GST/HST responsibilities, resulting in new obligations, including registering, and charging and collecting the GST/HST. The proposed measures also include the filing of an annual information return for certain platform operators that are registered or are required to be registered for the GST/HST.

The CRA is leveraging existing structures, processes and systems in order to meet the requirement of having an online simplified registration and remittance system in place by July 1, 2021. This simplified system leverages OECD recommendations including facilitating online registration, filing and allowing for electronic payments with certain optional foreign currencies. These proposed GST/HST measures will contribute to the CRA's compliance strategy by increasing its understanding of various segments of the platform economy and the associated compliance risks. It also provides the CRA with an opportunity to facilitate compliance actions while reducing the administrative burden on platforms and their sellers.

The new GST/HST legislative provisions in the Budget Implementation Act, 2021, No. 1 offer an opportunity to establish a systematic approach for collecting and using third party data from fulfilment warehouses and accommodation sharing platforms. This data can improve the compliance continuum by enhancing business intelligence on the platform economy, which will result in better targeting of compliance interventions (including educational campaigns as well as audits depending on the tax dollars at risk).

The legislative measures proposed in the Budget Implementation Act, 2021, No. 1 will help strengthen compliance in the digital and platform economy. The measures announced by the government provide a foundation for enhancing compliance in the platform economy. Pursuant to the implementation of the proposed GST/HST amendments, the CRA will monitor compliance trends, and the ongoing evolution of the platform economy. This will ensure the CRA is well positioned and equipped to address tax compliance as the platform economy continues to diversify and additional participants enter the economy with new and innovative business models.

The CRA will look closely at its operations including its assessment and compliance activities to facilitate onboarding of, and minimizing burden on, impacted businesses. The CRA will also continue to engage Finance Canada to discuss international guidelines and approaches used by other tax administrations in order to strengthen its compliance mandate. The CRA is proceeding with the implementation of the compliance strategy starting in 2021-22. The CRA will also provide the Committee with a follow-up report on its implementation by May 31, 2022."

Report on Progress:

As indicated in the first Report on Progress, the CRA has developed a comprehensive compliance strategy based on four themes to better detect and address non-compliance within the platform economy for both GST/HST and Income Tax, including a plan to better leverage third-party data.

As requested, the CRA is now presenting its May 31, 2022 follow-up report on the implementation of the compliance strategy and activities undertaken in 2021-2022.

THEME 1: BUSINESS INTELLIGENCE TO IDENTIFY NON-COMPLIANCE AND BUILD RISK ASSESSMENT MODELS

The CRA's analysis of audit results indicated that platform sellers have the same type of risks as those in the regular population (e.g., unreported or under-reported income). However, most sellers have relatively small amounts of platform income by comparison to other taxpayers. Accordingly, increasing auditors' awareness of these risks and concentrating on education of sellers coupled with compliance interventions where appropriate was identified as the most effective strategy. Nevertheless, the identification of sellers remains the CRA's biggest challenge which is being addressed through the use of existing compliance tools:

- Unnamed Persons Requirements (UPRs) helped with the identification of platform sellers. Additionally, a governance committee formalized UPR projects and facilitated horizontal discussions across the CRA. As part of that committee, a consolidated three-year UPR plan was developed based on the Underground Economy Strategy which includes the platform economy.
- The CRA conducted internal analyses by leveraging existing taxpayer information including the Leads Program to improve the identification process of sellers.
- The CRA examined alternative tools used by other tax jurisdictions for acquiring information from platform operators through participation on the Working Party No.10 of the Organisation for Economic Co-operation and Development (OECD) and the Advisory and Drafting Group Action 5 of the Forum on Tax Administration, which focuses on facilitating real-time reporting by sharing and gig platforms.
- Finally, internal processes were implemented to allow for horizontal collaboration across CRA program areas for both the GST/HST and Income Tax to identify sellers and develop workload targeting high risk areas.

THEME 2 - SERVICE THROUGH EDUCATION AND OUTREACH

The CRA's compliance strategy incorporates actions to ensure platform sellers are aware of and understand their tax reporting obligations, as well as the consequences of not complying. Tax tips on the four categories of platforms (i.e., sharing economy, gig economy, peer-to-peer selling and social media) were updated, shared with external stakeholders and published on the external website for greater awareness. Some sellers including influencers and content creators have benefited from the COVID-19 pandemic. As a result, a dedicated communication strategy was launched in advance of the 2022 tax-filing season to educate them and/or their representatives on their reporting obligations. Educational content was also provided on the CRA's external website, as well as messages on the CRA's social media accounts (e.g., Twitter, Facebook, and Instagram).

Internally, measures were taken to ensure auditors were aware of platform risks to assist them with compliance interventions. This included providing training to the dedicated auditors working on the platform economy workload, as well as ongoing field support as needed.

To support the implementation of the new GST/HST measures for digital economy businesses, a comprehensive communication strategy was implemented:

- The CRA reached out to impacted businesses to inform them of their new obligations.
- Web content was developed for impacted businesses by consulting with stakeholders to ensure the proposed content included relevant topics for helping these businesses meet their new obligations.
- A dedicated section on these legislative measures was established on the CRA's website ([GST/HST for digital economy businesses: Overview - Canada.ca](#)).
- A news release was issued, informing Canadians of the new measures, the impacted businesses and the GST/HST charged on their invoices ([Some foreign-based digital economy businesses will begin charging GST/HST on July 1, 2021 - Canada.ca](#)).

THEME 3 - COMPLIANCE ACTIVITIES

The CRA leverages business intelligence as it continues to undertake audits in this sector. Compliance interventions are designed in alignment with the level of non-compliance and tax dollars at risk. Given that each category of platforms contains unique risks, interventions and compliance actions are tailored accordingly.

In addition to conducting audits of businesses engaged in the digital economy within its standard audit programs, the CRA has conducted pilot projects, assigned to dedicated platform economy auditors to address compliance risk within the four categories in this sector. For instance, third party data from a UPR was used to identify and focus on providing education to sharing economy, peer-to-peer and social media sellers followed by compliance interventions where appropriate. Moreover, business intelligence and workload development techniques were used to identify a number of social media influencers and their domestic and offshore activities. The dedicated audit team employed a tailored compliance approach relying on education to inform the influencers of their tax obligations and encouraging them to correct their tax affairs. The CRA proceeded with audits of high-risk taxpayers and in instances where the errors were not corrected. In parallel, the CRA continues to work with platforms to help educate their sellers on their tax obligations by assisting them in disseminating tax information within their own client base.

The dedicated auditors were provided with training on prominent issues impacting the platform economy including legislative and policy matters. These auditors generally start with compliance interventions that encourage taxpayers to review past returns to ensure that their platform income has been reported accurately prior to proceeding with audits.

Additionally, the CRA will draw on new information from the implementation of the new GST/HST legislative measures to enhance business intelligence and workload development by building additional elements into the CRA risk assessment system over the coming years.

Finally, the CRA continues to collaborate with provincial governments and international partners to leverage best practices in identifying sellers and addressing non-compliance. These ongoing exchanges provide opportunities to consider various compliance tools used by the CRA's partners to determine how they could apply in a federal/Canadian context. They also provide the initial steps for possible joint collaboration on specific files impacting multiple tax jurisdictions.

THEME 4 - POLICY AND LEGISLATIVE CONSIDERATIONS

Since the announcement of the Fall Economic Statement on November 30th, 2020, the CRA has been implementing the new GST/HST measures that require digital economy businesses, including certain platform operators, to register for, charge, collect, report and remit the GST/HST. As announced in Budget 2021, the CRA is taking a practical approach to compliance and is exercising discretion in administering these measures over a 12-month transition period ending on July 1, 2022. Affected businesses must first submit a request to obtain written approval that such discretion will be exercised.

The proposed measures also include the filing of an annual information return for certain platform operators to help verify that platform operators and their sellers are complying with these measures. In line with the practical approach to compliance taken by the CRA, the first calendar year information return has been deferred by one year to help affected platform operators adjust to the new reporting requirements.

Budget 2022 proposes the implementation of the OECD model rules for reporting by digital platform operators with respect to platform sellers in Canada. The model rules require online platforms to collect and report relevant information to tax administrations in order to ensure that revenues earned by taxpayers through those platforms can be properly taxed. The OECD's framework for the model rules is designed to minimize administrative burden by providing for the sharing of information between tax administrations. By adopting this framework, the CRA will receive data collected from platforms directly from each participating tax jurisdiction. Platform operators that are not in a partner jurisdiction would also be required to report to the CRA. The first exchange of tax information will take place in early 2025 with respect to the 2024 calendar year.

As noted in the 2019 Report of the Auditor General of Canada on the Taxation of E-Commerce, the CRA has "limited authority to collect data from third parties, such as banks and payment processors, compared with tax agencies in other countries" which is an important tool for levelling the playing field between businesses. If enacted, the model rules will contribute to the CRA's compliance strategy, providing a systematic approach for collecting and using third party data from platform operators. Additionally, the implementation of this framework will strengthen the CRA's compliance mandate and help address the challenges in identifying platform sellers.

In parallel, the CRA continues engaging with the OECD and international partners by participating in additional working groups which were formed to help influence international policy, legislative and administrative approaches for the platform economy. These discussions continue to inform the CRA alternative compliance mechanisms that can be considered to help strengthen compliance in this sector.

The CRA's work in the digital sector is even more critical as economic growth continues to increase in this space and businesses steadily shift from traditional to online platform operating models. This trend has accelerated during the COVID-19 pandemic, further increasing the risk of non-compliance and jeopardizing Canada's tax base.

CONCLUSION

The CRA has successfully implemented its compliance strategy and is seeing results on all fronts. For instance, the CRA is drawing on business intelligence and existing compliance tools to identify non-compliance by platform economy sellers. These compliance interventions, which range from education and assistance to audit, have been adjusted and are commensurate with the level and type of non-compliance risks identified. The CRA has also made progress in addressing policy and legislative considerations by engaging the Department of Finance Canada and various provincial and international partners to identify alternative compliance strategies and best practices within the sector.