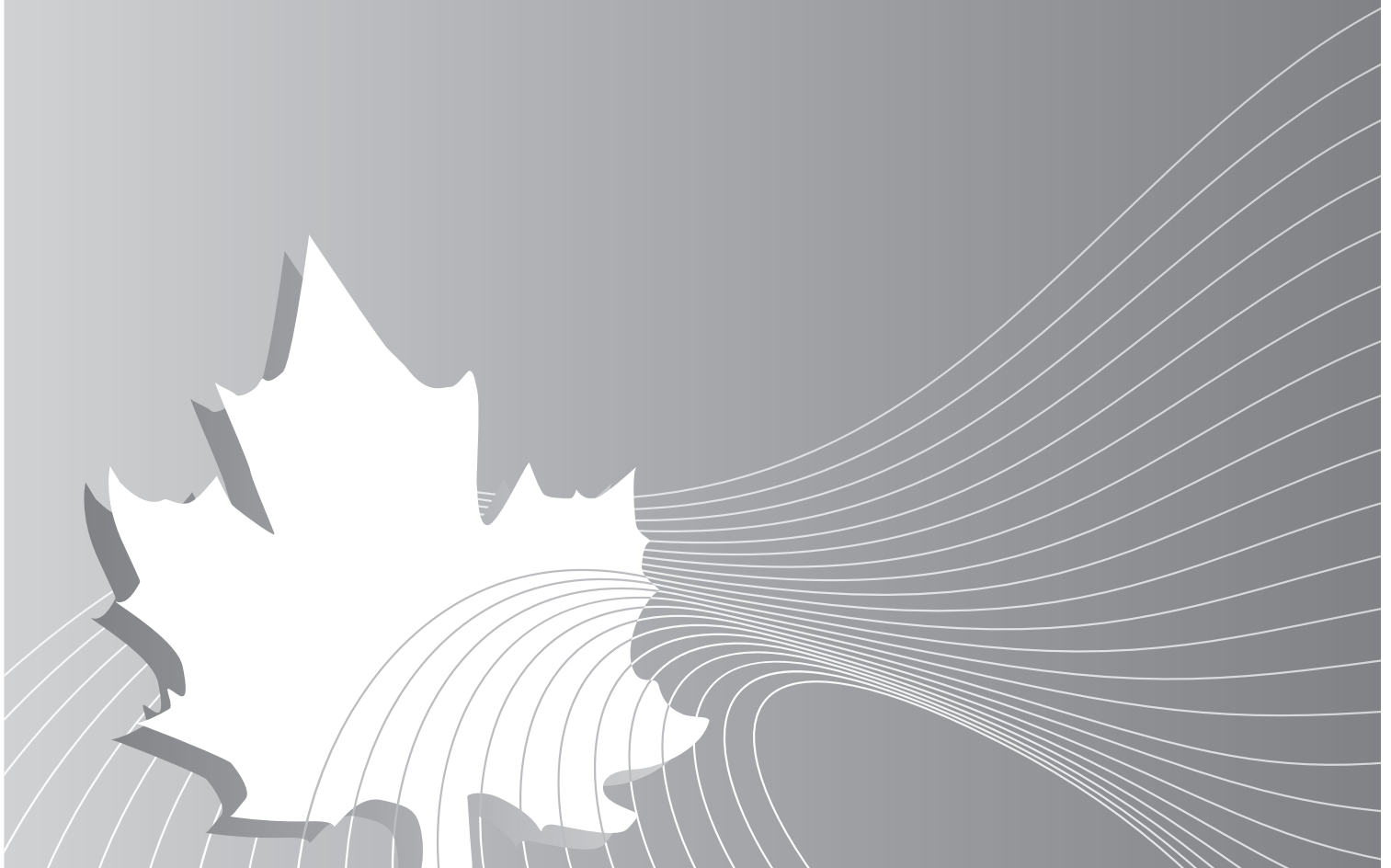


# Reducing Participation in the Underground Economy

Canada Revenue Agency  
2014–2015 to 2017–2018



November 2014

FC4635(E)



Canada Revenue  
Agency

Agence du revenu  
du Canada

Canada



# Message from the Minister

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Kerry-Lynne D. Findlay, P.C., Q.C., M.P.

I am pleased to present our updated Underground Economy strategy. The underground economy creates an unfair advantage for those who engage in it. It undermines the competitiveness of honest businesses, especially small businesses, who abide by the law.

Most Canadians are hard-working citizens who voluntarily follow Canada's tax laws. The Organization of Economic Development (OECD) ranks Canada's underground economy among the lowest of OECD countries. We're proud of that ranking – and of the strong identification, audit, and enforcement programs that help us achieve it.

Since 2006, the percentage of the GDP for the underground economy has dropped to 2.3%. Nevertheless, any amount is unacceptable. In fact, the very existence of the underground economy flies in the face of core Canadian values of fairness, honesty, and integrity.

If left unchallenged, the underground economy will erode the integrity of Canada's tax system.

The business environment is ever-changing, and CRA must stay nimble. We must refine our compliance actions and we must evolve our strategies.

We have developed this three-year strategic framework proposing new measures to encourage greater levels of tax compliance — particularly in sectors of the economy where cash transactions are common, and there is real risk of participation in the underground economy.

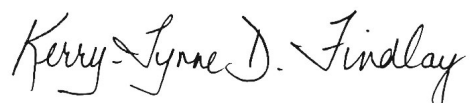
Our goal is to put greater emphasis on reducing the social acceptability of, and participation in, the underground economy. But we can't achieve that alone.

On November 17, 2014, it was my pleasure to chair the inaugural meeting of my Underground Economy Advisory Committee. I will meet and correspond with this Committee regularly, as it is comprised of the groups and individuals best qualified to advise us on the current trends, help us identify emerging risks, deepen our understanding of taxpayer compliance behaviour, and contribute to the development of innovative compliance tools.

In addition, they have the networks and communications channels to broadly consult, inform and educate high-risk members.

Looking ahead, we will continue to work with key stakeholders, such as the provinces and territories and my Ministerial Advisory Committee members, to ensure that the CRA has a modern, responsive and fulsome strategy for addressing and reducing UE activity in Canada.

By ensuring an increasing majority of people are playing by the rules, our Government is deepening Canada's tax base while lowering taxes for all.

Handwritten signature of Kerry-Lynne D. Findlay in black ink.

The Honourable Kerry-Lynne D. Findlay, P.C., Q.C., M.P.  
Minister of National Revenue

# Executive Summary

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Combatting the Underground Economy is one of the top compliance priorities for the Canada Revenue Agency (CRA). Through implementation of this strategy, we will reduce the social acceptability of, and participation in, the underground economy (UE). This will protect the fairness and integrity of the tax and benefit system, the revenue base overall, and ensure a level playing field for all business and taxpayers.

Although it is difficult to estimate the size of the UE, in 2011, Statistics Canada estimated the upper bound for total UE activity in Canada was 2.3% of GDP.<sup>1</sup> While Canada's tax compliance rates are among the best in the world, the UE will continue to be a priority for the CRA.

We consider the UE to include both unreported and under-reported sales or income, which may involve:

- failure to file or register;
- failure to report a business activity;
- failure to report part of a business activity or income; or
- failure to report employment income.

Taking a comprehensive perspective, we will focus on the following three strategic themes to reduce participation in the UE, over this and the next three years:

- further refine the CRA's understanding of the UE;
- seek to reduce the social acceptability of participation in the UE; and
- deploy a range of initiatives to encourage compliance and reduce participation in the UE.

We recognize that the UE is an issue of significant concern for our provincial and territorial partners. We commit to continue to work closely with the provinces and territories and engage with other key stakeholders, through avenues such as the newly formed Minister's UE Advisory Committee, to ensure we achieve our goals of reducing the social acceptability of, and participation in, the UE.

Making sure that taxpayers correctly report their tax obligations is central to the fairness and integrity of our tax system. By implementing this strategy, the CRA will reduce participation in the UE and ensure that honest Canadians are not put at a disadvantage by those who choose not to comply with their obligations.

*"The underground economy in home renovations exposes homeowners to significant risk they often don't understand and that can threaten their financial security. Furthermore, legitimate businesses suffer when they are forced to compete with those who cut corners, and don't pay their fair share of taxes. We are pleased to be working with the Canada Revenue Agency to combat the very real harm and risks posed by the underground economy."*

Kevin Lee, CEO  
Canadian Home Builders'  
Association

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<sup>1</sup> Statistics Canada, *The underground economy in Canada, 1992–2011*. Catalogue No. 13-604-M, No. 73, [www.statcan.gc.ca/pub/13-604-m/13-604-m2014073-eng.pdf](http://www.statcan.gc.ca/pub/13-604-m/13-604-m2014073-eng.pdf).



# Table of Contents

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1. Strategy overview.....	2
2. Introduction.....	3
3. Goals and objectives.....	7
4. Strategy and initiatives.....	8
4.1 Further refine our understanding of the underground economy.....	8
4.2 Seek to reduce the social acceptability of participation in the underground economy.....	9
4.3 Deploy a range of initiatives to encourage compliance and reduce participation in the underground economy.....	10
5. Working with provinces and territories.....	13
6. About the Minister’s UE Advisory Committee (Advisory Committee).....	14
7. Implementation and measurement.....	15
8. Governance.....	17

# 1. Strategy overview

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## Underground Economy Strategy Overview

CRA Vision	The Canada Revenue Agency is the model for trusted tax and benefit administration, providing unparalleled service and value to its clients, and offering its employees outstanding career opportunities.
CRA Values	Professionalism – Integrity – Co-operation – Respect
CRA Mission	To administer tax, benefits, and related programs, and to ensure compliance for governments across Canada, thereby contributing to the ongoing economic and social well-being of Canadians.
Goal	We will reduce the social acceptability of, and participation in, the underground economy in order to protect the fairness and integrity of the tax and benefit system and the revenue base overall, and to ensure a level playing field for all businesses and taxpayers.
Objective	Reduce participation in the underground economy.
Strategy	Taking a comprehensive perspective, we will focus on three broad approaches to reduce participation in the underground economy, over this and the next three years. We will: further refine our understanding of the underground economy; seek to reduce the social acceptability of participation in the underground economy; and deploy a range of initiatives to encourage compliance and reduce participation in the underground economy.
Initiatives	We will develop and put in place a number of concrete initiatives in support of the three elements of the strategy.
Monitoring and Implementation	We will develop a suite of measures that will allow us to gauge progress and evaluate the cumulative impact of the efforts under this strategy. We have created a robust governance structure to ensure this strategy is effectively implemented.



## 2. Introduction

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The Canada Revenue Agency (CRA) is committed to contributing to the well-being of Canadians and supporting economic prosperity by delivering an efficient world-class tax and benefit administration that is responsive, effective, and trusted. The trust that Canadians place in the integrity of our tax and benefits administration is the bedrock that supports our self-assessment system. This trust is built and preserved by ensuring that everyone pays their share, and it is demonstrated by Canadians in their willingness to voluntarily meet the obligations that the system places on everyone.

By any measure, Canada's tax system enjoys both a high level of integrity and compliance rates that are among the best in the world. However, as in other countries around the world, there are a small number of individuals and businesses who try to avoid paying their share by operating wholly, or partially, within the so-called underground economy.

The underground economy includes economic activity that is unreported for tax purposes. We consider the underground economy to include both unreported and under-reported sales or income, which may involve: failure to file or register; failure to report a business activity; failure to report part of a business activity or income; or failure to report employment income.

Participants in the underground economy deliberately transact activities (either receiving payment or paying for services and products) outside of the formal economy—essentially operating off the books, which results in not only reduced tax revenues for all levels of government, but also diminishes the protections that help ensure the health, safety, consumer confidence, and social benefits that Canadians enjoy and expect. Indeed, the underground economy hurts everyone: it has negative impacts on businesses, consumers, and the Canadian tax base as a whole, and it undermines the competitiveness of businesses that follow the law.

It is difficult to calculate the precise scale of the underground economy. The clandestine nature of underground economy activities makes accurate measurement difficult, and the challenges associated with quantifying and comparing the size of the underground economy are widely recognized. Still, the Organisation for Economic Co-operation and Development (OECD) endorses methods used by national statistical agencies that correct for potential underestimation of production resulting from unobserved activities—that is, the non-observed economy (NOE)—in the national accounts. These adjustments to gross domestic product (GDP) figures are generally considered a proxy for the underground economy.

In early 2014, Statistics Canada released updated estimates of the maximum size of the underground economy in Canada; in 2011, the estimated upper bound for total underground activity in Canada was estimated at \$41 billion, which is equivalent to 2.3% of GDP.<sup>2</sup> In 2009, Statistics Canada's estimate of the upper bound was also 2.3% of GDP, suggesting that underground economy activity has been relatively stable over the past five years after dropping from 2.9% of GDP in 1992.<sup>3</sup>

While the amount of tax revenue that would have accrued to governments stemming from this activity is smaller, it is still significant enough to warrant treatment as a priority compliance area for the CRA. This is true not only from the perspective of lost revenue and other harmful consequences for citizens and businesses, but because, left unchallenged, the underground economy can have a corrosive effect on the integrity of Canada's tax system, the competitiveness of businesses, and the federal government's ability to fund its programs and balance its budget.

The policy and legislative framework that encourages participation in the formal economy and establishes consequences for those who try to avoid their obligations is under the purview of the Minister of Finance. The Government of Canada has made important changes to its policy and legislative framework in recent years to fight this type of non-compliance. Changes include putting in place new administrative monetary penalties and criminal offences to combat the use of Electronic Suppression of Sales software (Box 1), and streamlining the process for the CRA to obtain information concerning unnamed persons from third parties, such as banks.

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2 Statistics Canada, *The underground economy in Canada*, 1992–2011. Catalogue No. 13-604-M, No. 73, [www.statcan.gc.ca/pub/13-604-m/13-604-m2014073-eng.pdf](http://www.statcan.gc.ca/pub/13-604-m/13-604-m2014073-eng.pdf). This Statistics Canada study (and the earlier study referred to in footnote 2) limits its scope to market-based productive activities carried out in selected components of the hidden, illegal (i.e., unlicensed operations), and informal sectors of the economy, and does not include illegal operations, household production for own final use, or adjustments related to deficiencies in the basic data collection program, which are included in the NOE.

3 The exact reasons for the decline in underground economy activity from 1992 to 2009 are difficult to determine. The drivers of the underground economy are complex and many of them are beyond our control as tax administrators. As cited by the OECD, one reason for the drop in underground economy activity from 1992 to 2009 is that industries traditionally considered at high risk declined as a percentage of the overall economy during that time period, while sectors less prone to underground economy activity were contributing a relatively larger share to Canada's GDP (Statistics Canada, *Estimating the Underground Economy in Canada*, 1992–2008, cited in OECD (2012), *Reducing Opportunities for Tax Non-Compliance in the Underground Economy*, Forum on Tax Administration SME Compliance Sub-Group Information Note, [www.oecd.org/site/ctpfta/49427993.pdf](http://www.oecd.org/site/ctpfta/49427993.pdf)).

## Box 1. Electronic Suppression of Sales Software

Electronic Suppression of Sales (ESS) software (commonly known as zapper software) has been used by some businesses to hide their sales to evade the payment of sales and income tax. ESS software selectively deletes or modifies, without a record of the deletion or modification, sales transactions from the records of point-of-sale systems (for example, electronic cash registers) and businesses' accounting systems.

Boston University law professor Richard Ainsworth estimates that some 5% of all restaurant industry's sales in the United States are zapped from financial records. According to the Canadian Restaurant and Food Services Association, Canada's restaurant industry generates \$65 billion in annual sales. If similar trends prevail in Canada, zapper use could account for \$3.25 billion in unreported sales. As a result, fighting zapper use is a priority for us and a major initiative in our underground economy strategy.

To fight this type of evasion, Economic Action Plan 2013 put in place new administrative monetary penalties and new criminal offences under the *Excise Tax Act* for GST/HST and under the *Income Tax Act*. These measures specifically target those who use and possess this software and came into effect in 2014.

Although the balance of this document speaks to the administrative elements of an underground economy strategy, the CRA and the Department of Finance Canada have a close and collaborative working relationship. We regularly provide the Department with program and statistical information along with our assessment of challenges posed by the underground economy.

This information is taken into consideration by the Department in developing tax policy and legislation.

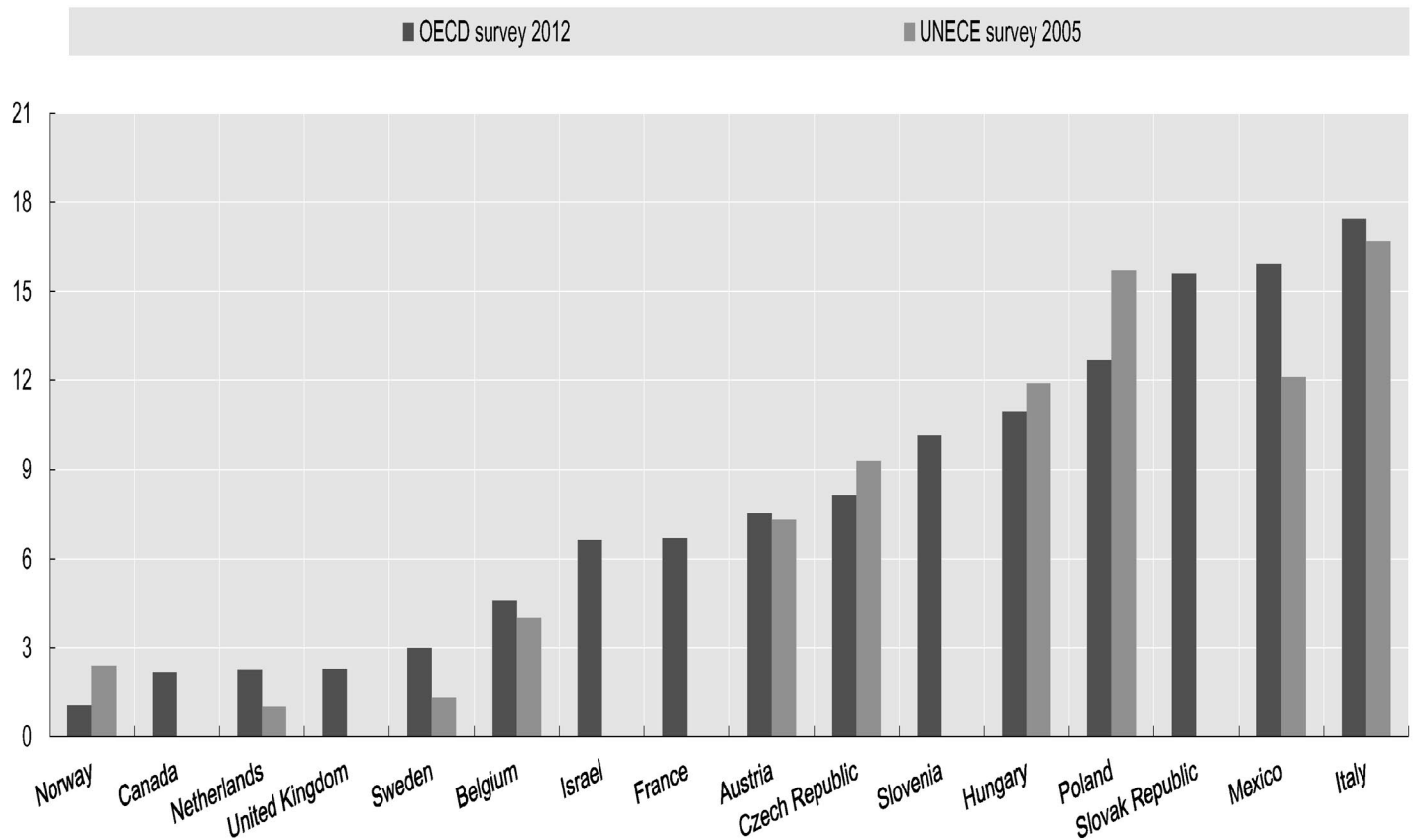
Given the clandestine nature of underground activity, fighting the underground economy presents a significant challenge for all tax administrations around the world. A recent OECD study provides an international perspective on relative adjustments for the non-observed economy (NOE) across countries and suggests Canada has one of the smaller NOE adjustments in comparative perspective (see Exhibit 1, below). By contrast, a number of European Union (EU) economies have adjustments in the mid-range (5–8% of GDP), while Italy, Mexico, and Eastern European countries have considerably higher adjustments (9–16% of GDP).<sup>4</sup>

*“Restaurants Canada wants customers to feel confident that the taxes they pay on hospitality services are being properly remitted to the government. Tax evasion not only results in unfair competition for law-abiding restaurant owners, it deprives us all through reduced government spending on critical services. This is why Restaurants Canada actively engages with the CRA to combat the underground economy. The UE is bad for business and bad for the communities where it is active.”*

Joyce Reynolds, Restaurants Canada

<sup>4</sup> OECD (2014), The Non-Observed Economy in the System of National Accounts, *The Statistics Brief N. 18*, [www.oecd.org/std/na/Statistics%20Brief%2018.pdf](http://www.oecd.org/std/na/Statistics%20Brief%2018.pdf).

# Exhibit 1: Adjustments for the Non-Observed Economy (NOE) in Comparative Perspective



NOE adjustments as a percentage of GDP in the UNECE 2005 survey and the OECD 2012 survey

Source: OECD (2014), *The Non-Observed Economy in the System of National Accounts, The Statistics Brief N. 18*. [www.oecd.org/std/na/Statistics%20Brief%2018.pdf](http://www.oecd.org/std/na/Statistics%20Brief%2018.pdf).

We work with international partners to share best practices and identify emerging risks in addressing the underground economy, and we have contributed internationally in responding to these challenges. As one example, the CRA led an international task group that produced a report titled *Reducing Opportunities for Tax Non-Compliance in the Underground Economy*, which was released in January 2012 by the OECD.<sup>5</sup> We have been working on implementing recommendations stemming from these reports.

This report explored the approaches and experiences of OECD member countries in addressing non-compliance associated with participation in the UE. The report identified a number of important themes that have been adopted by OECD member countries in addressing UE non-compliance, including the coordination of efforts in a “whole of body” manner, implementing

<sup>5</sup> OECD (2012), *Reducing Opportunities for Tax Non-Compliance in the Underground Economy*, Forum on Tax Administration SME Compliance Sub-Group Information Note, [www.oecd.org/site/ctpfta/49427993.pdf](http://www.oecd.org/site/ctpfta/49427993.pdf).

enhanced risk assessment processes, developing multi-faceted risk treatments to address non-compliance and leveraging improved compliance through key intermediaries. These themes form the foundation of the CRA's revised strategy in combatting the UE.

The CRA is in the business of protecting Canada's revenue base. We maintain the integrity and sustainability of our self-assessment tax system by ensuring that individuals and corporations file and register when required and pay the amounts they owe. The effective identification, deterrence, and correction of payment, filing, and registration non-compliance—including that stemming from the underground economy—is critical to maintaining Canadians' trust and confidence in our tax system.

Our efforts to fight the underground economy are aimed at ensuring a fair tax system and a level playing field for all businesses and taxpayers. We are particularly concerned about sectors of the economy where cash transactions are common and the temptation to participate in the underground economy is high.

We take the abuse of Canada's tax laws very seriously; accordingly, we dedicate significant effort to the identification and pursuit of those who willfully participate in the underground economy. We use a range of different activities to deal with the underground economy, including compliance research, outreach, education, communications, and targeted compliance actions that include audit and enforcement programs; we use every means at our disposal—including significant consequences such as penalties and criminal prosecution—against those who hide all or part of their sales or income, or otherwise avoid meeting their obligations.

### **3. Goals and objectives**

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The CRA is committed to administering Canadian tax laws in a fair and equitable manner for both the federal government and the provincial and territorial governments whose taxes the CRA administers. Identifying and addressing the underground economy continues to be a high priority for the CRA as part of our efforts to ensure fairness in the tax system and a level playing field for all.

Our goal is to reduce the social acceptability of, and participation in, the underground economy in order to protect the fairness and integrity of the tax and benefit system and the revenue base overall, and to ensure a level playing field for all businesses and taxpayers. Our ultimate objective is to reduce participation in the underground economy.

We have designed this strategy to be consistent with other key Agency objectives. In particular, the activities outlined under this strategy are consistent with the Government of Canada's commitments under the Red Tape Reduction Action Plan. This includes seeking to simplify taxpayers' overall dealings with us, using risk-based approaches to focus on the most egregious cases, and using innovative techniques to improve administrative effectiveness and reduce the tax compliance burden for taxpayers.

# 4. Strategy and initiatives

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We will focus on three broad approaches to reduce participation in the underground economy over this and the next three years. These approaches are intended to increase the effectiveness of our interventions to reduce participation in the underground economy. To this end, we will:

- **further refine our understanding of the underground economy;**
- **seek to reduce the social acceptability of participation in the underground economy; and**
- **deploy a range of initiatives to encourage compliance and reduce participation in the underground economy.**

## 4.1 Further refine our understanding of the underground economy

The CRA has a good understanding of the underground economy in Canada. Much information has been acquired through internal and external research (such as the Statistics Canada study noted above), our audit and verification activities, and our attitudinal surveys of Canadians. However, our capacity to detect and identify underground economy activity must stay up to date, relevant, and effectively targeted. In this regard, further refining our understanding of the underground economy will improve our capacity to take effective action to deter and counter underground activity.

Highlights of recent activities to improve understanding of the underground economy include:

- using automated systems to match information slips and corporate business numbers against tax returns to help us identify non-filers, as well as using informant leads and periodically running special projects to identify potential non-filers and non-registrants working in industry sectors that may be characterized by high levels of non-compliance;
- deploying data mining models to enhance our ability to identify and select audit workload with a high risk of unreported income;
- leveraging third-party information, such as provincial workers' compensation data, to identify sectors at higher risk of underground economy activity; and
- establishing a stronger presence in sectors at higher risk of underground economic activity by conducting enhanced audits and other tests, as well as by conducting verification activities to establish awareness, visibility, and presence (including letter-writing campaigns and books and records reviews).

### **Input from Minister's UE Advisory Committee**

- The CRA should expand their definition of the UE to include transactions involving counterfeit or pirated goods.
- There is a need to focus on the Behavioural factors that motivate otherwise compliant people to participate in the UE.
- There is a need to recognize that the incidence and nature of the UE differs across sectors.

Looking ahead, we will further refine our understanding of the underground economy, including by:

- undertaking additional research and increasing our use of information, data, and advanced analytics, in order to better identify and detect areas of significant risk regarding the underground economy;
- working with intermediaries (such as professional and industry associations) on shared research and analysis to deepen existing knowledge of the underground economy, to supplement research underway with provincial and territorial partners and the Federal-Provincial-Territorial Underground Economy Working Group; and
- continuing to review international and provincial/territorial best practices, including ways to identify and detect underground activity.

## 4.2 Seek to reduce the social acceptability of participation in the underground economy

The underground economy is of special concern to tax administrators because it erodes the tax base and undermines the trust that Canadians place in the fairness and equity of our tax system. However, among some segments of the population, participation in the underground economy is socially acceptable; we want to change that perception. Littering and driving without a seatbelt were, in the past, tolerated or perceived by some to be acceptable, but—due to longstanding efforts to change social views—are no longer perceived to be acceptable and are now far less prevalent. Similarly, we will seek to reduce the social acceptability of participation in the underground economy so that, over time, overall participation in the underground economy is reduced. We recognize that sustained efforts over a number of years will be needed to have an impact.

Highlights of our activities to reduce the social acceptability of participation in the underground economy include:

- conducting the Get it in Writing campaign, a joint initiative with the Canadian Home Builders' Association and the Canada Mortgage and Housing Corporation, to focus on the importance of, and protections related to, a written contract for home renovation work;
- participating in public speaking engagements and educational activities in high schools and trade schools;
- making community visits in neighbourhoods and smaller communities to increase awareness and encourage voluntary compliance by businesses;
- working with the Federal-Provincial-Territorial Underground Economy Working Group, started and completed several projects, including the Trade School Initiative (which provided education on the requirements of the tax system and cautions about participating in the underground economy to students in the trades) and the Responsible Citizenship Teaching Module (which teaches young Canadians about the relationship between the self-assessment tax system and the quality of life in Canada); and
- publishing on the CRA website the consequences for non-compliance, from tax cheating to tax evasion and fraud.

Looking ahead, we will seek to reduce the social acceptability of participation in the underground economy by increasing our efforts to educate and inform businesses and individuals about the risks and consequences of participating in the underground economy. This will include:

- raising awareness of how the underground economy increases the burden on responsible businesses and individual taxpayers and poses risks to workers and consumers; and
- engaging federal and provincial partners, professional and industry associations, and other stakeholders to help raise awareness about the underground economy's impact and to influence consumer behaviour in sectors at higher risk of underground activity.

#### **Input from Minister's UE Advisory Committee**

- It is important to communicate the consequences of participating in the UE in non-tax terms. For example, the CRA's partnership with the Canadian Home Builders' Association on the "Get it in Writing!" campaign focused on consumer protection and safety as reasons to not participate in the UE.

## **4.3 Deploy a range of initiatives to encourage compliance and reduce participation in the underground economy**

The CRA has a variety of highly effective tools to detect those who have not reported all or some of their sales or income, including: leads from taxpayers; information-sharing agreements; spot visits by auditors; information obtained from third-party reporting systems; specialized computer software; and leads from other audit files. We work with the provinces and territories and with federal government agencies and departments to better identify those participating in the underground economy, and we use a mix of outreach, education, communication, and compliance actions to fight the underground economy.

However, new and innovative initiatives and activities have the potential to encourage compliance with the tax rules right from the start, and thus to discourage and reduce participation in the underground economy overall.

Highlights of our recent activities to reduce participation in the underground economy include:

- creating underground economy specialized audit teams with advanced training in identifying unreported and under-reported income (Box 2);
- implementing underground economy centres of expertise in 20 tax services offices across the country;
- creating point-of-sale audit teams with specialized training to address the use of Electronic Suppression of Sales software;
- creating the Atlantic Underground Economy Compliance Measurement Initiative, which focused on non-compliance in the construction industry by piloting alternative strategies aimed at improving compliance and measuring the impact of these strategies;



- in 2012–2013, auditing 10,822 underground economy files, with a total dollar value of taxes assessed of \$305 million, an increase of 17% over 2011–2012; and
- our SME program conducting 1,786 visits for all outreach activities related to the underground economy, an increase of 18% over 2011–2012; and reaching 33,117 participants with our outreach activities, an increase of 33% over 2011–2012.

### **Box 2. Underground Economy Specialized Teams**

The goal of our small and medium enterprise audit strategy is to identify cases of reporting non-compliance and to take the appropriate corrective action. We do this by reducing our interventions for low-risk groups of taxpayers and by focusing our audit resources on taxpayers who are at risk of non-compliance.

In addition, we have started using specialized teams to do comprehensive audits on taxpayers operating in high-risk sectors. This approach increases the effectiveness of our audits and reduces the burden on compliant taxpayers. Although we are focusing audit resources on high-risk files, we still keep appropriate audit coverage levels for low-risk groups of taxpayers.

Our efforts to reduce participation in the underground economy are also supported by a number of initiatives to encourage and support compliance more broadly, such as:

- providing taxpayers with accurate and timely information so that they can comply with Canada’s tax laws, including through our website, videos, webinars, interaction on social media, and provided expertise and guidance through our telephone services, as well as our technical interpretation and rulings services;
- the Liaison Officer Initiative, which will provide help to businesses at key points as their business grows;
- the Industry Campaign Approach, which seeks to improve compliance in targeted industry sectors through engaging industry associations, letter writing campaigns, and benchmarking (Box 3);
- the Registration of Tax Preparers Program, to be implemented in 2016–2017, which will help to improve compliance by working with tax preparers to reduce errors and to identify high risk tax preparers associated with deliberate non-compliance; and
- piloting an automated reminder service that sends a series of calls to new employers and GST/HST registrants to remind them of their filing obligations.

### Box 3. The Industry Campaign Approach

The Industry Campaign Approach (ICA) is a new initiative launched by the CRA to encourage voluntary tax compliance within various industry sectors. Through the ICA, we are working with industry associations in sectors to provide businesses with sector-specific tax information that help them to comply with their tax obligations. It also provides the CRA with valuable insights and help build a better appreciation within the CRA of the challenges and realities that businesses face.

SMEs represent the largest proportion of businesses in Canada. Through the ICA, we are adopting an innovative approach that helps these businesses understand how to meet their tax obligations and improve their tax compliance up front, as a complement to traditional compliance activities. The ICA is intended to encourage businesses to self-correct and take steps to prevent common mistakes, and may even help them avoid more intrusive compliance measures by the CRA in the future.

Looking ahead, we will deploy a range of actions and initiatives to encourage compliance and reduce participation in the underground economy. This will include both our traditional activities and new innovative techniques, as follows:

- deploying existing initiatives and activities that contribute to reducing underground activity by enhancing compliance overall, including the Liaison Officer Initiative, the Industry Campaign Approach, and the Registration of Tax Preparers Program, as well as specialized underground economy audit teams and approaches;
- continuing to provide ways for Canadians to move into the formal economy (through the Voluntary Disclosures Program and other supports) or to take action if they become aware of underground economy activity on the part of others (through the Informant Leads Program);
- developing and implementing initiatives and campaigns to deter participation in the underground economy in high-risk industries or segments throughout the phases of the tax cycle (that is, registration, filing, reporting, and payment);
- expanding information-sharing with third parties (including provincial and territorial partners) and applying the resulting information to identifying underground activity and related tax non-compliance;
- applying insights gained through behavioural economics—including the use of so-called nudge techniques—to improve the effectiveness and efficiency of our efforts; and
- within available resources, enhancing our internal capacity as an organization, including by enhancing the capacity of our employees through training and development opportunities; making key investments in personnel, technology, and software to support our efforts; and by improving access to important tools.

#### Input from Minister's UE Advisory Committee

- The CRA should expand its application of behavioural economics.
- The CRA should focus on obtaining existing business to business information and other useable data to improve its ability to identify serious non-compliance.
- When designing any new measures that address the UE, the CRA must be careful to target the highest risk, while minimizing the burden on those who are compliant.

## 5. Working with provinces and territories

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The underground economy is a serious problem not only for the federal government, but also for the provincial and territorial governments whose taxes the CRA administers (individual income tax for all provinces and territories except Quebec, corporate income tax for all provinces and territories except Quebec and Alberta, and the harmonized sales tax in the four Atlantic provinces and Ontario).

We recognize that the underground economy is an issue of significant concern for our provincial and territorial partners, and we are working closely with the provinces and territories to ensure their priorities in this area are recognized.

As one example, we co-chair the Federal-Provincial-Territorial Underground Economy Working Group, a partnership between federal, provincial, and territorial governments with a mandate to reduce participation in the underground economy through research, information sharing, communication, education, and audit activities.

In addition, we continue to engage provincial and territorial governments to find better ways to reduce the impact of the underground economy, and we have established specialized regional audit teams to target underground economy risks that may be unique to specific regions.

As in the past, we will engage provinces and territories on this issue on an ongoing basis. The CRA hosted a UE roundtable meeting with the province of New Brunswick, and look forward to similar meetings with other provincial and territorial partners. We remain open to our partners' ideas and suggestions in support of our shared objective to reduce participation in the underground economy.

## 6. About the Minister's UE Advisory Committee (Advisory Committee)

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The mandate of the Advisory Committee is to advise on the current underground economy trends, help identify emerging risks, deepen government's understanding of taxpayer compliance behaviour, and contribute to the development of innovative compliance tools.

In addition, the Advisory Committee has the networks and communications channels to broadly consult, inform and educate high-risk members.

The Advisory Committee will be consultative in nature, and its composition includes expertise in: industry knowledge, scientific behavioural analysis, and government rules and regulations.

The focus of the Advisory Committee, chaired by the Minister of National Revenue, will be to provide advice, input and feedback on UE strategies and activities.

### Membership

Chair, Minister of National Revenue	Hon. Kerry-Lynne D. Findlay
Canadian Home Builders' Association	Kevin Lee
Chartered Professional Accountants Canada	Gabe Hayos
Restaurants Canada	Joyce Reynolds
Canadian Federation of Independent Business	Corinne Pohlman
Merit Canada	Terrance Oakey
Canadian Payroll Association	Patrick Culhane
Retail Council of Canada	David Wilkes
Canadian Chamber of Commerce	Émilie Potvin
Associate Professor of Marketing, Rotman School of Management, University of Toronto	Nina Mažar

The Advisory Committee will meet formally twice per year, with ongoing dialogue occurring on a regular basis as the government seeks feedback on particular aspects of the strategy and the initiatives conducted in support of the strategy.

The formation and continued productive working relationship of the Minister's Advisory Committee will reinforce the fairness and integrity of Canada's tax system.

# 7. Implementation and measurement

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As part of the implementation of this strategy, we will look beyond our own experiences and practices and will vigorously seek out best practices, innovative activities, and creative initiatives from other tax administrations around the world, as well as from provincial and territorial partners. Given the evolving nature of the challenges in this area, the effort to acquire global learnings and best practices will be ongoing.

As well, our analysis of both existing and new streams of information will continue to be strengthened, which will enhance our business intelligence and will generate dividends in terms of both efficiency and effectiveness. These approaches to reducing participation in the underground economy will be considered on an ongoing basis.

It is expected that these efforts will bring dividends over a number of years. In the interim, we will continue with both traditional and novel approaches to detect and address the underground economy, with the approaches to be adapted as the strategy takes effect.

To measure the impact of our efforts to reduce the underground economy, we will develop a suite of measures that will, over the long term, allow us to gauge our progress and evaluate the cumulative impact on compliance of the efforts under this strategy. These measures will also provide transparent accountability to taxpayers.

In addition to our traditional activity and output-based measures, over time we will seek to incorporate outcome-based measures, to evaluate the impact of our interventions.

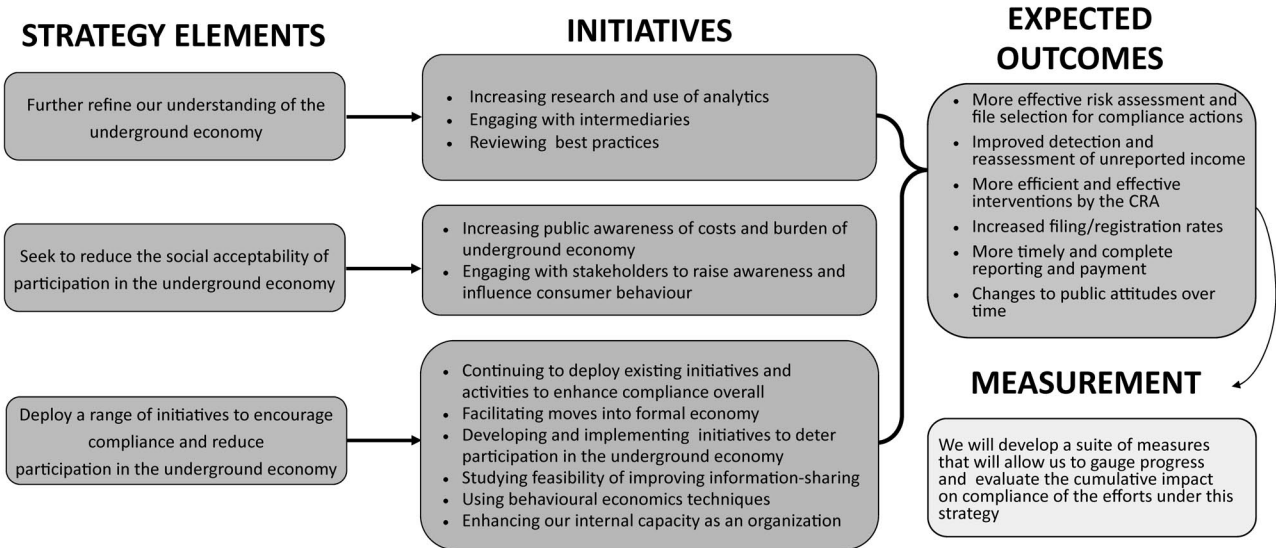
Our progress in this area will be measured using the following framework.

# Exhibit 2: Underground Economy Strategy Framework

## Strategy Framework

**Goal:** Reduce the social acceptability of, and participation in, the underground economy in order to protect the fairness and integrity of the tax and benefit system and the revenue base overall, and to ensure a level playing field for all businesses and taxpayers

**Objective:** Reduce participation in the underground economy

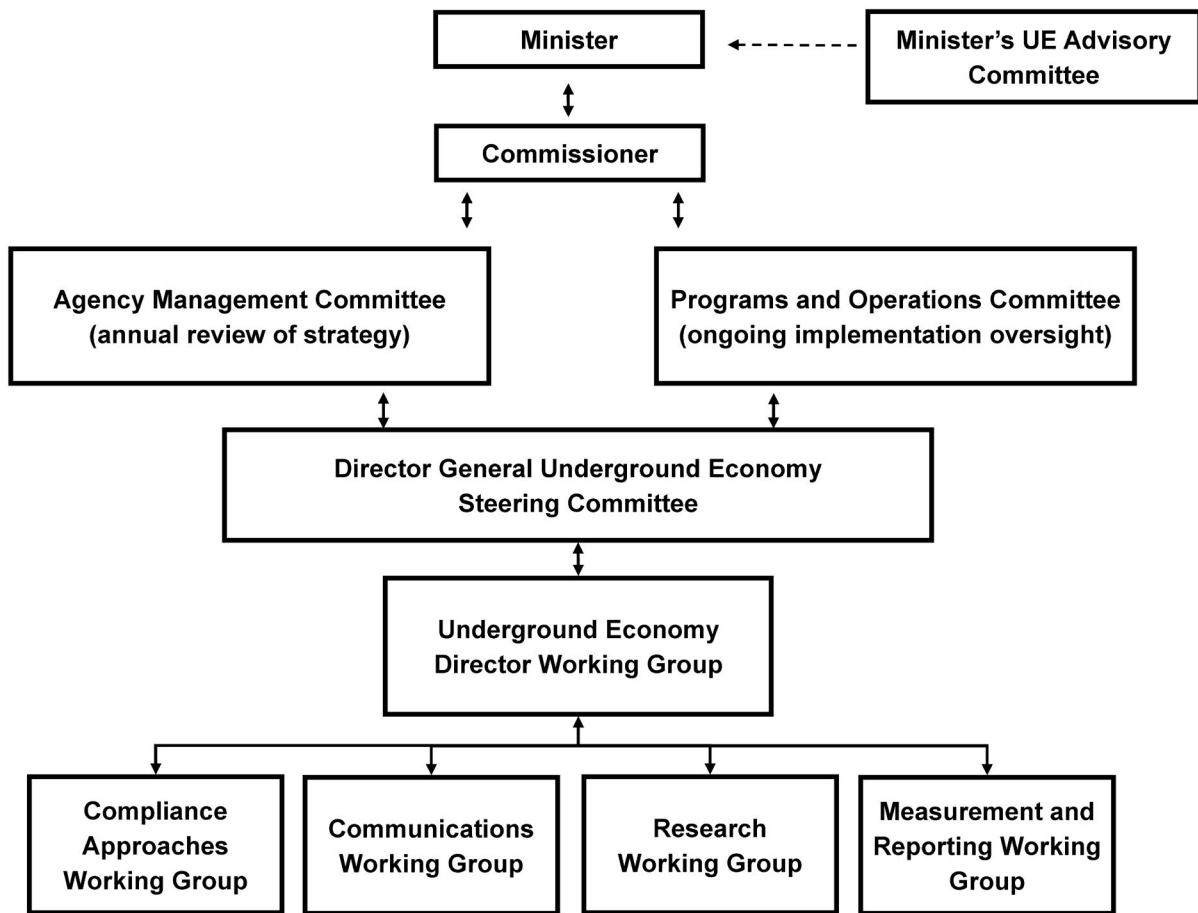


# 8. Governance

A robust governance structure is in place to build on our efforts to date and ensure the effective implementation and regular renewal of this strategy as set out in Exhibit 3 below.

## Exhibit 3: Underground Economy Governance Structure

**Underground Economy Governance Structure**



To ensure the effective operationalization of the strategy, we have created a cross-Agency, Director-General-level Underground Economy Steering Committee. The Steering Committee has developed an internal underground economy framework that will implement this strategy; clarify expectations, accountabilities, and the measurement of results; and define roles and responsibilities within the Agency. The Steering Committee is supported in its work on an ongoing basis by a cross-Agency, Director-level committee, which in turn is supported by four working groups.

Ongoing oversight for the implementation and deployment of the strategy will be provided by the CRA Programs and Operations Committee, which is chaired by the Commissioner and includes Assistant Commissioners and Deputy Assistant Commissioners from the regions and Headquarters branches.

The Agency Management Committee, which is chaired by the Commissioner and includes all Assistant Commissioners, will review this strategy each year to ensure the strategy remains current, effective, and relevant.

The Commissioner reports directly to, receives direction from, the Minister of National Revenue on the CRA efforts to address the underground economy. The Minister receives regular input and support from the Minister's UE Advisory Committee, which includes industry experts, on the status of the underground economy and feedback on the CRA's strategic approach.