"*Father, forgive them, for they do not know what they are doing*"

The Department of Finance Canada and its civil servants in complete disarray (Part 2) – Section H

By Yves Chartrand, M.Fisc.
Centre québécois de formation en fiscalité – CQFF inc.
ychartrand@cqff.com

H. The hunt for honest taxpayers … while fraudsters get away with billions of dollars

Here is another shining example of the ineptitude of the civil servants at the Department of Finance Canada, as you will see with two conflicting situations. On one hand, they are hunting down honest taxpayers and forcing them to fill out useless tax information when the Canada Revenue Agency (CRA) receives this very same information from the taxpayers themselves and Canadian financial institutions every year.

On the other hand, as we uselessly add to the bureaucratic process for honest taxpayers (and if they are no so honest, the tax slips issued by Canadian financial institutions will quickly get them into hot water), the Department of Finance Canada has not taken any steps in the last decade to compel entrepreneurs who operate a restaurant to have electronic controls of their sales. The Quebec government for its part adopted legislation in 2006 making it mandatory for restaurant operators to install a sales recording module (SRM). A measure that **has had a resounding success**: Revenue Quebec has even received awards and global recognition for its innovation. As for the federal government and other provinces, we estimate that they actually lose $1.5 billion in tax revenue every year due to their inaction. That's an enormous amount of money over a decade! And the Department of Finance Canada continues to be content with doing nothing. Make no mistake, its civil servants are well aware of this situation… Why should honest taxpayers tolerate this? All the while, the Department of Finance Canada continues to publish press releases patting itself on the back for its efforts to help the middle class grow. This is a huge pile of bull crap. Let's take a closer look at these conflicting situations between honest taxpayers and fraudsters.

The hunt for honest taxpayers

There is a tax form (T1135) that needs to be filled out every year by taxpayers who have more than $100,000 at any time during the year in "specified foreign property", which is calculated using the costs of their investments. So far, so good and we have no problem with this rule. It's normal to try to limit tax evasion by implementing measures to make sure Canadian tax authorities are aware of investments held abroad. For example: an owner of condo units **for rent** in Florida or Europe will have to declare on form T1135 that he owns these assets and declare the annual income and the gain from the sale of these assets. However, form T1135 may also have to be filled out if the taxpayer owns assets in foreign stock market investments, such as shares listed on the New York Stock Exchange, **even if these are held via a securities broker in Canada** or another financial institution in Canada. However, every year a taxpayer receives dividends on their shares of Cisco, Apple, or AT&T, the Canadian financial institution will have to issue a T5 slip, along with a T5008 slip if the taxpayer sells the stock during the year. In brief, the CRA is already well aware of the details concerning the income or sale or these foreign investments held through a Canadian financial institution.

Thanks to the Access to Information Act, our organization was able to find out what percentage of Canadian taxpayers have to produce form T1135 **ONLY** because they own foreign stock market investments through Canadian financial institutions, and for which Canadian tax authorities are already aware. The answer? 68%! In other words, that means more than two-thirds of these taxpayers have to produce form T1135 **for no reason at all**. A useless, costly bureaucratic burden for these taxpayers. If they forget to produce this form within the deadline, they could be fined $2,500 (in addition to other penalties in more severe cases). Over the past decade, many taxpayers have failed to produce this form but have declared all their foreign income from foreign stock market investments (held via a Canadian financial institution). As a result, they either had to pay a $2,500 fine or rely on the CRA's Voluntary Disclosures Program (VDP) to avoid paying the fine. This onerous process has become a drain of time on the CRA's civil servants assigned to the VDP. Keep in mind, this is all for income and gains that have already been declared and that Canadian tax authorities are well aware of. Instead of focusing their efforts on real cases of tax fraud and trying to recuperate significant sums of money for the government, the CRA's civil servants assigned to the VDP have lost time and energy trying to fix these errors for honest taxpayers. All because of a form that is completely useless in this specific case.

"There is none so deaf as those who will not hear"

Many financial and tax experts have obviously contacted the Department of Finance Canada (and the CRA) to make them understand how the specific case of foreign stock market investments held via a Canadian financial institution should be excluded from the definition of "specific foreign property". This is a very easy fix: a simple legislative amendment would add this case to the exclusions already outlined in the Act (as is the case for owners of personal-use condos located abroad).

Our organization has attempted to make them aware of the problem several times during roundtables with the Department of Finance Canada organized by the *Association de planification fiscale et financière* (*APFF*). Once again, we received the same vague, meaningless response from this Department. Several groups of financial institutions have also regularly attempted to make these tax authorities come to their senses. While tax and financial experts remain polite, rest assured they are completely frustrated and puzzled at this obstinacy on the Department's part that has resulted in a costly, inefficient bureaucratic process. Meanwhile, the real fraudsters are getting away with millions of dollars hidden abroad thanks to murky legal structures. Do you think these dishonest individuals care about form T1135 and its penalties? Not one bit. Honest taxpayers are being saddled with an extra layer of bureaucracy. It should be noted that in a document published in June 2018, the CRA has recognized the low risk of tax fraud in this specific case of foreign investments held via a Canadian financial institution! "*Father, forgive them, for they do not know what they are doing*"

Billions of dollars lost due to fraud in the restaurant industry

As mentioned above, Canadian tax authorities are wasting their time pursuing honest taxpayers but turn a blind eye to undeclared income in the restaurant industry (and we're not even going to mention, for now, the mess related to e-commerce).

The *ministère des Finances du Québec* tabled a budget on March 23, 2006 that included legislative changes in order to allow Revenue Quebec to compel the progressive implementation of "sales recording modules" (SRMs) in restaurants (and then bars) in order to prevent and decrease cases of tax fraud. The results were impressive and extraordinary. And yet, nothing has been done by the federal government to emulate this success. According to data published in June 2017, Revenue Quebec has eliminated more than 60% of the black market in the restaurant industry, decreasing it from 17.5% to 6%. Since November 2011, Revenue Quebec has been able to collect nearly $2 billion in additional taxes through the Quebec Sales Tax (QST), personal income taxes, corporate taxes, and withholding of taxes, including $300 million over the past year alone. This measure has also benefited federal tax authorities (amounts not included in the aforementioned figures). If Revenue Quebec has collected $300 million over the past year, we can infer that the federal government has been able to collect approximately $200 million in 2017 (the GST is lower than the QST, however the GST is not the only federal source of income). It is not outlandish to believe that federal tax authorities and tax authorities in other provinces are missing out on more than $1.5 billion in tax revenue every year. Instead, that money is going **straight into the pocket of fraudsters**. All while honest taxpayers, including those in the middle class, are paying for the inaction of Department of Finance Canada.

It is worth mentioning again that Revenue Quebec has earned several awards for their technological innovation, including the Gold award from the Institute of Public Administration of Canada in 2012.

It goes without saying that over the last few years, technology has evolved at an impressive rate. It is only a matter or time before Revenue Quebec puts to use technologies that are even more innovative, cloud computing for instance, to minimize tax evasion to the benefit of honest taxpayers and public services offered by the government of Quebec. We say bravo to Quebec tax authorities! As for the federal government, we can only declare “*Father, forgive them, for they do not know what they are doing*.”