

Compliance Research at the Canada Revenue Agency

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Canada collects taxes through a self-assessment system. This system is based on voluntary compliance, and voluntary compliance is based on mutual responsibility. Individuals, corporations, and trusts that are obliged to pay tax in Canada are expected to meet their responsibilities under the law. The Canada Revenue Agency is responsible for maintaining public confidence in the fairness and integrity of the tax system through the effective delivery of its mission.

The Compliance Research and Strategic Analysis Division (CR&SAD) supports the Agency's mission by developing a dynamic mix of compliance research activities that contributes to tax compliance knowledge in Canada. In presenting this mix of research activities, we first provide background information on the Agency, followed by an indepth analysis of the core functions, approaches, key building blocks, and current research agenda of the CR&SAD.

Mission

The mission of the Canada Revenue Agency (CRA) is to “promote compliance with Canada’s tax, trade, and regulations through communication, quality service, and responsible enforcement, thereby contributing to the economic and social well-being of Canadians.” For carrying out this mission, we deliver a mix of services and programs that:

- Support Canadians in their understanding of their tax obligations and entitlements through various communication, inquiry, and outreach services;
- Make compliance as easy as possible by providing simple tax forms and clear instructions;
- Enforce tax laws responsibly and effectively by applying risk management principles in the development of our workload selection systems and processes; and
- Offer clients a fair and impartial redress of disputes concerning the interpretation and/or application of the law.

To assess and improve our tax administration, we must know how well our services and programs are achieving their objectives. We must also be aware of changes and new developments in our operating environment that affect compliance and reflect these changing realities in our program strategies.

Compliance Research and Business Management Directorate

The Compliance Research and Business Management Directorate (CR&BMD) was created on April 1, 2002, through the merger of all “staff” functions that reported directly to the Assistant Commissioner. It consists of the following Divisions:

- Compliance Research & Strategic Analysis;
- Risk Assessment;
- Quality Assurance;
- Program Planning & Analysis;
- Enforcement Technology Support; and
- Business Integration Systems Support Infrastructure.

The Directorate provides a broad range of services and corporate support to the Compliance Programs Branch and leadership to the Agency as a whole in the areas of compliance research and tax compliance risk management and risk assessment.

Compliance Research and Strategic Analysis Division

In support of the CR&BMD’s research functions, the Compliance Research and Strategic Analysis Division was created (CR&SAD) as a center of expertise for compliance research. Its mandate involves “supporting the Agency’s development of effective compliance strategies through comprehensive research and analysis of the factors that contribute to compliant and noncompliant behavior, of emerging compliance trends, and of the impacts of compliance programs and initiatives on CRA clients.”

The Division’s drive towards tax compliance research is powered by its core functions, its approach to tax compliance, and its key building blocks. These factors, in turn, allow for a knowledge base on compliance and are the

motivating factors behind its current research agenda.

Core Functions

The Division's core functions are structured along three complementary streams:

- Development and monitoring of compliance indicators as defined in the Compliance Measurement Framework;
- Baseline compliance research on the main client groups; and
- Compliance studies driven by the information needs and priorities of senior management of tax programs.

Approach

The Division's approach to tax compliance centers around the following components:

- Multidisciplinary team (economics, statistical analysis, political science, sociology, etc.);
- Structured program of research employing a multifaceted, multidimensional framework model;
- Balanced agenda that includes both self-generated and requested studies; and
- Comprehensive knowledge base on compliance over time.

Key Building Blocks

With their focus on research and development of tax compliance, the Division's core functions are supported by the following key building blocks:

- Compliance Measurement Framework;
- Planning Framework; and
- Research Network

Compliance Measurement Framework

Much of the past research under the CM&BMD was carried out as independent projects, with no overarching approach that would yield a body of knowledge of research on compliance. Strategic analysis tended to be produced on demand with limited continuity due to the ad-hoc nature of requests. In recognition of the need for a more structured and effective program of research, the commitment was made to develop a compliance measurement framework

that would address these issues. As such, the first key building block that supports the Division's core functions—the Compliance Measurement Framework (CMF)—was developed to provide greater focus and increased rigor to compliance research and strategic analysis.

The CMF is a tool for monitoring and measuring compliance and evaluating and refining our approach to addressing compliance. It lays out key concepts, constructs, and operational definitions for the study of compliance. The application of this framework will provide a structured, comprehensive, and dynamic approach for research on tax compliance behavior that will enhance our knowledge of program effectiveness. The CMF will be used as a basis for research planning, monitoring, and reporting.

Framework Elements

The CMF consists of five interrelated elements that together provide a foundation from which compliance can be studied. These five elements include:

- Compliance Requirements*: maximizing tax compliance with several basic requirements—registering, filing, reporting, and paying.
- CRA Programs*: consolidating various Agency programs and initiatives on the basis of communication, client service, enforcement, and client redress.
- Client Base*: identifying distinct client segments to better examine the effect of Agency programs and strategies on their target populations.
- Compliance Indicators*: creating snapshot measurements of compliance, including those developed as part of program studies, which will provide both a static and dynamic basis for assessing whether or not compliance has been achieved.
- Measurement Methods*: applying appropriate measurement methodologies to ensure the validity and the reliability of research results.

Applying the CMF requires the utilization of an assortment of tools, research methods, and data sources to conduct a program of structured research in order to draw sound inferences of tax compliance.

Compliance Indicators

While the interrelation of all five elements of the CMF provides a foundation for the study of compliance, the core element of the framework—compliance indicators—provide “snapshot” measurements of compliance. Snapshot measurements of compliance are provided through indicators that are used to:

- Gauge compliance outcomes, trends, and developments and to identify compliance issues for further study;
- Provide insight into compliance behavior and the underlying cause and effect factors; and
- Assess the compliance impacts of programs, strategies, and initiatives.

Key Compliance Indicators

Compliance indicators can be developed from a variety of data sources which, when combined, provide a complete and comprehensive perspective on compliance. Based on internal and external data sources, the broad categories of compliance indicators and the context with which they can provide insight into compliance behavior are comprised of the following:

- Macroindicators: to identify general trends in compliance by comparing CRA data with relevant socioeconomic data.
- Noncompliance Indicators: to produce estimates of noncompliance in selected population segments using the results of random sample and risk assessment data.
- Public Opinion Indicators: to study and track public attitudes, perceptions, beliefs, and related factors affecting compliance as gathered through pertinent public surveys.
- Impact Indicators: to gauge the impacts of program strategies and initiatives through the use of a variety of qualitative and quantitative research methods.

Planning Framework

The second key building block that supports the Division's core functions is the 'planning framework.' The planning framework provides a structured and balanced approach for determining research priorities based on consultation, knowledge gaps, and analysis. Objectives of the planning framework include:

- Aligning the Division's research activities and products with the CRA planning cycle; and
- Building on the key elements of the CMF to ensure completeness and coverage.

Research Network

The third key building block that supports the Division's core functions is the 'Research Network.' The research network acts as a forum for exchange of information on research activities and results within the CRA research community. Objectives of the research network include:

- Improving coordination and alignment of research plans and products;
- Identifying opportunities for partnering in research projects where there is mutual interest and benefit;
- Leveraging research investments through information exchange and exploiting planned data collection for multiple research needs; and
- Providing a regular venue for focused discussions on emerging compliance issues.

Building a Knowledge Base on Compliance

The CMF will help the Division to analyze and integrate compliance results from relevant work done by others within and outside the CRA. The Division will leverage the results of program evaluation studies, research carried out in program areas, and CRA public opinion research in developing an integrated compliance picture. Externally, the list could include Statistics Canada studies, research done by "think-tank" groups and academia, and surveys done by private associations.

The Division will also periodically produce reports on compliance to keep interested parties apprised of monitoring results and research findings. At the conclusion of each fiscal year, the Division will prepare an annual report summarizing all compliance research results which be input for CRA strategic planning and reporting processes.

Our Current Research Agenda

Compliance research, like all CRA activities, is conducted in the context of corporate priorities and objectives. In keeping with the values of the Modern Comptrollership initiative, evidence-led and results-based management, compliance research can play an important role in shaping management decisionmaking and strategic direction. To do this requires a research program that responds to program and corporate needs and objectives. This is the ultimate aim behind our research agenda.

The Division's current research agenda outlines our planned research program for the next 3 years (2003-2004 to 2005-2006). The key activities in this agenda include:

- Compliance monitoring from populating the Compliance Measurement Information System (CMIS)—a database management system guided by the CMF that is used to capture, store, and analyze data required for the production of periodic reports. The populating process involves data collection, validation, and implementation.
- Baseline compliance research is a multidiscipline research approach designed to obtain baseline knowledge on compliance behavior so as to identify changes, developments, and new trends in followup studies over time. The research structure will consist of carrying out a unit of research characterized for each client segment (as per CMF) covering all tax compliance requirements—registering, filing, reporting, and paying. Each unit of research will consist of a series of papers focusing on the compliance requirements relevant to each client group. Doing so will ensure that compliance is first studied consistently and systematically to present a composite view of a particular client group. Current research initiatives include the following research papers that focus on the T1 client group:
 - ◆ Canada's Individual Taxpayers: A Changing Profile
 - ◆ Determinants of Compliance Behavior
- Program studies that are currently in progress and those that have been identified as priorities from the call letter submissions. Current program priorities include:
 - ◆ Public opinion research;
 - ◆ "Get It In Writing" campaign;
 - ◆ Evaluation of the T1 Non-filer risk rules;
 - ◆ Compliance profiles by filing method;
 - ◆ Followup audit of high-risk accounts;
 - ◆ Deductions and credits claimed by high-income individuals; and
 - ◆ Core Audit Program.