

# Legislative Costing Note

Announcement date: 2020-03-27 (Canada's COVID-19 Economic Response Plan)

Publication date: 2020-06-04

Short title: Suspension of audit activities

Description: Providing additional support to individuals and businesses.

The Canada Revenue Agency (CRA) will not initiate contact with taxpayers for audits, with certain exceptions. There will be:

- no new audits being launched,
- no requests for information related to existing audits; and
- no audits should be finalized, and no reassessments should be issued.

Data sources:	<u>Variable</u>	<u>Source</u>
	Annual fiscal impact of audits:	2018-19 CRA Departmental Results Report
	Federal share of tax revenues:	Government Finance Statistics (GFS), Haver Analytics
	Federal tax revenues:	Public accounts of Canada, PBO forecasts

Estimation and projection method:

The fiscal impact of audits for federal and provincial governments between 2014-15 and 2018-19 was obtained from the CRA. Using data from the GFS, the PBO estimated the federal portion of tax revenues (incomes, corporate profits, capital gains, goods and services, taxes on international trade/transactions). The federal share of tax revenues was then used to estimate the federal fiscal impact of audits.

To estimate the expected fiscal impact of audit activities for 2020-21, the average share of federal fiscal impact of audits relative to total federal tax revenues was calculated (2014-15 to 2018-19). This average share was then applied to PBO's forecasted tax revenues for 2020-21 to estimate the cost of audit suspension. This latter calculation assumed all CRA audit activities are suspended for the 2020-21 fiscal year.

However, the CRA has indicated they anticipate a 10 to 15 per cent reduction in audit activities. For its calculations, the PBO assumed a 10 per cent reduction in audit revenues, and scaled its cost estimate accordingly.

Aggregate Results:	<p>PBO estimates total net cost of this measure to be \$616 million in 2020-21.</p> <p>The time horizon for this costing is aligned to PBO's current Economic and Fiscal Scenario, although there may be potential fiscal impacts for subsequent years. For example, should there be an increase in audit activities in subsequent years, a portion of the lost revenue in 2020-21 could be recouped.</p>
Source of Uncertainty:	<p>The estimate is highly sensitive to the forecasted tax revenues, the anticipated reduction rate of audit activities, as well as the time horizon of the suspension. It was not possible to account for the effect of a probable increase in insolvencies (bankruptcies and proposals) on the cost estimate. A behavioural response is not expected.</p>
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### Cost of proposed measure

\$ millions	2019-2020	2020-2021
Total cost	-	616

#### Notes:

Estimates are presented on an accruals basis as would appear in the budget and public accounts.

Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.

"-" = PBO does not expect a financial cost