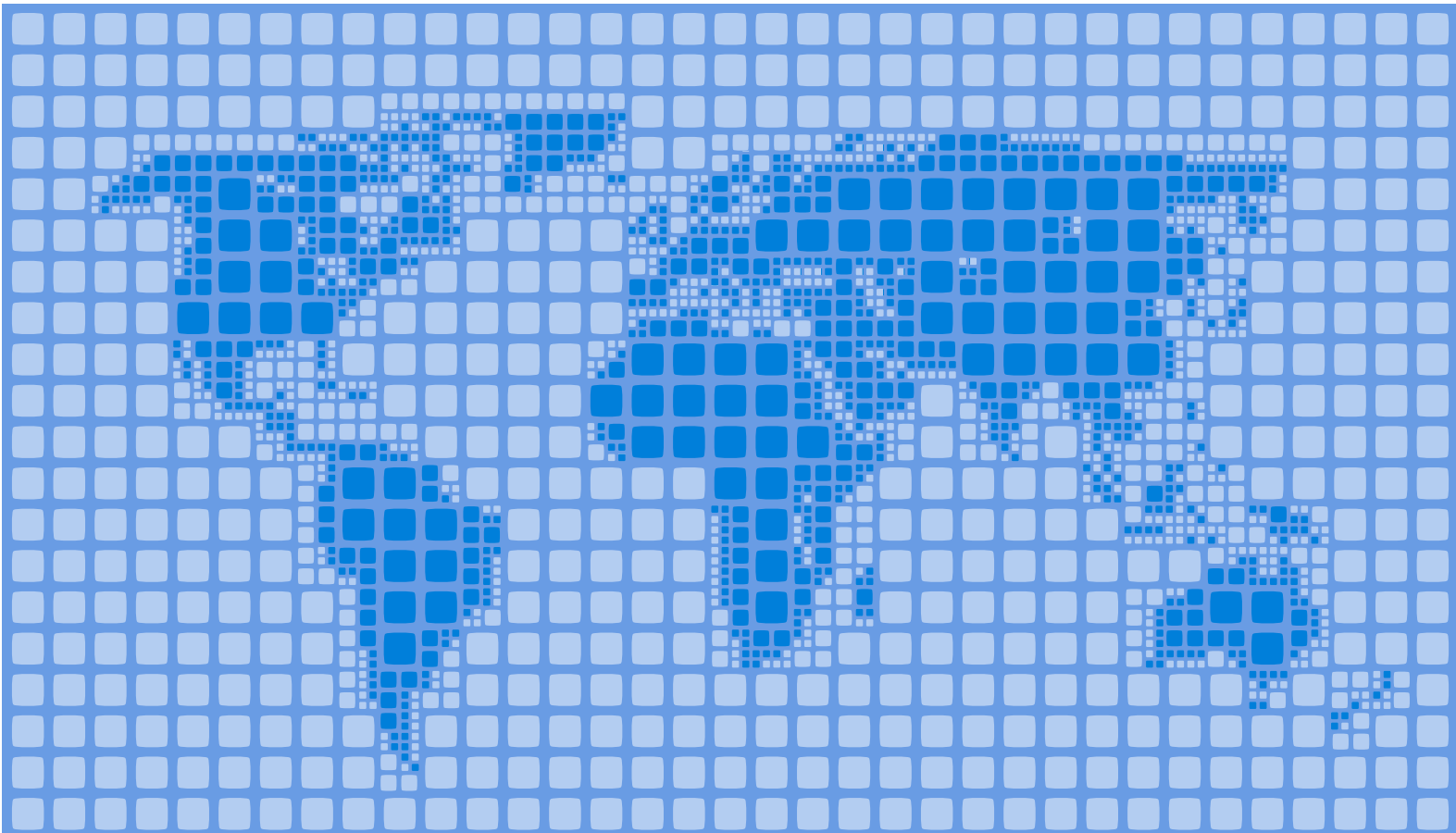


# Improving the Collection and Management of Taxpayer Information in the International Tax Area

Report Prepared by the Secretariat to the Advisory Panel on Canada's  
System of International Taxation

November 2008



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The Secretariat to the Advisory Panel would like to thank Marvin E. Lamb, France Marengère and Monika M. Siegmund for their participation in this project, as well as officials from the Canada Revenue Agency and the Department of Finance for their useful input.

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# 1. Introduction

There are many different returns, forms and schedules containing large amounts of information that taxpayers and others are required to submit to the government with respect to their cross-border transactions and activities. This information is collected for two important purposes:

- the Canada Revenue Agency (CRA) needs information to properly administer and enforce Canada's system of international taxation; and
- the Department of Finance needs information to assess the current system and develop new policy initiatives.

The need for the CRA and the Department of Finance to access this information must be balanced against the cost incurred by taxpayers to collect the information and prepare the required returns and forms. The precise cost for businesses of providing information on their cross-border transactions to the government is unknown, but could be significant in light of their total expenditures on compliance activities and the number of forms and returns they are filing.<sup>1</sup>

In addition to businesses dedicating a significant amount of resources to provide information on their international transactions to the government, the government incurs significant costs to process the information provided by businesses and maintain the systems required to do so. Both businesses and the government, therefore, have a common interest in ensuring that the process of collecting and using taxpayer information in the international tax area is efficient and cost-effective.

## 1.1 Current issues

Information on the international transactions of taxpayers is obtained by the government in different ways. Some information is received directly from taxpayers meeting their own reporting obligations with respect to their own income. Other information is received from third parties reporting information on other taxpayers, for example, banks reporting income on account of their customers. While much information must be provided by taxpayers on their income tax returns, information can also be obtained in relation to specific events or transactions (e.g., forms to claim an election, to request a waiver, etc.) or by way of specific information returns. The information is submitted to the CRA either electronically or on paper, and then input (electronically or manually) by the CRA into its systems.

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<sup>1</sup> See PricewaterhouseCoopers LLP, *Total Tax Contribution — Canada's Tax Regime: Complexity and Competitiveness* (May 2008) and Canadian Federation of Independent Business, *The Hidden Tax Burden: A Business Perspective on the Cost of Complying with Taxes*, Canadian Federation of Independent Business Research Series, Report I (August 2008). The first of these studies finds that large Canadian companies that they surveyed spent an average \$2.1 million on compliance activities each year. In the second study, the cost for Canadian businesses of complying with their tax obligations is estimated to be \$12.6 billion per year. According to the Auditor General, over 16,000 corporations indicated that they had undertaken a transaction with a foreign affiliate (2005), more than 1.9 million of payments to non-residents were reported to the CRA in 2006, and more than 422,000 non-resident tax returns filed. See Office of the Auditor General of Canada, *Status Report of the Auditor General of Canada to the House of Commons*, February 2007, chapter 7 "International Taxation — Canada Revenue Agency", at para. 7.29 and 7.82.

Certain factors under the current system can limit the usefulness of the information being collected or otherwise reduce the cost-effectiveness of the information collection process:

- In some cases, the information that is needed by the government may not be collected or be collected in a manner or format that limits its usefulness. In other cases, the information that is collected may seem of little use to the government.
- Taxpayers may also not be able to obtain or gather the information being requested, or provide the information in English or French.
- The information collected may be of limited quality or reliability. This can be due to different causes, notably taxpayer errors (e.g., misinterpretation of what information is requested), CRA errors (e.g., keying errors when inputting information filed on paper), and limitations of the government's information management systems.
- The same item of information may be collected more than once, either from a same taxpayer or from different taxpayers.
- The usefulness of the information being collected can be reduced because the proper systems to manipulate and analyze this information are not in place or have limited functionalities.

These issues can lead to various forms of inefficiencies. For instance, it appears that some of the information that is collected is not readily available to tax auditors and that auditors have to ask taxpayers for copies of the forms they have already filed. More importantly, these issues can limit the ability of the government to use the information in risk assessment and policy analysis.<sup>2</sup>

## 1.2 Need for review

A thorough review of the government's approach to collecting taxpayer information in the international tax area would be useful in order to identify and document all issues arising under the existing system and to develop principle-based solutions. Such a review could help improve the efficiency of the government's information collection process and minimize compliance costs imposed on taxpayers. This review could build on recent initiatives that were launched by the government and the CRA, in particular the Paperwork Burden Reduction Initiative that was launched in February 2005 with the goal (among others) of simplifying and

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2 The Auditor General looked at various aspects of international taxation and non-resident taxation in 1998, 2001, 2002 and 2007, in each case commenting to some extent on information collection and management. For example, the Auditor General commented in her December 2001 report that in some respects, electronic capture and matching programs and automatic compliance routines for non-resident data lag behind domestic tax (see para. 7.6). The Auditor General also stated that "(m)any difficulties exist in identifying how non-residents and their Canadian payers fail to comply with tax requirements and in estimating the lost tax revenue" and that in some cases, the CRA "has not collected the data required to do this work; in other cases, the data are not readily accessible" (at para. 7.28). In her December 2002 report, the Auditor General commented that "more needs to be done to improve the information and analysis to evaluate international tax risks" (at para. 4.30). Among other things, the Auditor General cited the need to implement better controls over the integrity of data in the foreign reporting database (para. 4.43). This issue was raised again in 2007.

reducing information requirements for small businesses.<sup>3</sup> The final report of the Advisory Panel could also act as an impetus to undertake such a review. Many of the options discussed in the Panel's consultation paper, for example the possible adoption of a broader exemption system in Canada for foreign-source active business income, would have implications as to what information the government needs to enforce Canada's system of international taxation, and how this information should be collected. The Panel's final report could be an opportunity for the government to rethink its approach to taxpayer information collection in the international tax area and reconsider the forms and returns that are currently in use.

A review of the government's information collection and management process in the international tax area could cover the following items:

- Information the government needs to obtain and for what purposes.
- Possible sources from which this information can be obtained, including from persons and entities other than taxpayers, taking into account the need for the government to respect information that is privileged as well as the confidentiality of other information (e.g., auditor and accountant working papers).
- Time and manner in which this information can most efficiently be collected.
- Design of forms and returns used to collect the information.
- Instructions and guidance needed to help taxpayers and other persons and entities fulfill their reporting obligations.
- Methods for transmitting information to the CRA.
- Systems used by the CRA to capture and store this information.
- Validation tests performed on the incoming information.
- Capacity to link, merge, reconcile and otherwise manipulate the information across different data systems (in particular where information is reported in different currencies or categorized by different dimensions).
- Procedures in place to enforce the existing reporting requirements.

In reviewing these various issues, the different needs of taxpayers, the CRA and the Department of Finance would need to be considered. Particular efforts would have to be made to keep compliance costs low for taxpayers, for instance by ensuring that the information requested from taxpayers can be obtained at reasonable costs to the taxpayers and by minimizing duplications and overlaps between reporting requirements. Other principles to guide this review should be identified in consultations with taxpayers and by studying other countries' approaches to similar issues.

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3 See Advisory Committee on Paperwork Burden Reduction, *A Strategy to Reduce Paperwork Burden for Small Businesses in Canada — 2008 Progress Report on the Paperwork Burden Reduction Initiative* (April 2008), available at [www.reducingpaperburden.gc.ca](http://www.reducingpaperburden.gc.ca). See also Canada Revenue Agency, *Helping Small Businesses by Reducing the Compliance Burden*, Report of the Canada Revenue Agency's Action Task Force on Small Business Issues (March 2007).

### 1.3 Overview of this report

As a modest first step towards such a review, sections 2 and 3 of this report contain a short discussion of some issues that were identified with certain returns and forms that are currently used to collect information from taxpayers on their cross-border transactions.

This discussion builds on the work of an ad hoc subcommittee that was set up by the Panel to look at the different forms and returns currently used in the international tax area, to identify issues with these forms and returns, and to sketch out possible options to address those issues. The subcommittee consisted of Marvin E. Lamb and Monica M. Siegmund of the Tax Executives Institute and France Marengère from the CRA. The subcommittee also received input from other officials from the CRA and the Department of Finance.

The objectives of the subcommittee were to survey returns and forms to gauge the need to reduce duplications, identify ways to reduce the costs incurred by taxpayers to prepare and file these returns and forms, and to ensure that the returns and forms contain the information necessary for the administration of Canada's international tax system. The subcommittee identified more than 55 returns and forms that deal with international tax matters and focused their review on certain returns and forms that are of particular importance. The subcommittee also identified, in the course of its work, certain system and process issues that do not directly relate to returns and forms, but that are of importance in improving the government's information collection process.

The next sections incorporate information and comments obtained by the subcommittee in the course of its work. The views expressed in this report, however, are not necessarily the views of the individuals who participated in the subcommittee.



## 2. Review of selected returns, forms and schedules

### 2.1 Information on foreign affiliates of Canadian taxpayers (T1134-A and T1134-B Information Returns)

#### *Description*

The T1134-A and T1134-B information returns are to be filed by Canadian taxpayers regarding their non-controlled and controlled foreign affiliates respectively. Information must be reported on various aspects of the relationship and transactions between a Canadian taxpayer and a foreign affiliate, including the cost of the shares owned by a taxpayer in the foreign affiliate and information on the foreign affiliate's assets, net income, gross revenues, and foreign accrual property income (FAPI).

#### *Issues*

The T1134 reporting requirement regarding foreign affiliates may subject some taxpayers to a very onerous burden in terms of collecting and reporting information. A Canadian corporate group with large foreign operations could easily be required to complete and file several hundreds of T1134 returns in a given year, each of which are between three to four pages in length and contain several detailed questions. To complete the returns, a taxpayer may have to access foreign-based information, which sometimes may not be under the control of the taxpayer or of a related person. Duplications also exist in that the same item of information or the same supporting documentation for a given foreign affiliate may need to be provided by more than one related corporation in Canada, or on the T1134 and other forms and returns.

The usefulness to the government of the information currently collected through the T1134 return would appear to be constrained due to various problems. Comments received from CRA auditors indicated that the forms are often not completed properly and supporting documentation is not always provided in a timely manner. This may reflect the difficulties that taxpayers face in completing the forms and accessing the required information. There appears also to be little validation performed on the information that is collected, which raises doubt as to its quality and reliability.

#### *Options*

There seems to be scope for improving the T1134 reporting requirement, both in terms of making it less burdensome on taxpayers to collect and provide information on their foreign affiliates, and in terms of ensuring that the information obtained by the government is of better quality and reliability, and therefore of greater use for audit, risk assessment, and policy analysis.

Many proposals to improve the T1134 reporting requirement are worth exploring further. These would include:

- Providing more guidance as to how the T1134 return should be completed to ensure consistency in the information being reported by taxpayers.
- Simplifying the T1134 return by focusing on the questions that are most important to the government.
- Better integrating the T1134 and T106 information requirements to eliminate existing duplications. One option could be to require taxpayers with foreign affiliates to file only a T1134 return, but to incorporate into the T1134 return the necessary information currently requested on the T106 return.
- Allowing some information to be reported on an aggregated basis for all foreign affiliates of a Canadian taxpayer.
- Allowing some form of consolidated T1134 filing for Canadian taxpayers that are part of a same corporate group and that must file T1134 returns in respect of a same foreign affiliate.
- Providing a short-form T1134 return that could be used in respect of foreign affiliates that are either small, dormant or inactive.

Finally, corporations are currently required to provide a list of their foreign affiliates with their corporation income tax return (T2 schedule 25). A similar requirement applies to partnerships that are required to file a partnership information return (T5013 schedule 25). Consideration should be given to integrating these two requirements with the T1134 reporting requirement to reduce existing duplications between those requirements. Doing so could raise a timing issue, however, to the extent that a corporation has up to 15 months after the end of its taxation year to file the T1134 return, while that corporation's income tax return is due within six months of the taxation year end.

## **2.2 Information on non-arm's-length transactions with non-residents (T106 Information Return)**

### *Description*

The T106 information return must be filed by corporations, individuals, trusts, and partnerships to report their transactions with non-arm's-length non-resident persons. The main purpose of this return is to collect information that can be used to assess compliance with Canada's transfer pricing rules. The return comprises one or several T106 slips and one summary form; a T106 slip must be filed in respect of each non-arm's-length non-resident person with whom a person or partnership had reportable transactions during the year.

### *Issues*

The T106 return must be filed when the total value of reportable transactions with all non-arm's-length non-resident persons exceeds \$1 million. Until 1998, a taxpayer was required to file a T106 return only when reportable transactions with a particular non-arm's-length non-resident amounted to \$25,000 or more. As part of the introduction of revised transfer pricing rules in Canada, this de minimis threshold was repealed and replaced with the new \$1 million threshold referred to above.

The CRA issued in 2003 a notice reinstating, as a matter of administrative policy, the former \$25,000 de minimis threshold (without affecting the application of the \$1 million threshold).<sup>4</sup> This change was made to address situations where the new \$1 million threshold had the effect of increasing reporting for certain taxpayers. This occurred when a taxpayer had to report transactions with a particular non-resident of a value smaller than \$25,000 because the total value of the taxpayer's transactions with all non-arm's-length non-residents exceeded \$1 million.

### *Options*

Further monitoring of the reporting of low-value transactions with non-arm's-length non-residents would be useful to ensure that taxpayers do not need to report information that is of little use to the government, but that the government also obtains all the information needed to properly administer Canada's transfer pricing regime.

## **2.3 Reporting of payments to non-residents**

### *Description*

Information on payments by Canadians to non-residents is important, among other purposes, to ensure compliance with Canada's withholding regimes under Part XIII of the Income Tax Act (withholding tax on Canadian source income paid to non-residents) and section 105 of the Income Tax Regulations (withholding on payments to non-residents for services rendered in Canada). Such payments are currently reported on various forms and returns, notably:

- the NR4 return, used to report amounts subject to withholding tax under Part XIII of the Act;
- the T4A-NR return, used to provide information on withholding made in accordance with section 105 of the Regulations;
- schedule 29 of the T2 corporation income tax return, on which most payments by corporations to non-residents in excess of \$100 are to be reported; and
- the NR601 and NR602 forms, which are to be used when non-residents are cashing interest coupons and dividend warrants.

In addition, as described in section 2.2 above, certain payments to non-arm's-length non-residents must also be reported on the T106 information return.

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<sup>4</sup> See the CRA website at [www.cra-arc.gc.ca/tx/nrnsdnts/ntcs/t106-eng.html](http://www.cra-arc.gc.ca/tx/nrnsdnts/ntcs/t106-eng.html).

### *Issues*

Duplications and overlaps exist among the forms and returns that are listed above. For instance, most if not all of the payments that corporations are to report on schedule 29 of the T2 corporation income tax return would typically also be reported on either an NR4 return or T4A-NR return. The reporting of the same information on different forms is partly explained by the fact that those forms pertain to different time periods (calendar year for NR4 and T4A-NR returns, and a corporation's tax year for schedule 29 of the T2) and serve different purposes (the NR4 and T4A-NR serve, among other things, as withholding receipts for non-residents that pay withholding tax in Canada, while schedule 29 of the T2 is an information return filed by Canadian corporations). Nevertheless, such duplications and overlaps should be minimized to the extent possible given the increased compliance burden that results for Canadian businesses.

### *Options*

There would appear to be benefits in integrating the various reporting requirements for payments to non-residents into a single one, in this case the NR4 requirement. Streamlining the reporting of payments to non-residents would reduce compliance costs for Canadians and could help improve the quality and reliability of the information being reported. It would clarify the requirements for taxpayers, thereby eliminating a possible source of confusion. It would also allow the CRA to achieve some economies of scale in capturing and processing this information, and to allocate more resources to ensuring that the NR4 return is properly filed.

One option could be to eliminate the existing schedule 29 of the T2 and forms NR601 and NR602 and integrate these requirements into the NR4 requirement. The NR4 return could be amended to incorporate these two requirements, for instance by modifying the list of types of income that can be reported on the NR4. One issue with this option is that payments by corporations to non-residents would no longer be reported on a tax year basis. The feasibility of integrating the NR4 and T4A-NR requirements should be studied further.

## **2.4 Information on ownership structure, control and entity classification**

### *Description*

As noted in the introduction, one purpose of collecting information on the cross-border transactions of Canadian taxpayers is to provide useful information that the government can use to evaluate the tax rules currently in place and assess possible reform options. Performing this analysis usually requires some basic information about taxpayers and corporations in particular, for instance, their size, their business, and whether they are owned by Canadian or foreign shareholders. Where a corporation is part of a group of corporations, it is often relevant to know the size, business, country of control, etc. of the corporate group.

### *Issues*

A gap exists between the government's need for group-level information for analytical purposes and the way information is collected from taxpayers.

Canada does not permit consolidation for tax purposes. This means that each corporation, trust or individual is subject to tax in Canada as a separate entity. This also means that nearly all taxpayer information that is collected by the CRA is obtained at the separate-entity level and relates to specific entities rather than to the groups to which these entities might belong.

To fill this gap, the government needs to collect information on the ownership of individual entities, so that it can determine, among other things, whether a particular entity is part of a group of entities and the ownership structure of the group.

This information is currently obtained through various forms, including:

- Schedule 9 of the T2 corporation income tax return, on which corporations provide information on their parent, subsidiary, associated and related corporations.
- Schedule 19 of the T2 corporation income tax return, on which corporations must indicate the percentage of non-resident ownership for all classes of shares of their capital stock.
- Schedule 50 of the T2 corporation income tax return, which must be filed by private corporations to provide information on any shareholder who owns more than 10 percent of a class of the corporation's shares.
- Taxpayers filing the T1134-B return must also provide information on their group structure, including foreign affiliates that are part of a taxpayer's group. Taxpayers filing a T106 return must indicate whether they control or are controlled by non-arm's-length non-residents.

While much information on ownership is currently collected through these forms, it remains difficult for the government to determine the ownership structures of corporate groups that have business operations in Canada and to monitor changes in these structures over time. One reason explaining this difficulty is that part of the information needed to get a clear picture of the ownership structure of corporate groups is not currently collected. For instance, little information is currently obtained on partnerships and businesses carried on through partnerships. This can be a concern given the recent trends in Canada towards a greater use of partnerships for business purposes. Also, little information is currently available as to whether a particular corporation or group is Canadian or foreign-owned.

### *Options*

The government needs to review what and how information on the ownership of Canadian businesses is collected, with the aim of ensuring that it obtains all the information it needs for analytical purposes while also reducing paperwork and compliance costs for businesses. A comprehensive and systemic approach to this issue should be adopted in an attempt to minimize duplications and overlaps between forms. The government should also consider making a greater use of publicly available sources of information (e.g., public filings and records of public companies) where this information can be useful, so as to reduce the amount of information that is required from taxpayers.

## **2.5 Notification by non-residents of disposition of Taxable Canadian Property**

### *Description*

The T2062 and T2062A forms are used by non-residents to give notice of the disposition of taxable Canadian property. Form T2062 is used for dispositions of taxable Canadian property while form T2062A is used specifically for dispositions of Canadian resource or timber resource property, Canadian real property (other than capital property), or depreciable taxable Canadian property. When disposing of a real estate property consisting of land and buildings, the T2062 is to be used to report the gain on the non-depreciable property (land) and Form T2062A is to be used to report the recapture of capital cost allowance or terminal loss of the depreciable property (buildings). If both forms T2062 and T2062A are required for a disposition, the forms must be filed together.

### *Issues*

It is quite common for a non-resident who disposed of a taxable Canadian property to be required to complete both Form T2062 and Form T2062A. This happens when a non-resident disposed of land and buildings that does not constitute a personal-use property. Where a non-resident fails to complete one of the forms, the CRA completes the form on behalf of the non-resident in order to expedite the processing of the certificate of compliance.

It is not always clear to the taxpayer which form must be used for what property, especially since both forms are practically identical.

### *Options*

The T2062 and T2062A forms could be combined. This would reduce duplications and prevent taxpayers from filing the wrong forms with the CRA. This would also relieve the CRA from the need to complete the forms on behalf of non-residents. This would expedite the processing of the form and the issuance of certificates of compliance.

## **2.6 Information on debt incurred by foreign-owned Canadian corporations**

### *Description*

Canada's thin capitalization rules are intended to limit the erosion of the Canadian corporate income tax base that results when foreign businesses use related-party debt to finance their Canadian subsidiaries. Under these rules, no deduction is allowed in Canada in respect of interest paid by a Canadian corporation on loans received from certain non-resident persons (e.g., non-resident persons owning a significant share interest in the Canadian corporation) to the extent that such loans exceed twice the equity (computed under special rules) of that corporation.

### *Issues*

Little information is currently collected that can be used to assess the effectiveness of the thin capitalization rules in protecting Canada's corporate income tax base. While corporations must file balance sheet information on their liabilities, this information is not detailed enough so that loans that would be subject to the thin capitalization rules could be identified.

### *Options*

The government should consider adopting a new form to collect specific information needed to assess the effectiveness of Canada's thin capitalization rules. This form could provide information on the various amounts and calculations that are to be determined and performed in applying the thin capitalization rules.

## 3. System and process issues

### 3.1 Electronic filing

Every year, many forms and returns must be filed by Canadian businesses and foreign investors doing business in Canada in respect of their cross-border activities. An increasing number of these forms and returns can be filed electronically with the CRA, including the corporation income tax return (since 2002).

There are still many forms and returns, however, that cannot be filed electronically. For example, the T1134 and T106 returns can only be filed on paper. Non-resident corporations that must file a Canadian corporation income tax return are also not eligible to file their return through the internet, except if they are claiming an exemption under an income tax treaty or carrying on business in Canada through a branch office.

Forms and returns that are filed on paper must be manually input by the CRA into the appropriate system. This raises the possibility of human errors and imposes additional costs to the CRA. Paper filing is also more costly and more subject to errors at the filers' end.

The CRA should pursue the current initiative and extend electronic filing to more forms and returns to improve the quality of taxpayer information, achieve cost savings (including for taxpayers) and improve timeliness of communication.<sup>5</sup>

### 3.2 Linking information across forms and databases

Matching forms and returns filed by a same entity or in respect of a same entity is critical not only from an administrative perspective, but also for analytical purposes, to be able to link information that relates to a same entity, both in a given year and over time.

The CRA uses different identification numbers for different purposes. Most filings by individuals, for instance, are identified by an individual's Social Insurance Number (SIN). The Business Number (BN) is now used for corporate income tax purposes, as well as for other purposes such as GST. Many information returns, such as the T106 and T1134 returns, require a SIN, a BN or another identification number depending on whether the filer is an individual, a corporation or another type of entity.

#### *Issues concerning the identification of Canadian taxpayers*

The matching of forms and returns filed by a Canadian corporation has become much easier with the adoption and increasing use of the BN. The NR4 system, however, currently does not rely on the BN but on a different identification number, the Non-Resident Account Number. This number is used both to remit the tax withheld under Part XIII of the Act and in filing the NR4 return.

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5 See CRA website at [www.cra-arc.gc.ca/esrvc-srvce/gol-ged/menu-eng.html](http://www.cra-arc.gc.ca/esrvc-srvce/gol-ged/menu-eng.html).



The use of a different identification number for withholding tax purposes makes it very difficult to link the NR4 return to other sources of information such as the T2 corporation income tax return or the T106 and T1134 returns. It also forces Canadian corporations or others who pay or credit amounts to non-residents to apply for a Non-Resident Account Number even if they already have a BN (or another identification number). The CRA should consider replacing the Non-Resident Account Number with the BN, SIN, etc. to facilitate linkages between the NR4 system and other sources of information, and to help avoid some unnecessary duplications between the NR4 and other forms or returns.

### *Issues concerning the identification of non-resident entities*

The ability of the government to match forms and returns filed by or in respect of a non-resident person is currently much more limited than it is for matching forms and returns filed by Canadian taxpayers. While non-resident corporations that are liable for income tax in Canada must generally obtain a BN, Canadian taxpayers that have to report information with respect to their transactions with non-resident entities generally do not need to provide an identification number in respect of these entities, nor are these non-resident entities required to obtain one for Canadian tax purposes. For instance, no identification number is used to identify foreign affiliates for which T1134 returns are filed or non-arm's-length non-residents in respect of which Canadian taxpayers must file T106 returns. Likewise, it seems that tax identification numbers are missing on most NR4 and T4A-NR slips being issued.<sup>6</sup> In the rare instances where a tax identification number is available for a non-resident, this number will often be of limited usefulness due to reliability problems or because this number is not used consistently across all forms and returns.

As noted above, the inability to match forms and returns filed by or in respect of non-residents creates administrative problems and limits the possibilities of using the information collected on those forms and returns for analytical purposes. Problems in matching non-resident information can also lead the government to request the same information twice, just because the information already collected on one form cannot be linked to the information collected from another form. The lack of a unique identification number for non-residents also reduces the usefulness of the Canadian tax information that is shared with treaty-partner countries in accordance with the exchange of information provision contained in many of Canada's tax treaties.<sup>7</sup>

Two options could be considered to address the lack of a unique identification number for non-residents for Canadian tax purposes: either the CRA issues tax identification numbers (whether BN, an Individual Tax Number or another identification number) to all non-residents in respect of which information is reported in Canada, or forms and returns filed in Canada are amended

6 In her February 2007 Report, the Auditor General noted that according to a study conducted by the CRA, "over 80 percent of the income slips (T4A-NR slips) issued to non-residents, for business income earned in Canada, were issued without a unique identifier." See Office of the Auditor General of Canada, *Status Report of the Auditor General of Canada to the House of Commons*, February 2007, chapter 7 "International Taxation — Canada Revenue Agency", at para. 7.75.

7 The OECD, in its model Memorandum of Understanding that countries can use to define the terms and conditions under which such exchanges of information take place, recommends that tax identification numbers, if available, be exchanged to facilitate the processing and matching of the information received. See OECD, *Manual on the Implementation of Exchange of Information for Tax Purposes*, January 23, 2006. See also OECD, *Tax Administration in OECD and Selected Non-OECD Countries: Comparative Information Series (2006)*, February 2007.

where applicable to require that the foreign tax identification numbers of non-residents be reported. Neither of these two options is perfect or simple to implement. Issuing Canadian tax identification numbers to non-residents could probably be done on a small scale (as is done in the United States),<sup>8</sup> but would be very difficult and costly to put in place for the purposes of forms such as the NR4, the T1134 or the T106 returns. While it may appear more manageable for the non-residents to provide their foreign tax identification number, this would still impose an additional compliance burden on non-residents and/or Canadian taxpayers (who would need to request and obtain such numbers). Using a foreign tax identification number would also not be entirely reliable to the extent the CRA cannot confirm the validity of foreign tax identification numbers and not all countries are issuing tax identification to their residents.

### **3.3 Ensuring the quality of information collected on information returns**

The information collected by the government through information returns is likely to be of a lesser quality and reliability than information collected on tax returns, both because taxpayers may not complete these returns as diligently as if they were directly used to determine their tax liabilities, and because the CRA may be more reluctant to impose compliance penalties in such a situation. This is the case, for instance, of the information reported on the T106 information return, whose quality and reliability is difficult to assess. Options to ensure a better quality of the information collected on information returns should be considered. Such options could include offering more guidance and training to taxpayers through greater outreach, and providing feedback to taxpayers as to problems identified on their returns.

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8 For taxation years beginning after 1996, the U.S. Internal Revenue Services (IRS) introduced new regulations, which require certain aliens who cannot obtain a U.S. social security number to apply for a Taxpayer Identification Number when filing a U.S. tax return or claiming a refund.