Canada Revenue Agency | Agence du revenu du Canada

INTERNATIONAL TAX GAP and COMPLIANCE RESULTS

FOR THE FEDERAL PERSONAL INCOME TAX SYSTEM

Canada

Contents

Executive Summary

In April 2016, the Government of Canada committed to estimating the federal tax gap to encourage an open and transparent discussion on tax compliance. Understanding how and why taxpayers are non-compliant is critical to help preserve the integrity of the tax system and to protect Canada's revenue base, which supports programs and benefits delivered to Canadians.

Acting on this commitment, a dedicated unit was established at the Canada Revenue Agency (CRA) to examine and publish a series of reports analyzing different components of the tax gap. Including this year's report, the CRA has published four reports:

- A conceptual study on tax gap estimation (June 2016),
- An estimate of the tax gap for Goods and Services Tax/Harmonized Sales Tax (June 2016),
- A report on domestic personal income tax compliance (June 2017), and
- A report on the international tax gap for the personal income tax system (June 2018).

This report presents what the CRA currently knows about the extent of potential revenue loss from hidden offshore investments held by individuals. Although estimating the international tax gap is recognized by experts and tax administrations as being challenging given that assets are purposely hidden outside national boundaries, this report relies on assumptions and global financial data developed by academics to estimate the tax gap related to hidden offshore investment income.

Given the range of assumptions developed by academics, the extent of the potential revenue loss presented in this report is also best viewed as a range. As experts further refine methodologies related to measuring the value of hidden offshore assets, there will be opportunities to further build on this research and refine tax gap estimates going forward.

It is also the first time that the CRA has published detailed information on the key aspects of the CRA's activities that aim to reduce the international tax gap, from reporting requirements to audit activities and recent information sharing with other jurisdictions. In fact, the CRA is one of very few countries in the world to report in this level of detail on its compliance activities and to publish an estimate of the international individual income tax gap.

In producing this report, the CRA consulted with other tax administrations, government departments and technical experts to solicit feedback and refine the approach. In particular, the CRA, in collaboration with the Canadian Tax Foundation, held a conference with experts and international government officials in June 2017 to share perspectives and best practices on tax gap estimation, which helped to frame the approach taken in this report.

As well, in the spirit of openness, much of the data that is the basis for this report's analysis of foreign reporting, as well as other data requested by the Parliamentary Budget Officer, was shared with him and published online.

Foreign Reporting

The report begins by reviewing foreign reporting obligations and presenting statistics related to foreign assets and income reported by Canadians. In today's globalized world, offshore entities and complex cross-border transactions make it difficult for tax administrations to identify individuals' worldwide income. Foreign reporting requirements are a vital tool to help identify and address offshore non-compliance and to reduce the tax gap.

Canadian residents must file a Foreign Income Verification Statement (Form T1135) if they own specified foreign property of a value of $100,000 or more. The number of filers reporting foreign property has been increasing over time. Based on an analysis of 2014 data:

- about $429 billion in assets, $9.0 billion in foreign income and $13.2 billion in capital gains[1] were reported,
- although individuals were the majority of T1135 filers (78%), corporations, trusts and partnerships together reported the majority of the total value of foreign assets held, and the majority of income and capital gains declared by all T1135 filers, and
- top countries where assets were held and foreign income was reported tended to be the US and the UK.

Internationally-focused Risk-Based Audits

To maintain and improve the fairness and integrity of the Canadian tax system, the CRA conducts audits of taxpayers that are assessed to be at risk of non-compliance. An analysis of risk-based audits with an international focus of individuals and entities linked to them, such as closely-held corporations and trusts, provides important insights into instances of non-compliance detected by the CRA. Other corporations are not included in this analysis and will be the focus of the next tax gap study.

Based on audit cases with an individual and international focus[2] that were completed in 2014-15, 2015-16, and 2016-17:

- audits resulted in about an additional $1 billion in assessed income, and
- a total of $284 million in additional federal tax was identified, with individuals accounting for 23% of the additional federal tax assessed and their related corporations and trusts accounting for 66% and 11% respectively.

Overall, the analysis of these results emphasizes the importance of a holistic approach to audit that encompasses individuals and their related networks.

Offshore Investment Income Tax Gap

Canada's offshore investment income tax gap was estimated using global financial statistics, international banking data and methodologies developed by two groups of academics. Their approach was adapted for the Canadian context to produce a range of estimates for Canada's offshore investment income tax gap for individuals.

For the 2014 tax year, the estimated range of the federal tax gap related hidden offshore investment was between $0.8 billion to $3.0 billion.

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[1] Capital gains includes both capital gains and capital losses.

[2] Including high net worth individuals, offshore non-compliance, and international aggressive tax planning.

This analysis builds on previous personal income tax gap estimates by the CRA. Combined with the domestic personal income tax gap published in 2016, the personal income tax gap is estimated to be between $9.5 billion and $11.7 billion in 2014, or 7.0% and 8.6% of personal income tax revenues.

Based on the gaps for the Goods and Services Tax and the personal income tax revenue base that have been estimated by the CRA so far, Canada's tax gap amounts up to $14.6 billion for the 2014 tax year. This gap amounts to about 8.3% of corresponding revenues.

CRA's Compliance Efforts

Compliance efforts have been instrumental in identifying offshore tax non-compliance and will help reduce the international component of the tax gap with enhanced international co-operation and increased investments from the Government of Canada. The report highlights the CRA's key compliance programs and recent international information sharing developments, including the following:

- bi-lateral and multi-lateral initiatives with the Organisation for Economic Co-Operation and Development,
- Offshore Tax Informant Program, which allows the CRA to award payments to individuals who provide specific and credible information on major international tax non-compliance,
- Related Party Initiative, which is a program dedicated to address compliance issues associated with high net worth individuals and their related networks,
- Voluntary Disclosures Program, which offers individuals a chance to correct inaccurate or incomplete information on a previously filed tax return or to disclose omitted information that should have been filed to the CRA,
- the use of electronic funds transfers transaction information to and from certain jurisdictions and financial institutions of concern, and
- information requirements regarding unnamed persons, which are being used to identify taxpayers using offshore accounts associated with Canadian financial institutions or entities.

Conclusion

The CRA is committed to openness and transparency as a world-class tax and benefit administrator, and is among a select group of countries reporting on its tax gaps. With this report, the CRA has now published four tax gap reports that provide detailed information on its activities to combat non-compliance, as well as estimates of different components of Canada's tax gap and the underlying methodologies. This information informs the public about the health of the tax system and strategically informs the CRA's own compliance efforts.

The CRA will continue estimating the tax gap, while engaging with interested stakeholders, the Parliamentary Budget Officer and other external experts to further the Agency's work in this area.

The next tax gap report will focus on the corporate tax gap, which will allow the CRA to provide a comprehensive estimate of Canada's overall tax gap.

1. Introduction

The government is committed to maintaining and improving the fairness and integrity of the Canadian tax system, which requires that all Canadians pay their fair share of taxes. While a significant majority of Canadians do meet this standard, a small minority do not comply with their tax obligations. This reduces revenues needed to deliver programs and services and erodes the confidence of Canadians in the tax system.

In April 2016, the Minister of National Revenue committed to estimating Canada's tax gap to encourage an open and transparent discussion on tax compliance. The tax gap represents the difference between the taxes that would be paid if all obligations were fully met in all instances, and the tax actually paid and collected. As a tool, tax gap estimates, combined with other indicators of compliance and non-compliance, can provide tax administrations and governments with valuable insights into the general health of the tax system.

Acting on the ministerial commitment, the Canada Revenue Agency (CRA) has released three reports to date. A first report[3], published in June 2016, examined key considerations related to tax gap estimation and outlined different approaches taken by tax administrations in other countries. A second report[4], also released in June 2016, estimated the tax gap related to the Goods and Services Tax/Harmonized Sales Tax (GST/HST). It found that the GST/HST gap in 2014 was $4.9 billion in 2014, representing 7.1% of GST/HST revenues, of which the GST component was $2.9 billion.

A third report[5] was published in June 2017 and focused on domestic personal income tax (PIT) compliance using the indicators of "tax assured" and "tax gap". The report estimated the PIT gap, including an overall payment gap, at $8.7 billion in 2014, representing about 6.4% of PIT revenues. It also found that extensive third-party information reporting, in combination with other features of the tax system, contribute to a tax base that is largely assured or at low risk of non-compliance with minimal direct CRA intervention – 86% of income assessed in 2014 was considered assured.

Building on these publications, this report examines international non-compliance by individuals and entities closely linked to them. Estimating the extent of the tax loss from offshore activities or investments can be difficult given the unique challenges of detecting unreported foreign income, as well as the sometimes complex nature of the interrelated foreign and domestic aspects of taxpayers' situations. Countries that have experience calculating the tax gap have acknowledged the inherent difficulties of estimating the international component of the tax gap. The Swedish tax authority found that *"it is in the international area that there is the greatest uncertainty regarding the calculation of the tax gap"* and the Internal Revenue Service, while not separately publishing an international tax gap, emphasized that *"identifying hidden income within international activity is very difficult and time-consuming."* Despite these challenges, this report attempts to provide information on what the CRA knows about individual offshore non-compliance.

[3] Tax Gap in Canada: A conceptual study

[4] Estimating and Analyzing the Tax Gap Related to the Goods and Services Tax/Harmonized Sales Tax

[5] Tax Assured and Tax Gap for the Federal Personal Income Tax System

Ideally, as explained in the CRA's 2016 and 2017 tax gap papers, a bottom-up approach would be used to estimate the international component of the personal income tax gap. However, this requires audit data for a representative population and given the nature of international non-compliance, such a population is difficult to identify. As an alternate approach, using methods proposed by the academic literature, this report estimates the federal revenue loss due to hidden offshore investment income earned by Canadian residents to be between $0.8 billion and $3.0 billion for the 2014 tax year. Combined with the domestic PIT gap reported in the CRA's previous report, the PIT gap is estimated to be up to $11.7 billion in 2014, or 8.6% of PIT revenues.

This report emphasizes the increasing importance of the information gathered through foreign reporting requirements in support of the CRA's compliance activities and its efforts to reduce the international tax gap. According to the principal form for collecting information on foreign property held by Canadians (Form T1135), there has been a strong and sustained increase in the number of filers between 2004 and 2014, from about 80,000 rising to about 270,000. Results presented also show that while individuals represented the large majority of filers, corporations, trusts and partnerships accounted for most of the asset value and investment income reported. While Form T1135 data is information reported and known to the CRA, the analysis shows the level of detail and data coverage of Canadians' foreign assets now available to the CRA, and points to the potential contribution of other taxpayer types to the international investment income tax gap.

The report also examines internationally-focused risk-based audits of individuals, and the corporations and trusts closely linked to them, completed over a three-year period ending in 2016-17[6]. Overall, these audits resulted in about an additional $1 billion in assessed income and about $284 million in additional federal tax being identified, with individuals accounting for 23% of the additional federal tax assessed, corporations 66% and trusts the remaining 11%. Findings from these international risk-based audits, as well as the information gathered through foreign reporting requirements, underline the importance of taking a holistic approach to compliance, one that encompasses all entities related to an individual.

Major investments were announced in the last three federal budgets to allow the CRA to further limit tax evasion and avoidance. The complexity of international non-compliance by individuals demands that the CRA effectively leverage its information-gathering capabilities and partnerships, and strategically employ its data analytics. While corporations account for the large majority of CRA's compliance and audit results due to the potential magnitude of tax loss due to non-compliance, the CRA is gaining more knowledge and capacity to improve the detection of offshore individual non-compliance.

This report is organized as follows. Section 2 reviews foreign reporting obligations and presents foreign assets and income reported by Canadians. Section 3 analyses recently completed risk-based audits of individuals and entities closely linked to them, which have an international focus. Section 4 presents a range of estimates for Canada's offshore investment income tax gap. Section 5 highlights the CRA's key compliance initiatives including recent international data-sharing developments which are expected to help reduce the international tax gap. The conclusion of the study is presented in Section 6.

[6] Due to the nature of the audit files analyzed, this data could not be used to estimate an offshore tax gap.

2. Individual Foreign Reporting Obligations

Like many developed countries around the world, Canada's personal income tax system is based on self-assessment. Under such a model, individual taxpayers are responsible for ensuring the information they report on their tax returns is accurate and complete. Canadian-resident individuals are required to report all sources of income, including foreign sources of income.

Self-assessment systems are highly efficient. However, because they are susceptible to non-compliant behaviour, they require administrative controls. Non-compliance can range from honest mistakes in calculation to deliberate acts of tax evasion. To help mitigate these risks, the CRA strives to provide accessible client services and information products. In addition, Canada's self-assessment system is supported by withholding and instalment requirements, strong intelligence-gathering activities, and a robust risk-based approach to the identification of non-compliance. These features are described in box 1 below and in the CRA's previous report Tax Assured and Tax Gap for the Federal Personal Income Tax System[7].

Even with stringent controls in place to ensure individuals comply with tax laws, additional measures are needed to ensure that tax administrators can accurately determine and verify foreign income. To further strengthen Canada's self-assessment tax system, Canadians[8] have a number of tax and information-reporting obligations related to their international affairs. The reporting of this information is valuable to the CRA because it supports foreign income verification and the identification of potential compliance risks. In turn, this bolsters efforts to reduce the international tax gap that arises due to non-reporting of foreign income.

The following section discusses the main reporting obligations of Canadians with respect to foreign assets and income, with a particular focus on individuals, and provides a statistical analysis of the assets and income reported[9].

[7] http://www.cra-arc.gc.ca/gncy/tx-gp/fdrlprsnlncmtx-eng.html

[8] In general, "Canadians" in this report refers to Canadian residents.

[9] As reported on the Foreign Income Verification Statement T1135 and discussed in detail in the next sections.

Box 1: Features Supporting the Canadian Self-assessment Tax System

- ***Client services and information products:*** In order to assist clients, the CRA strives to provide timely and accurate information to taxpayers to help them meet their tax obligations and receive the benefits to which they are entitled. The CRA uses its website as its principal means of communication, while also using other channels such as social media, written communication, and call centres. The CRA also offers a free Liaison Officer service to owners of small unincorporated businesses to help them understand their tax obligations. This service is delivered through in-person visits and small group seminars.

- ***Third-party withholding and reporting/instalments:*** Income taxes are required to be withheld at source for certain forms of income in Canada, including employment and pension income, but withholding does not apply to many sources of foreign income. Income earned or capital gains realized on foreign assets held in Canadian brokers or Canadian trust companies may need to be reported to the CRA on T3, T5 and T5008 slips. The requirement for individuals to pay taxes by installment (generally the self-employed) applies equally to taxable income generated domestically and offshore.

- ***Use of technology:*** The CRA is continuously refining its capability to detect and address suspected non-compliance by employing new and innovative approaches. Using advanced analytics, the CRA can gather information from different sources to identify potential instances of non-compliance and to strategically deploy its resources for compliance follow-up. In the international context, the CRA reviews independent data sources and data on electronic funds transfers provided by financial institutions (details are provided in Section 5) and verifies this information against reported foreign income amounts. Sophisticated data techniques may sometimes be required to integrate data on Canadians' interests and activities outside the country into existing CRA systems for operational use and analysis.

- ***Risk-based compliance review:*** The CRA carries out a number of activities to assess risk of non-compliance and to select the most appropriate interventions to address a given type of risk. The CRA tries to employ the least intrusive and most efficient approach to encourage taxpayers to comply with their tax obligations. Coercive enforcement interventions are usually reserved only for those who have demonstrated their intention not to comply. This risk-based strategy also underlies the CRA's approach to audit interventions. Effective risk assessment helps to maintain the overall cost effectiveness of tax administration by allowing the CRA to focus the bulk of its resources on areas of greater risk. Section 5 provides an overview of the CRA's compliance strategy related to international non-compliance of individuals.

2.1 Foreign Reporting Obligations

In general, filing an Income Tax and Benefit Return[10] is a legal obligation for all Canadians who have tax payable in a given tax year. They are required to report their income from both domestic and foreign sources, including income from employment, investment, and self-employment, and they claim any deductions and tax credits to which they are entitled. Based on this information, Canadians are required to calculate the taxes that they owe, and it is determined if they are eligible for income-tested benefits such as the Canada Child Benefit, GST/HST Credit and the Working Income Tax Benefit. The Canadian personal income tax system is based on residency status. When the CRA determines an individual's residency status for tax purposes, the most important factor considered is whether the individual has residential and other significant ties with Canada. This is done on a case by case basis after taking into consideration all of the relevant facts[11].

In addition to reporting foreign income on their personal income tax return, individuals are required to report to the CRA separately on certain foreign assets, as well as their interests in certain foreign corporations and foreign trusts. The information reported supports the CRA's compliance activities that are aimed at identifying foreign income unreported by Canadians. An overview of the main foreign reporting forms used by individuals to report this information is discussed below.

2.1.1 Form T1135: Foreign Income Verification Statement

Canadians are generally required to file Form T1135 (called the Foreign Income Verification Statement) for "specified foreign property" they own if the total value[12] of their foreign property exceeded $100,000 at any point during the year. Specified foreign property is defined in subsection 233.3(1) of the *Income Tax Act* and examples are provided in box 2. Individuals, corporations, trusts and certain partnerships are required to report information on assets, unless the property is personal property or is used in carrying on an active business.

Form T1135 was introduced in 1999 in order to collect information on Canadians' foreign income and to gather basic descriptive information about the type and location of foreign property. The form has been modified in recent years, starting in 2013, to balance the CRA's need to collect information against the additional compliance burden placed on Canadians.

- In 2013, a detailed version of the form was first introduced. This new version required assets to be disclosed by property category (for example, shares from foreign corporations[13] or bank deposits held outside Canada) and for property values, income, and capital gains[14] to be provided for each asset disclosed. The financial institution and country in which the asset was held was also required to be reported on the form.

[10] The Income Tax Benefit Return for individuals will be referred to as the personal income tax return.

[11] Unless all significant ties with Canada are severed upon leaving the country, an individual will continue to be considered a factual resident of Canada. This means the individual will be subject to Canadian tax on his or her worldwide income. See Income Tax Folio S5-F1-C1, Determining an Individual's Residence Status for more details.

[12] With respect to Form T1135 information presented in this report, foreign property value can refer to different concepts as reported on the form:
1) for funds held outside Canada, it refers to total funds held at year end;
2) for property held in an account with a Canadian registered securities dealer, it refers to fair market value at year end, and
3) for all other Form T1135 property categories, it refers to the cost at year end.

[13] Non-resident corporations

[14] Capital gains includes both capital gains and capital losses.

- The CRA found that taxpayers had difficulties confirming all the details of their assets held by Canadian brokers. In 2014, an additional reporting category was added to ease the reporting burden of filers for their details of assets held by Canadian brokers, given the lesser risks associated with property held by a Canadian broker due to brokers' reporting requirements. From this year on, "assets held in a Canadian registered securities dealer" could be reported in aggregate. However, other foreign property still needed to be reported in detail[15].
- In 2015, CRA implemented further changes, allowing those with between $100,000 and $250,000 in foreign property to report on a simplified basis.

Penalties may apply if Canadians do not submit Form T1135 as and when required[16]. T1135 penalties were assessed on 10,040 taxpayers in fiscal year 2017-18, with total penalties amounting to $26.3 million.

T1135 filers for 2014 included 210,750 individuals, 45,970 corporations, 10,610 trusts and 1,580 partnerships. Detailed statistics on T1135 filers are presented in Section 2.2.

Box 2: Examples of Specified Foreign Property

- funds or intangible property (patents, copyrights, etc.) situated, deposited or held outside Canada,
- tangible property situated outside Canada,
- a share of the capital stock of a non-resident corporation,
- an interest in a non-resident trust that was acquired for consideration,
- an interest in a partnership that holds a specified foreign property unless the partnership is required to file Form T1135,
- a property that is convertible into, exchangeable for, or confers a right to acquire a property that is specified foreign property,
- a debt owed by a non-resident, including government and corporate bonds, debentures, mortgages, and notes receivable,
- an interest in a foreign insurance policy, and
- precious metals, gold certificates, and futures contracts held outside Canada.

Of note, foreign investments held in registered retirement savings plans, registered pension plans, tax-free savings accounts and in Canadian mutual funds are not specified foreign property.

2.1.2 Form T1134: Information Return Relating to Controlled and Not-controlled Foreign Affiliates

In general terms, a foreign affiliate is a foreign corporation that is at least 10% owned by a Canadian. A Canadian individual, corporation or trust is generally required to file Form T1134 to report interests that exceed $100,000 at any time in a given year. A filer submits Form T1134, and a separate T1134 supplement for each foreign affiliate. The form and supplement require Canadians to report information on organizational structure, financial information, the composition of revenue, as well as information about the reporting entity's ownership and involvement in the foreign affiliate. Additional information must be provided for "controlled" foreign affiliates, in which the Canadian owns a majority of shares.

T1134 filers for 2014 included 4,430 individuals, 11,800 corporations, 270 trusts and 400 partnerships.

[15] Form T1135 for 2014 is presented in Annex 2.

[16] See details at https://www.canada.ca/en/revenue-agency/services/tax/international-non-residents/information-been-moved/foreign-reporting/table-penalties.html.

2.1.3 Form T1141: Information Return in Respect of Contributions to Non-resident Trusts, Arrangements, or Entities

Form T1141 is filed by Canadians who are "contributors" and have transferred or loaned property to a non-resident trust, arrangement or entity. The form is designed to collect information about the trustees, settlors and beneficiaries of the trust, as well as contributions to and distributions from the trust.

T1141 filers for 2014 included 600 individuals, 250 corporations, and 20 trusts[17].

2.1.4 Form T1142: Information Return in Respect of Distributions from and Indebtedness to Non-resident Trusts

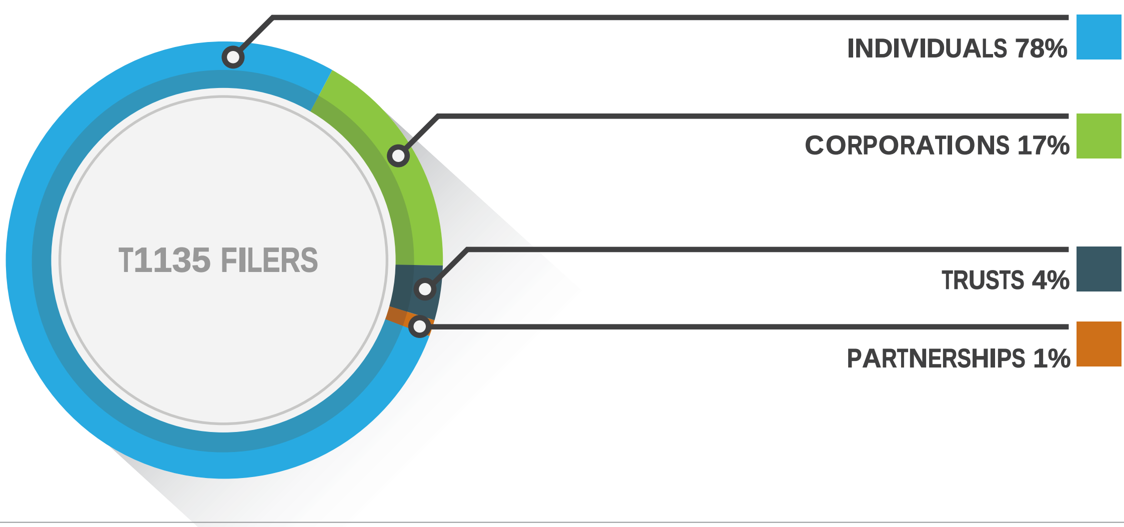
Form T1142 must be filed by Canadians who are beneficiaries of a non-resident trust and have received a distribution from or are indebted to a non-resident trust. The form collects information about the non-resident trust including its trustees, the amount of distributions received from the trust and the amount of debt owed to the trust.

T1142 filers for 2014 included 1,690 individuals, 60 corporations, 40 trusts and a small number of partnerships.

2.2 Statistics on T1135 Foreign Property and Income[18]

As noted in the previous section, the T1135 is the principal form used to collect information on foreign properties held by Canadian individuals and the income they earn from these assets. Figure 1 shows there were 268,910 T1135 filers in tax year 2014 (accounting for $429 billion in assets), with individual filers representing 78% of all T1135 filers, corporations accounting for 17%, trusts 4% and partnerships 1%.

FIGURE 1: T1135 Filers by Type of Taxpayer (2014) **TOTAL FILERS: 268,910**

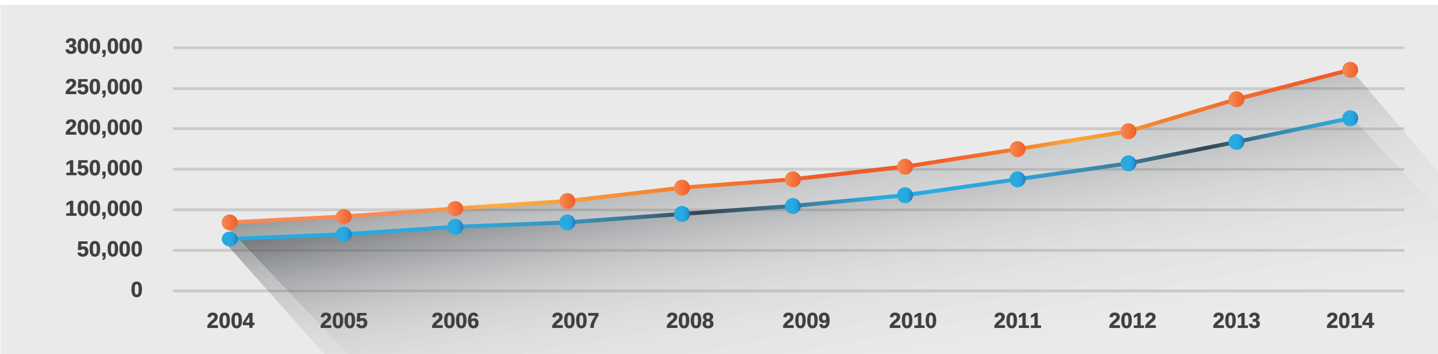


[17] Partnerships are not required to file Form T1141 because the partners are deemed to have jointly made any contributions made by the partnership. Therefore the reporting obligation falls on the partners (as individuals, corporations or trusts) if they are a resident of Canada.

[18] The statistics presented are based on T1135 data as of March 2018.

There has been a substantial and sustained increase in the number of T1135 filers between 2004 and 2014 (12.3% annualized) but the proportions by type of taxpayer (as represented in figure 1) has not changed significantly. The increase in the number of filers may in part be explained by increasing international capital flows and the fact that the $100,000 property threshold has not changed since 1999. The growth rate was particularly strong in 2013 (19.9%) and 2014 (14.1%). These strong growth rates suggest that the high-profile education campaigns conducted by the CRA on T1135 reporting requirements in 2013, along with the changes to the T1135 reassessment periods[19] and the detailed reporting requirements by asset announced in Budget 2013, likely had an impact on the number of filers.

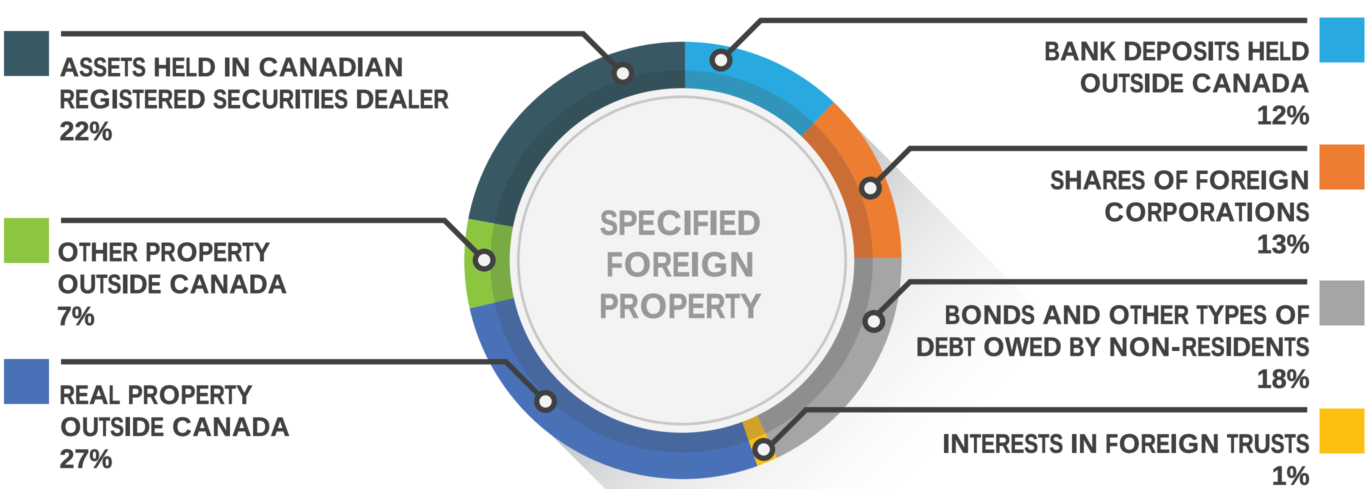
FIGURE 2: Number of T1135 Filers, 2004 to 2014



2.2.1 Results for Individuals

In the 2014 tax year, 210,750 individuals filed Form T1135 reporting offshore assets with a total value of approximately $160 billion. Although individuals represented 78% of the T1135 filing population, their share of the total value of assets reported was 37%. About 27% of the value of the assets reported by individuals was real property held outside of Canada and another 22% was in assets held in accounts with a Canadian registered securities dealer, including with Canadian trust companies (see figure 3), a portion of which is reported on slips to the CRA.

FIGURE 3: Specified Foreign Property by Property Category, 2014



[19] Extended by three years for taxpayers who fail to report income from their foreign property on their income tax return and fail to properly file their T1135 form.

Individuals also report income generated from foreign assets (for instance, dividends, interests) and capital gains[20]. In 2014, Canadians reported $2.7 billion in foreign income and capital gains of $3.3 billion. As illustrated in figure 4, the income generated from assets held in accounts with a Canadian registered securities dealer represented a third of all income, income from real property held outside of Canada accounted for 19% of the total, and income from shares of foreign corporations represented another 19%. The capital gains reported were predominantly from the sales of assets held in accounts with a Canadian registered securities dealer (53% of total capital gains) and shares of foreign corporations (33%).

FIGURE 4: Income and Capital Gains by Property Category, 2014

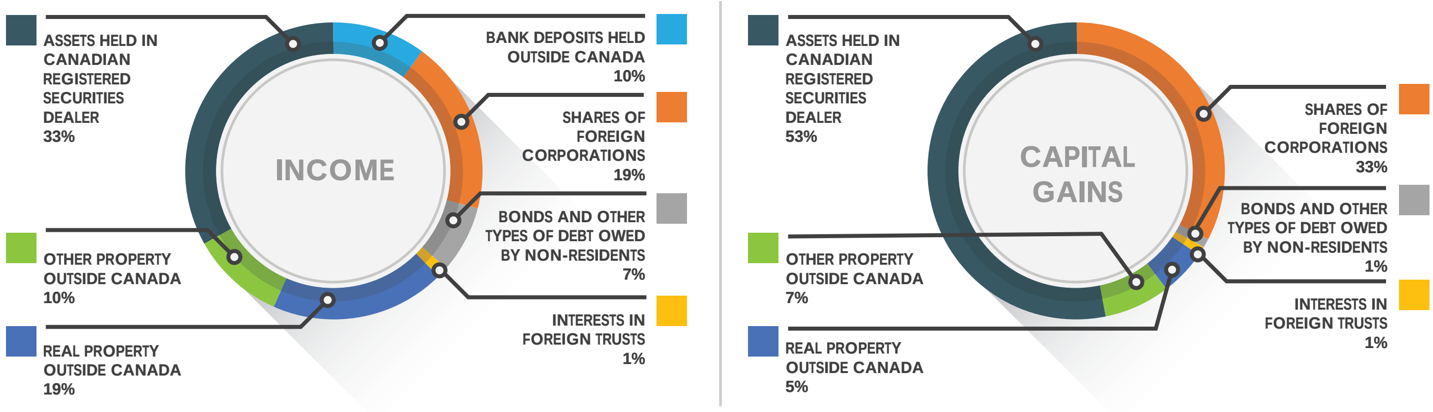


Table 1 presents the top geographic locations of reported T1135 foreign properties based on number of properties, the value of foreign assets, foreign income and capital gains. Each of the countries listed accounted for at least 1% of the total reported, and in sum, they accounted for more than 80% of totals reported.

TABLE 1:
Top Countries based on Number of Properties, Foreign Assets, Income and Capital Gains, 2014*

NUMBER		FOREIGN ASSETS		INCOME		CAPITAL GAINS	
US	44.4%	US	35.3%	US	57.5%	US	71.6%
China	7.6%	China	29.1%	China	8.6%	Switzerland	2.9%
UK	6.3%	South Korea	4.0%	UK	6.0%	UK	2.8%
Switzerland	3.3%	UK	3.0%	Switzerland	2.4%	China	2.2%
France	2.6%	Switzerland	2.3%	Hong Kong	1.9%	France	1.9%
Hong Kong	2.5%	Hong Kong	2.2%	France	1.8%	Australia	1.1%
Germany	2.2%	Iran	1.8%	South Korea	1.8%	Hong Kong	1.1%
Australia	2.0%	France	1.5%	Australia	1.8%	*Subtotal*	*83.6%*
Netherlands	1.9%	Taiwan	1.2%	Germany	1.5%		
South Korea	1.7%	*Subtotal*	*80.4%*	*Subtotal*	*83.3%*		
Ireland	1.6%						
Bermuda	1.5%						
Japan	1.4%						
Taiwan	1.3%						
Subtotal	*80.3%*						

**Countries where the share is at least 1% of the reported total.*
Due to confidentiality, the data for a small number of countries are excluded.

[20] Capital gains includes capital gains and capital losses.

The US led as the source country for foreign assets, income and capital gains, with China and the UK generally being more distant top countries. Due to the recent changes to the form (described previously), it is difficult to determine if country representation varies considerably over time. For example, prior to 2013, filers were only required to identify the top five regions overall (plus an "other" category) for their foreign properties. However, the dominance of US holdings appears to be a notable and enduring feature.

Tables 2 and 3 present a statistical analysis of T1135 filers by income group for 2014. T1135 filers are segmented into income groups based on the personal income they reported[21] and the thresholds for these groups are based on percentiles for the overall individual population. For instance, in the general individual population, an individual needed to report total personal income of at least $93,000 to be in the top 10% of individuals reporting income on the personal income tax return.

Table 2 presents T1135 filers as a share of the general population by income group for 2014. Overall, the total number of individuals filing Form T1135 and a personal income tax return in 2014 (210,320) represented only 0.7% of the entire individual tax filer population. However, the representation of T1135 filers increases significantly for higher-income groups. For example, while about 14% of the population in the top 1% income group filed Form T1135, that proportion increases to 32% for the top 0.1% and moves up to 47% for the top 0.01% income group.

TABLE 2: T1135 Filers and Personal Income Tax Filers by Income Group, 2014*

Income Groups		Tax Filers in Income Group[22]	T1135 Filers in Income Group	T1135 filers as a Share of Tax Filers (%)
Total Income Range	Percentile			
Below $93,000	Bottom 90%	25,622,660	110,090	0.4
At least $93,000	Top 10%	2,846,870	100,240	3.5
Total		28,469,530	210,320	0.7
TOP INCOME GROUPS:				
At least $245,000	Top 1%	284,700	38,860	13.7
At least $827,000	Top 0.1%	28,470	9,040	31.8
At least $3,189,000	Top 0.01%	2,850	1,320	46.5

**Figures may not add to total due to rounding.*

Table 3 presents a statistical analysis of the assets, income and capital gains reported by T1135 filers by income group for 2014. Key findings include:

- T1135 filers among the top 10% of income earners accounted for just under half of all T1135 individual filers and accounted for 45% of assets, 71% of income and 89% of the capital gains reported, and
- The relative value of foreign assets and the income generated from those assets increases substantially with total income.

[21] Total income as reported on line 150 of the personal income tax return for the 2014 tax year.

[22] This distribution differs slightly from the income distribution provided in T1 Final Statistics as the exact thresholds and cut-offs dates differ.

- T1135 filers in the top 1% accounted for about 18% of T1135 filers but accounted for about a quarter of the assets, 45% of income and 67% of capital gains.
- Those in the top 0.01% accounted for about 1% of T1135 filers but about 3% of the assets, 8% of foreign income and 16% of capital gains reported.

TABLE 3: T1135 Filers, Foreign Assets, Income and Capital Gains by Income Group, 2014*

Income Groups			As Share in Total (%)			
Total Income Range	Percentile	T1135 Filers (#)	T1135 Filers	Foreign Assets	Income	Capital Gains
Below $93,000	Bottom 90%	110,090	52	54	29	8
At least $93,000	Top 10%	100,240	48	45	71	89
Total		210,320**	100	100	100	96**
TOP INCOME GROUPS:						
At least $245,000	Top 1%	38,860	18	26	45	67
At least $827,000	Top 0.1%	9,040	4	10	21	37
At least $3,189,000	Top 0.01%	1,320	1	3	8	16

** The T1135 filers accounted for in this income distribution analysis only include those who also filed personal income tax returns. About 430 individuals were T1135 filers for 2014 but did not file a personal income tax return as of May 2018.*
***Figures may not add to total due to rounding.*

Table 4 presents an analysis of T1135 filers by gender, age and province of residence. It shows that T1135 filers are mostly men (55%), usually aged 45 or older (82%), and appear to be concentrated in the provinces of British Columbia and Ontario (69%). These attributes are in higher proportion than for the overall population.

TABLE 4: Demographic Profile of T1135 Filers, 2014*

	T1135 Filers	Overall Population
GENDER		
Men	54.7%	48.7%
Women	45.0%	51.0%
AGE		
Under 25	0.9%	12.2%
25-34	3.7%	16.9%
35-44	13.1%	16.2%
45-54	26.1%	17.9%
55-64	26.2%	16.4%
65+	29.9%	20.4%

	T1135 Filers	Overall Population
PROVINCE OR TERRITORY OF RESIDENCE		
Alberta	10.8%	11.3%
British Columbia	29.8%	13.3%
Manitoba	1.5%	3.5%
New Brunswick	0.8%	2.2%
Newfoundland and Labrador	0.3%	1.5%
Northwest Territories	0.0%	0.1%
Nova Scotia	1.2%	2.7%
Nunavut	0.0%	0.1%
Ontario	39.6%	37.7%
Prince Edward Island	0.3%	0.4%
Quebec	13.7%	23.2%
Saskatchewan	1.3%	3.0%
Yukon	0.1%	0.1%
Other**	0.5%	0.7%

**Figures do not sum to 100%.*
***Includes non-residents.*

2.2.2 Foreign Assets, Income and Capital Gains Reported by Corporations, Trusts and Partnerships

Although the focus of this study is on individuals and their foreign assets and income, there are a few notable differences between individuals and corporations, trusts and partnerships in foreign information reported. Firstly, corporations, trusts and partnerships account for large portions of the total foreign assets, income and capital gains reported by all T1135 filers. As well, it is important to evaluate the holdings of these entities to the extent that they are closely held by individuals, as this helps the CRA evaluate in a holistic way the financial and tax situation of individuals and their networks.

Although corporations, trusts and partnerships accounted for 22% of all T1135 filers in 2014, their share of the total value of foreign assets (63%), income (70%) and capital gains (75%) reported significantly outweighed their representation in terms of the number of filers (see tables 5 and 6 below).

TABLE 5: Number of T1135 Filers, Foreign Assets, Income and Capital Gains by Type of Filer, 2014*

	Number	Foreign Assets ($000s)	Income ($000s)	Capital Gains ($000s)
Individuals	210,750	159,607,989	2,692,518	3,340,217
Corporations	45,970	123,649,944	2,301,256	3,052,841
Trusts	10,610	110,327,990	2,970,433	5,987,126
Partnerships	1,580	35,907,381	1,083,236	791,859
TOTAL	**268,910**	**429,493,305**	**9,047,443**	**13,172,043**

**Figures may not add to total due to rounding.*

TABLE 6: Percentage of T1135 Filers, Foreign Assets, Income and Capital Gains by Type of Filer, 2014*

	Number	Foreign Assets	Income	Capital Gains
Individuals	78%	37%	30%	25%
Corporations	17%	29%	25%	23%
Trusts	4%	26%	33%	45%
Partnerships	1%	8%	12%	6%
TOTAL	**100%**	**100%**	**100%**	**100%**

**Figures may not add to total due to rounding.*

With respect to a further analysis of income amounts generated in 2014, most income for individuals and trusts was generated through assets held in Canadian registered securities dealers (33% and 80% respectively) whereas corporations earned most of their income from bonds and other types of debt owed by non-residents (35%), and partnerships saw most of their income amounts coming from other property outside of Canada (33%) (table A1.3 in Annex 1). In terms of capital gains, gains for all T1135 taxpayer types were reported to be realized mainly from disposing assets held with Canadian registered securities dealers in 2014 (table A1.3 in Annex 1).

In terms of geographic location, the US was the top location for the number of foreign properties reported by all types of filers, representing more than 50% of all foreign properties for all groups except individuals (44.4%)[23]. The UK was the geographic location with the second highest number of properties for T1135 forms filed by corporations and trusts (for individuals, it was China). However, Switzerland was the third most represented country for T1135 forms filed by corporations and trusts. See table 7 below for more information on the top three countries and Annex 1 (tables A1.1 and A1.2) for further details on corporations and trusts.

TABLE 7: Top Countries* based on Number of Properties and Foreign Assets by Type of Filer, 2014**

	Number of Properties Reported		Value of Foreign Assets	
	COUNTRY	%	COUNTRY	%
CORPORATIONS				
	US	65%	US	52%
	UK	5%	UK	6%
	Switzerland	2%	Netherlands	4%
TRUSTS				
	US	54%	US	38%
	UK	5%	Japan	7%
	Switzerland	3%	UK	7%

*Countries where the share is at least 1% of the reported total.
**Due to confidentiality, the data for some countries are excluded.

2.3 Conclusion

In today's globalized world, offshore entities and complex cross-border transactions can make it difficult for tax administrations to identify individuals' worldwide income or assets, and to distinguish between legitimate and non-compliant activities. Foreign reporting requirements are a vital tool used by many tax administrations to help identify and address offshore non-compliance.

This section has shown that Canadian individuals, as well as corporations and trusts, have significant foreign assets that can generate income and capital gains. The next section in this report presents cases of non-compliance found in recent international audits of individuals and of corporations and trusts closely related to them. Recent investments by the CRA to improve its ability to detect offshore non-compliance have included more detailed T1135 reporting as described here, increasing audits, leveraging new data sources and risk assessment tools, and implementing measures designed to increase cooperation with other tax administrations. Specific compliance activities are discussed in section 5.

[23] Due to confidentiality, the country data for partnerships is not presented in greater detail.

3. Internationally-focused Risk-Based Audits

To arrive at tax gap estimates, tax administrations often rely on data from within and outside their organizations. Bottom-up estimates use a tax administrator's internal administrative data to estimate the amount of taxes theoretically owing and are generally more reliable for estimating the tax gap for direct taxes like income tax. In general, bottom-up tax gap estimates involve measuring the non-compliance in a statistically representative sub-set of taxpayers, and then extrapolating to the overall taxpayer population to produce a tax gap estimate. Given the nature of international non-compliance, however, it is difficult to identify a representative sample and, indeed, the CRA's audit results cannot be used to produce an overall tax gap estimate.

This section discusses the results of recent internationally-focused audits of individuals and their related entities, even though these audits cannot be reliably used as a basis for a bottom-up international tax gap estimate. It explains these results in detail and in a transparent manner that is unique in the international context. Section 4 then presents a top-down approach to producing an international tax gap estimate.

The government is committed to maintaining and improving the fairness and integrity of the Canadian tax system and this requires that all Canadians pay their fair share of taxes. To support this priority, the CRA conducts over 100,000 audits annually of individuals, corporations, trusts and GST/HST registrants, covering domestic and international taxation issues. Internationally-focused audits are generally more complex than strictly domestic ones due to the unique challenges of detecting unreported foreign income. As well, the interrelated aspects of taxpayers' domestic and foreign situations can sometimes make an audit significantly more complex. In light of this, the CRA has created specialized teams with the mandate to develop, implement, and coordinate initiatives to focus on offshore non-compliance involving unreported foreign income and assets.

While other tax administrations may release tax details on audit design and the audit results used for their tax gap estimates (for instance, the US and Denmark), they do not attempt to separate the international component of these results[24].

This section examines the results from recent internationally-focused audits of individuals and entities linked to them that were completed between 2014-15 and 2016-17. Given that the international and domestic aspects of taxpayers' situations are often interwoven, however, the results related to the domestic component of audits could not be reported separately. As well, while reporting on these audit findings demonstrates CRA's efforts to uncover offshore non-compliance by individuals, due to the nature of the audit files analyzed, this data could not be used to estimate an offshore tax gap.

The findings of this section show that audits result in large adjustments to reported income and tax for individuals and, particularly, for their related entities. In terms of the overall amount of offshore potential tax loss, it is expected that this represents a small share relative to large corporations, which account for the bulk of the CRA's compliance activities. The CRA's next tax gap report will focus on corporations.

[24] It should be noted however that international non-compliance results were shared by Scandinavian countries with Alstadsæter et al. for the purposes of their academic work, which was published.

The audit results presented in this section reflect the resources devoted to combat individual offshore non-compliance up until 2016. Since then, the government has announced significant investments to enhance compliance measures related to individual offshore non-compliance. These investments will help to reduce the tax gap further by supporting the identification and deterrence of offshore non-compliance.

3.1 Scope

The audits analyzed in this section are drawn from the CRA's internationally-focused audit programs. These programs examine individuals and their related entities that are at high-risk of non-compliance. They cover high net worth individuals, activities related to offshore non-compliance, and international aggressive tax planning activities. The programs conduct their compliance activities based on an array of intelligence, including internal referrals and information, electronic fund transfers, leaks and other third-party sources.

The audits reviewed for this section were closed in 2014-15, 2015-16, and 2016-17 that involved at least one individual. These audits covered a total of 1,000 taxpayers, including 630 individuals, as well as 340 corporations and 30 trusts.

Of this population, as summarized in table 8 below, audit reassessments were issued for over 570 unique taxpayers: including 370 individuals, 200 corporations as well as a small number of trusts which cannot be disclosed due to low numbers. Overall, 1,950 audit reassessments were analyzed, covering tax years between 2004 and 2015[25] (reflecting the fact that there were, on average, three reassessments per taxpayer).

TABLE 8: Internationally-focused Audits of Individuals and Related Corporations (Cases Closed in 2014-15 to 2016-17)*

	INDIVIDUALS	CORPORATIONS	TOTAL
COUNTS			
	370	200	570
REASSESSMENTS			
	1,520	440	1,950

Figures may not add to total due to rounding.

[25] Due to data availability, only the audit reassessments made for tax years 2004 to 2015 were analyzed, which accounted for the large majority of audit reassessments.

Box 3: Fiscal Impact

The CRA generally reports on its compliance activities in terms of *fiscal impact*, which captures the most comprehensive impact of these activities. Fiscal impact consists of:

- Federal tax assessed,
- Provincial tax assessed,
- Tax refunds reduced,
- Interest and penalties, and
- Present value of future tax assessable arising from compliance actions.

It excludes the impact of appeals reversals and uncollectable amounts.

As this section is focused on identifying only the federal tax loss avoided as a result of internationally-focused audits, it uses changes to assessed federal tax (or re-assessed federal tax) to express the impact of international audits. As described above, this is only one component of fiscal impact.

3.2 Results of Internationally-focused Audit Cases Related to Individuals

Audit results can be reported in different ways. In the interest of presenting the most recent data possible, this analysis used audit cases that were closed in the three fiscal years ending in 2016-17 and examined changes made in audit that led to reassessments of taxpayers' income and taxes.

This section reports on two types of audit changes:

- **Income Changes:** changes to a taxpayer's assessed income[26], and
- **Re-assessed Tax:** changes to a taxpayer's assessed federal tax[27].

As shown in table 9, close to an additional $1 billion in income was assessed as a result of internationally-focused audits of individuals and their related corporations, with two-thirds of this income identified through audits of corporations linked to individuals and the other third identified through audits of individuals themselves. The average income change for corporations ($3.3 million) was more than three times that for individuals ($927,000).

These audits of individuals and their related corporations identified a total of $230 million in additional federal tax. Reassessed taxes due to audit were mainly found in the audits of corporations ($148 million or 64%), which was slightly less than double the reassessed taxes found in audits of individuals ($82 million or 36%). The tax reassessed due to audit represented 41% of overall tax assessed for the individuals and corporations audited. Average reassessed tax was about $225,000 per individual and about $755,000 per corporation.

[26] Line 150 of the personal income tax return and line 300 of the corporate income tax return.

[27] Line 420 of the personal income tax return and line 770 of the corporate income tax return.

TABLE 9: Results by Taxpayer Type*

	INDIVIDUALS	CORPORATIONS	TOTAL
INCOME CHANGES			
Total ($000s)	338,387	643,025	981,412
Average ($000s)	927	3,281	1,749
% of Income Assessed**	43	32	35
REASSESSED TAX			
Total ($000s)	82,226	147,903	230,129
Average ($000s)	225	755	410
% of Tax Assessed***	55	35	41

**Figures may not add to total due to rounding. Due to data availability, only the audit reassessments made to tax years 2004 to 2015 were analyzed, which accounted for the large majority of audit reassessments.*
***Income changes identified in audit as a portion of the taxpayer's last reassessed income.*
****The additional tax identified in audit as a portion of the taxpayer's last reassessed tax.*

Due to the low counts and reassessments related to trusts audited, specific counts cannot be presented. However, total reassessed taxes for trusts amounted to $31 million. Adding this to reassessed taxes for individuals and their related corporations results in a total of $261 million in reassessed taxes.

Once audits are completed, taxpayers may appeal the decisions or request[28] changes to their return to, for example, apply losses from other years to offset additional taxes generated by audits. Alternatively, there can be subsequent compliance activities undertaken by the CRA that may result in additional taxes. An analysis of post-audit tax changes, as of December 2017, found such changes were relatively small and amounted to about an additional 10% of taxes assessed due to audit ($23 million). Given the time elapsed since the last tax year analyzed (2015), it is unlikely that the reassessments resulting from international audits analyzed would be subject to further objections or appeals[29].

In sum, reassessed taxes resulting from audits examined in this section, including the impact of post-audit adjustments, totaled to $284 million.

3.3 Profile of Audited Individuals

The section examines the characteristics of the individuals that were audited. This demographic analysis is based on the characteristics of individuals in the year before they were first audited[30]. Based on this approach, as indicated in table 10, over half of individuals were between the ages of 45 and 64 the year before they were first audited. Audited individuals were mostly men (71%) and from Ontario, British Columbia, or Quebec[31].

[28] The *Income Tax Act* allows for taxpayers to request reassessment based on additional information that they submit.

[29] However, audited tax years may be subject to other taxpayer or CRA-initiated activities that could result in further reassessments.

[30] This means that the profiles of individuals are drawn from different tax years.

[31] The proportions indicated in the table are all larger than those that exist in the general population except for Ontario residents.

TABLE 10:
Demographic Profile of Audited Individuals, Year before First Tax Year Audited

AGE		GENDER		TOP PROVINCES OR TERRITORIES OF RESIDENCE	
Under 25	2.7%	Men	70.7%	Alberta	9.6%
25-34	9.9%	Women	29.3%	British Columbia	28.5%
35-44	21.4%			Ontario	29.0%
45-54	24.7%			Quebec	25.5%
55-64	25.5%				
65+	15.9%				

3.4 Conclusion

This analysis shows that these internationally-focused audits of individuals and their related entities resulted in significant income changes and additional reassessed taxes, particularly in corporations and trusts linked to individuals, even while covering a relatively small taxpayer population. Accounting for post-audit changes, the CRA identified about an additional $1 billion in income and a total of $284 million in additional federal tax, with individuals accounting for 23% of the additional federal tax assessed, corporations 66% and trusts the remaining 11%. These results, as well as those presented in Section 2, emphasize the importance of the holistic approach to audit that encompasses individuals and their related networks.

As the nature of these international individual audits conducted by the CRA means that they cannot be used as a basis for a bottom-up tax gap estimate for the purposes of this report, the next section presents a top-down approach to producing such an estimate.

4. Offshore Investment Income Tax Gap

Tax gap estimation is challenging because it requires assessing tax loss due to behaviours that cannot be directly observed and may be intentionally hidden. Indirect methods must therefore be used to estimate the tax loss that results from these behaviours. As discussed previously, ideally, non-compliance would be measured using a representative sample of a given taxpayer population that has been randomly selected and audited. This representative sample could then be extrapolated to a larger taxpayer population to produce well-grounded tax gap estimates (bottom-up approach). However, the nature of the international audits conducted by the CRA does not allow them to be used for a reliable bottom-up tax gap estimate (see section 3). This section presents an alternative approach to estimating the tax gap (top-down).

In the context of international tax non-compliance, it is particularly difficult to estimate the tax gap because this type of non-compliance implicates only a small portion of the population. As well, individuals engaging in this type of non-compliance can use sophisticated means to hide income and assets. In fact, random audits are unlikely to detect sizeable international non-compliance. It is for these reasons that tax administrations around the world have not been able to precisely measure international tax non-compliance. To overcome this limitation, academic studies have attempted to estimate international tax non-compliance through the use of various sources of available aggregate data (the top-down approach).

In recent years, there have been several key contributions to the academic literature on international tax non-compliance that are helping to increase the reliability of tax gap estimates using aggregate international data. In particular, the recent literature has adopted a more comprehensive approach based on a country-by-country analysis, which estimates hidden offshore wealth using global financial statistics and international banking data. In comparison, earlier studies typically extrapolated from data from a single country or a few tax havens to create an estimate of global hidden offshore wealth, and this approach led to less reliable results.

The methodology used to estimate the international component of the personal income tax gap presented in this report is based on the work of Zucman (2013 through 2017, which include publications with various co-authors[32]) and Pellegrini et al. (2016). Based on the method, federal tax loss due to hidden offshore investment income earned by Canadians on their foreign assets is estimated to be between $0.8 billion and $3.0 billion for the 2014 tax year.

Although the approach offered by the recent literature has increased the reliability of offshore tax gap estimates, the following caveats are worth noting:

- Like all top-down approaches, it is based on aggregate data rather than actual taxpayer-level information about non-compliant activities and is therefore limited in its insights on the particular circumstances of non-compliant individuals.
- The approaches proposed by Zucman and Pellegrini et al. are very similar, but they nevertheless involve differences in imputations and assumptions that affect their results. In order to account for the full range of assumptions in the literature, the federal tax loss related to hidden offshore investment income is presented in this study as a range.
- Due to data constraints, this analysis only estimates the offshore investment income tax gap related to income earned from bank accounts and securities, but not from other assets such as real estate, collectibles, or insurance plans. It also does not estimate the tax gap for non-investment income earned abroad (such as employment, self-employment and rental income).

The following subsections describe the scope of this analysis and the estimation methodology. Detailed information on the methodology and data used to calculate the tax gap are also presented in Annex 3.

4.1 Unreported Offshore Investment Income

Zucman (2015), Pellegrini et al. (2016) and Alstadsæter et al. (2017b) assume that portfolio investments and bank deposits are the most likely sources of offshore hidden assets, as they are passive investments and do not require much active management on the part of the investor to retain (meaning they can be easier to keep hidden). The analysis in this section follows the approach of these authors in which the offshore investment income tax gap represents taxes avoided on the income generated by hidden portfolio securities, including debt securities and equity securities, and bank deposits. Offshore investment income includes interest, dividends, and/or capital gains, all of which are taxable in Canada.

[32] Zucman (2013a), Johannesen and Zucman (2014), Zucman (2015), and Alstadsæter et al. (2017a and 2017b).

The approach adopted in this section estimates the investment income generated in a single tax year (that is, 2014) by the existing stock of unreported offshore assets in the previous year (in 2013). Of note, it should not be assumed that taxes are owed on the total stock of hidden offshore assets (in fact, even if this assumption were made, it would be difficult to attribute income used to purchase these assets to specific tax years). Canadians could have made these foreign investments with after-tax income. Similarly, immigrants to Canada may continue to hold foreign assets that they had purchased with income on which they had paid taxes to other countries or which they had inherited before moving to Canada. Also, the value of these assets could have increased over time because of reinvestment of income earned in prior years. The unreported investment income earned in those prior years would probably contribute to the tax gap for those prior years, and not for the 2014 tax year, which is the focus of this report.

It is not possible to differentiate between the portions of hidden offshore assets that existed in 2013 that were and were not subject to Canadian tax. As a result, this report focuses on the unreported investment income that would have been earned on these assets and would have been taxable in Canada for the 2014 tax year.

To estimate the unreported investment income earned by Canadians, the global stock of hidden offshore wealth is identified then adjusted for the Canadian share. Then, the income earned on this share is estimated. See box 4 below. Certain assumptions are made about rates of return and the proportion of the investment income that is not reported to the CRA. A detailed explanation about each of these steps is presented in Annex 3.

Based on this approach and assumptions used by Zucman (2015 and 2017), Pellegrini et al. (2016), and Alstadsæter et al. (2017b), the analysis estimates unreported investment income earned on hidden offshore wealth held by Canadians to be between $4.1 billion and $15.2 billion in 2014.

Box 4: Determining Unreported Offshore Investment Income Earned by Canadians

Step 1: Global stock of hidden offshore wealth

Zucman (2015), Pellegrini et al. (2016), and Alstadsæter et al. (2017b) estimate potential offshore wealth by using estimates of hidden portfolio securities, including debt securities and equity securities, and offshore bank deposits.

The value of hidden global offshore portfolio securities is estimated by calculating the differences between the declared assets and liabilities of countries published by national statistical agencies and compiled in International Monetary Fund (IMF) data and the External Wealth of Nations II database.

Offshore bank deposits are estimated using statistics from the Bank of International Settlements (BIS). The BIS publishes "locational banking statistics" that identify the amounts of deposits held in different countries and the country of residence of the depositors.

Using this methodology, the value of global hidden offshore wealth held by all countries in 2013 (hidden portfolio securities plus offshore bank deposits) was estimated to be between $6.3 trillion and $9.1 trillion*.

Step 2: Stock of hidden offshore wealth held by Canadians

The Canadian share of the global stock of hidden offshore wealth is approximated using proxy indicators, including the share of estimated Canadian offshore deposits (based on BIS data), the Canadian share of global GDP, and the Canadian proportion of reported securities ownership (based on available international financial position data). These shares range from 1.21% using comprehensive bilateral deposit data (Alstadsæter et al. 2017b) to 2.63% using Canadian-declared ownership of foreign securities (Pellegrini et al. 2016).

Based on these assumptions, the stock of hidden offshore wealth held by Canadians was estimated to be between $75.9 billion and $240.5 billion* in 2013.

Step 3: Investment income earned on wealth held by Canadians

Canadians are not taxed on their wealth, but are generally required to pay tax on investment income generated by this wealth. The academic literature estimates the investment income earned by the residents of a given country by applying a rate of return on the estimated amount of hidden offshore wealth owned by its residents. The rates of return assumed in this study are 1% for bank deposits (reflecting the low interest rate environment in 2014), 4.6% for debt securities, 2% for dividend income and 8% for realized capital gains (see Annex 3 for additional details). A proportion of the investment income earned on offshore securities and banking deposits is declared for tax purposes. Zucman (2015 and 2017, respectively) assumes that 20% or 25% of the offshore wealth found in tax havens is declared. Pellegrini et al. (2016) assume different rates for bank deposits (20-40% declared) and portfolio securities (10% declared).

This analysis incorporates all of these values for rates of return and reporting parameters when estimating the range of potential unreported investment income earned by Canadians. Based on these assumptions, the unreported investment income earned in tax year 2014 on hidden offshore wealth held by Canadians (at year-end in 2013) was estimated to be between $4.1 billion to $15.2 billion* in 2014.

**Amounts in Canadian dollars.*

4.2 Tax Gap Related to Unreported Offshore Investment Income Earned by Canadians

This section estimates a potential range for the tax gap related to unreported offshore investment income by applying a federal tax rate to the range of unreported income calculated in the previous section.

Following Alstadsæter et al. (2017a), it is assumed that the effective tax rate on unreported investment income is 29%, the highest federal statutory marginal tax rate for the 2014 tax year. The effective federal tax rate should also account for the tax treatment of capital gains, which reduces the effective rate on these gains by half to 14.5%. The effective tax rate for this analysis was about 20% once both the tax treatment of capital gains and its relative share of total investment income are taken into account[33].

The estimated federal tax gap associated with unreported offshore investment income earned by Canadian individuals ranges from $0.8 billion to $3.0 billion for 2014 depending on the assumptions used. This is equivalent to between 0.6% and 2.2% of personal income tax revenues and between 0.04% and 0.2% of GDP in 2014.

The relatively wide range of these tax gap estimates reflects their sensitivity to the assumptions used in their calculation. That said, the range of estimates do provide information on the general magnitude of non-compliance. Of particular note, assumptions to estimate the Canadian proportion of global offshore wealth accounts for most of the discrepancy between the high and low estimate. Uncertainty regarding country shares is an issue which academics have identified as a particular concern, as it can significantly impact the reliability of the estimate, especially given the use of shell companies and the contribution of illegal activity. To the extent that shell companies and wealth from illegal activity is less important for some countries, the amount of unreported offshore assets attributed to those countries, as well as the corresponding tax loss, may tend to be overstated.

4.3 Conclusion

The analysis in this section gives a sense of the potential magnitude of foregone tax revenues associated with the unreported offshore investment income earned by Canadians and builds on the work related to other key components of the personal income tax gap previously estimated by the CRA. Combined with the domestic personal income tax gap reported in last year's report ($8.7 billion in 2014), the personal income tax gap amounts to between $9.5 billion and $11.7 billion, or between 7.0% and 8.6% of personal income tax revenues.

[33] Canadians can claim a foreign tax credit against Canadian income tax payable if taxes were paid to a foreign government. For the purpose of this analysis, an offset from the foreign tax credit on the applicable tax rate was not assumed. To the extent taxes have been paid to a foreign government, the effective federal tax rate and associated tax gap would be lower.

5. CRA's Compliance Efforts

While Canadians are required by law to disclose their worldwide income and certain of their foreign assets to the CRA, some individuals conceal their income to avoid or evade paying the taxes they owe. The federal tax gap associated with unreported offshore investment income earned by Canadians is estimated to be between $0.8 and $3.0 billion for 2014. This raises important fairness issues given that there is likely a relatively small number of individuals involved.

It is recognized that tax evasion and tax avoidance have a serious financial cost for the government and all taxpayers. As a result, the Government of Canada has committed to reducing international tax non-compliance, including those behaviours that contribute to the tax gap estimates presented in this report.

To help combat tax evasion and aggressive tax avoidance, the Government made significant investments in the 2016, 2017 and 2018 federal budgets. These investments have allowed the CRA to continue expanding the tools it has to target wealthy individuals who try to avoid paying their fair share of tax and take resources away from the services that improve the quality of life of all Canadians.

More precisely, the CRA is identifying tax cheats by:

- hiring more auditors,
- using its underground economy specialist teams,
- increasing coverage of aggressive goods and service tax/harmonized sales tax planning,
- increasing coverage of wealthy individuals, and
- taking actions that target promoters of abusive tax schemes.

The complexity of international non-compliance by individuals demands that the CRA effectively leverage its information-gathering capabilities and partnerships, and strategically employ its data analytics. While corporations account for the large majority of CRA's compliance and audit results given the higher risk and magnitude of tax loss due to non-compliance, the CRA is gaining more knowledge and capacity to improve the detection of offshore individual non-compliance.

This section describes CRA's key compliance strategies and offshore compliance measures.

5.1 Offshore Compliance Strategies

The mandate of the CRA's offshore compliance programs is to develop, implement, and coordinate initiatives to address offshore non-compliance involving unreported foreign income and assets. In order to ensure that the tax system is responsive and fair, the CRA identifies offshore tax non-compliance through data collection and matching, analytics and information sharing with domestic and international partners. When non-compliance is identified, the CRA responds with appropriate action based on the assessed risk. This can include examinations, audits, penalties and referrals to criminal investigations when warranted and prosecution.

Collaboration with international partners is crucial to detecting and addressing those who are evading and avoiding paying their fair share of tax. Canada is working with its international partners at the Organisation for Economic Co-Operation and Development (OECD) and the OECD's Forum on Tax Administration, to promote international tax standards, reduce tax barriers, create better opportunities for Canadian businesses, increase transparency around global tax issues, and coordinate strategies that will ensure that individuals and multinationals are paying their fair share of tax.

In addition, the CRA is engaged in a number of bi-lateral and multi-lateral projects with the OECD, particularly the Task Force on Tax Crimes and Other Crimes and the Joint International Taskforce on Shared Intelligence and Collaboration (JITSIC). The JITSIC Network, which facilitates co-operation between 38 tax administrations to tackle international non-compliance, establishes a platform for increased exchange of information and coordinated case work (see box 5). Tax information exchange agreements build on this by enhancing international cooperation through regularized and formalized information exchange, whether automatic or spontaneous.

Box 5: Joint International Taskforce on Shared Intelligence and Collaboration

JITSIC began in 2004 as the Joint International Tax Shelter Information Centre, with Canada as one of the four founding members, and was influential in developing strategies for early identification and deterrence of offshore non-compliance. For example, JITSIC increased public awareness of civil and criminal risks associated with offshore non-compliance and investigated abusive tax schemes including cross-border financing arrangements, foreign tax credit generation, and exploitation of offshore trust structures.

Since revelations about the Panama Papers emerged in 2016, the 38 countries that make up the JITSIC Network have been collaborating, exchanging information, and sharing intelligence.

Members of the Network quickly analyze information, make links to local and international intelligence regarding taxpayers and advisors, and take appropriate compliance actions up to and including investigations and applying sanctions.

Members have tools to compare massive amounts of leaked data to other sources of information such as international electronic funds transfers, leads from concerned citizens, and other local law enforcement agencies.

Overall, the Panama Papers project laid the foundation for future collaborative work on many projects and potential leaks. The Agency continues to work with JITSIC to facilitate multilateral and bilateral exchanges of information relating to the Paradise Papers work, among other things, and JITSIC members met in March 2018.

5.2 Offshore Tax Informant Program

The Offshore Tax Informant Program (OTIP) is part of the Agency's many efforts to combat international tax evasion and aggressive tax avoidance. The OTIP allows the CRA to award payments to individuals who provide specific and credible information on major international tax non-compliance. A payment representing a percentage of the federal tax collected can be made to informants, under certain conditions.

New information received by the OTIP is producing additional intelligence which would not otherwise have been available to the CRA and is resulting in new audits and investigations. The OTIP draws on international best practices from across the globe. A number of member countries of the OECD also provide rewards for information regarding taxpayer non-compliance. The US Internal Revenue Service, for example, has a Whistleblower Office that rewards individuals who come forward with information on major cases of tax evasion. International tax non-compliance is a focus of all developed nations, particularly members of the G-20, and the CRA's actions to combat this non-compliance are part of this global effort.

From January 2014, which is when the OTIP was launched, to March 31, 2018, the OTIP has received over 1,200 informant calls, over 500 written submissions, and entered into 30 contracts with informants. The CRA has identified $29 million in additional federal taxes and penalties as a result of information received through the program. Also as of March 31, 2018, 380 taxpayers have been identified for offshore non-compliance audits based on information the Agency has received through this program, and of the 380 audits, approximately 75% are personal income tax returns.

Of the $29 million in additional taxes identified, 91% is from personal income tax returns. Corporate and trust returns are more complex and the audits of these will tend to take longer to complete.

5.3 Related Party Initiative

Offshore tax non-compliance can be particularly difficult to identify when a taxpayer owns unreported offshore assets through a complex web of corporations, trusts and partnerships. One major challenge from a compliance perspective is that a complex network of economic entities can serve a variety of legitimate business purposes, but it can also be used in complex transactions where non-compliance can be obscured. Distinguishing between the two can be a resource-intensive process requiring the triangulation of different sources of information and specialized analytical tools.

From a risk-assessment perspective, given the financial costs associated with establishing and maintaining a complex network of economic entities, wealthy individuals may have more opportunities to shelter income and assets through these entities or related parties. Their compliance risk can increase when other factors are present, including: a large number of income sources, access to sophisticated tax and legal advice, international mobility and issues of tax residency, and ownership of privately held corporations. As a result, the CRA has a dedicated program in place to address compliance issues associated with high net worth individuals and their related networks, which is called the Related Party Initiative (RPI). This program is part of the CRA’s overall strategy for addressing the tax compliance of the wealthy.

The RPI was launched in 2005 and scaled up in 2016 to identify and respond to high-risk compliance issues involving high net worth individuals and their related economic entities. As of the 2018-19 fiscal year, there are three risk assessment teams and 31 RPI audit teams nationally. The RPI strategy is divided into three main functions: identification, risk assessment, and compliance action. Identifying these individuals involves considerable research using both internal and external data sources, as taxpayers report income, not wealth, to the CRA. Once identified, research is conducted to build the group around the individuals, including associates and all related entities. After this research is completed, the groups are risk assessed and triaged for a review by an RPI audit team. Given the complexity of these groups, the RPI audit approach is a holistic approach. This means that an RPI audit is conducted by a team of auditors with a background in aggressive tax planning. Depending on the nature of the issues, additional resources such as international tax auditors may be involved, where needed.

Box 6: Individuals' Networks

A simple network may consist of an individual who owns a corporation that does business with another corporation in which the same individual has a majority interest. By contrast, a more complex network may involve a variety of entities around the world that conduct hundreds, if not thousands, of transactions.

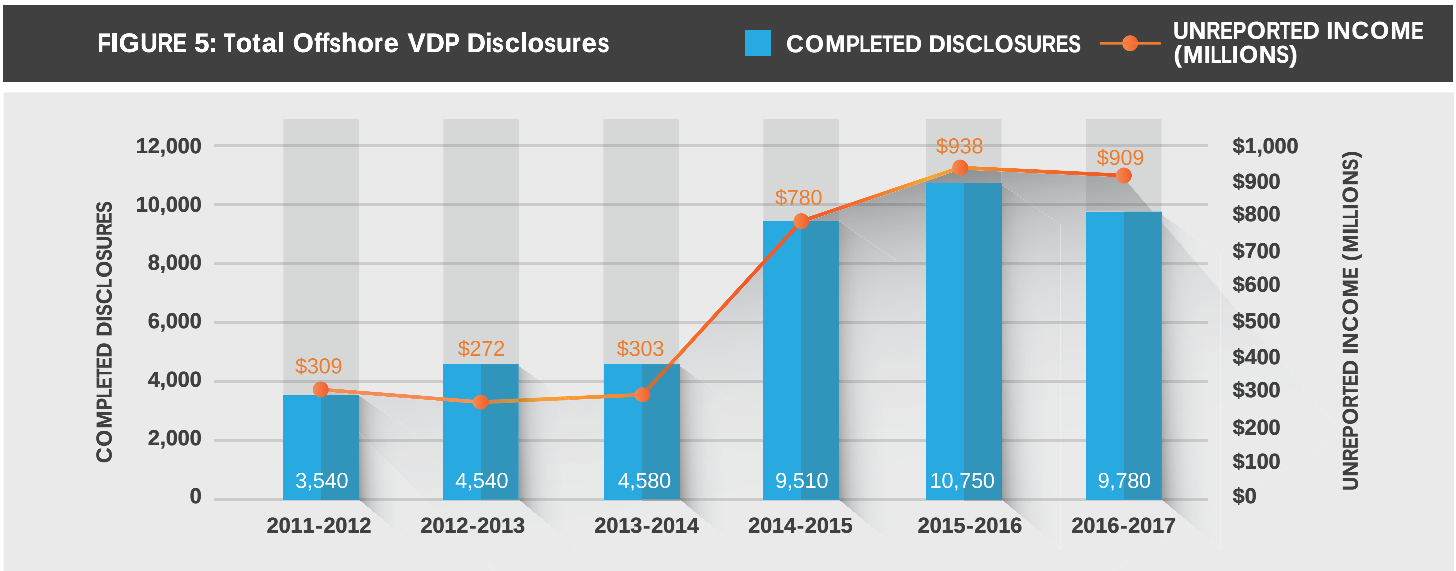
5.4 Voluntary Disclosures Program

The Voluntary Disclosures Program (VDP) was launched in 1970 and offers individuals a chance to correct inaccurate or incomplete information on a previously filed tax return or to disclose omitted information that should have been filed to the CRA. Taxpayers who make a valid disclosure have to pay outstanding taxes plus interest in part or in full. However, participating taxpayers are eligible for relief from prosecution and, in some cases, from penalties that they would otherwise be required to pay[34]. The VDP is intended to promote compliance with Canada's tax laws by encouraging taxpayers to voluntarily come forward to correct any previous errors or omissions including previously undisclosed income from international sources.

Over the last six years, many Canadians have used the VDP to disclose foreign income and/or assets. From 2011-12 to 2016-17, the number of completed offshore disclosures increased from 3,540 to 9,780 and the estimated unreported foreign income increased from $309 million to $909 million.

[34] Effective March 1, 2018, a VDP application must meet the following five conditions to be valid and to qualify for relief. The application must be voluntary, complete, involve the application or potential application of a penalty, include information that is at least one year past due, and include payment of the estimated tax owing.

FIGURE 5: Total Offshore VDP Disclosures



During 2011-12 to 2016-17, offshore disclosures made up an average of 43% of total VDP disclosures and unreported interest and dividend income accounted for 17% of foreign sources disclosed. Since 2013-14, a large percentage of offshore disclosures included information returns – in 2016-17, 65% of all offshore disclosures included the disclosure of previously unfiled information returns.

In general, the large business population accounts for a small percentage of both completed disclosures and unreported income disclosed.

In October 2016, the Standing Committee on Finance recommended that the CRA conduct a comprehensive review of the VDP. In addition, the Offshore Compliance Advisory Committee (OCAC), an independent expert advisory committee established by the Minister of National Revenue in April 2016, published a report on the VDP in December 2016. The report found the VDP to be an integral part of the CRA's strategy to identify and deter offshore non-compliance and provided recommendations to make the program more effective and fairer. As part of its review, the CRA considered the OCAC's recommendations and consulted with Canadians on the draft policy. The CRA released the final VDP policy in December 2017, which amends the eligibility criteria for the program and the potential relief available. Under the new VDP policy, there are two tracks for income tax disclosures. The Limited Program provides limited relief where the facts suggest that there is an element of intentional conduct. While these individuals may avoid criminal prosecution and gross negligence penalties, they will be charged other penalties and interest. In other cases, the General Program would generally apply. The revised VDP came into effect on March 1, 2018[35].

By making the relief offered through the VDP less generous in certain circumstances, the CRA anticipates that use of the VDP will decline, particularly for taxpayers who have engaged in aggressive offshore tax avoidance. The CRA is hiring more professionals and is modernizing the tools that help crack down on tax evasion and aggressive tax avoidance. In addition, other measures, such as improvements to CRA's business intelligence tools and new informational exchanges, are expected to assist in the detection and deterrence of non-compliance going forward.

[35] See additional details at this link:
https://www.canada.ca/en/revenue-agency/news/2017/12/backgrounder_-_voluntarydisclosuresprogram.html.

5.5 Electronic Funds Transfers

The CRA analyses the international electronic funds transfers (EFT) transaction information it has been receiving since January 2015 for transfers of $10,000 or more, as well as those to and from certain jurisdictions and financial institutions of concern (JOC). This, in combination with T1135 data discussed in section 2, data in CRA systems as well as third-party sources, help the CRA to better identify Canadians who may be participating in international aggressive tax avoidance or tax evasion and who may be attempting to conceal income and assets offshore.

As of March 31, 2018, the CRA had analyzed over 187,000 electronic funds transfers worth over $177 billion and had completed its review of eight JOCs. The CRA will continue to increase its coverage of other JOCs going forward with a public commitment to review four new JOCs for 2018-19.

5.6 Information Requirements regarding Unnamed Persons – Offshore Holdings

Information requirements regarding unnamed persons are another important part of the CRA's ongoing offshore audit and risk assessment work. The requirements are being used to identify taxpayers using offshore accounts associated with Canadian financial institutions or entities.

An unnamed requirement for information is a court authorized action that allows the CRA to challenge schemes designed to avoid paying or reporting tax on income. For example, the CRA can file an application in the courts for authorization to issue an unnamed persons requirement to a third party such as a domestic bank to identify the names of account holders who hold foreign assets or are involved in foreign financial transactions.

5.7 Common Reporting Standard

The Common Reporting Standard (CRS) was developed by the OECD as a new international standard for the automatic exchange of financial account information between tax administrations. Specifically, the CRS requires financial institutions in a given jurisdiction to report information on financial accounts held by non-resident individuals and entities (including those controlled by non-resident individuals) to the tax administration of their country of residence. Information such as the taxpayer's name, address, date of birth, account number, and account balance is then shared with other tax jurisdictions that have committed to the CRS. Over 100 jurisdictions around the world have committed to implement this new standard. The CRA will begin to receive offshore account information held by Canadians through the CRS in September 2018, which is expected to further improve its ability to identify and respond to offshore non-compliance.

The above compliance efforts highlighted in this section will continue to be instrumental in identifying offshore tax non-compliance and offer even greater promise for improving the CRA's knowledge and compliance strategies going forward. With the availability of enhanced data due to increased international co-operation and investments from the Government of Canada, the capacity to identify offshore non-compliance is expected to improve commensurately and bolster efforts to reduce the international component of the personal income tax gap.

6. Conclusion

This report examined personal income tax compliance in an international setting. It represents the fourth tax gap paper in the series and fulfills the government's commitment to report in an open and transparent manner, including by explaining the supporting methodology.

Section 2 of the report outlined the information on Canadians' foreign assets and income as reported to the CRA (based on Form T1135). The analysis showed the details on Canadians' foreign assets and the greater data coverage now available to the CRA in support of its efforts to reduce the contributions of both individuals and other taxpayer types to the international tax gap. For the 2014 tax year:

- About $429 billion in assets, $9.0 billion in foreign income and $13.2 billion in capital gains were reported,
- Although individuals were the majority of T1135 filers (78%), corporations, trusts and partnerships together reported the majority of the total value of foreign assets held, and the majority of income and capital gains declared by all T1135 filers, and
- Top countries where assets were held and foreign income was reported tended to be the US and the UK.

Section 3 analyzed internationally-focused audits of individuals and entities linked to them that were completed over a three-year period ending in 2016-17. As a result of these audits, about $1 billion in additional income was identified and 1,950 reassessments were issued. Overall, about $284 million in additional federal tax was identified, with individuals accounting for 23% of the additional federal tax assessed, corporations 66% and trusts the remaining 11%.

Reporting on these audit findings demonstrates CRA's efforts to uncover offshore non-compliance by individuals and represents the first time such information has been presented in detail. Overall, the analysis of these results emphasizes the importance of a holistic approach to audit that encompasses individuals and their related networks. Due to the nature of the audit files analyzed, however, this data could not be used to estimate an offshore tax gap.

Section 4 estimated Canada's offshore investment income tax gap using global financial statistics and international banking data. The approaches of academics in the literature who estimate undeclared offshore investment income were refined to reflect the Canadian situation to produce a range of estimates that captures a key component of the offshore individual tax gap.

- For the 2014 tax year, the estimated range of federal tax revenue loss due to hidden offshore investment income earned by Canadians on their foreign assets was between $0.8 billion to $3.0 billion.

Section 5 highlighted the CRA's key compliance programs and recent international data-sharing developments. These compliance efforts have been instrumental in identifying offshore tax non-compliance and will continue to reduce the international component of the tax gap with enhanced international co-operation and increased investments from the Government of Canada.

In summary, this report provides an in-depth analysis of the international component of the tax gap by examining what the CRA knows about Canadians' offshore assets and income, non-compliant individuals identified through risked-based audits, Canada's offshore investment income tax gap and the CRA's offshore compliance efforts. The findings from this report build on the CRA's previous tax gap publications and will help inform compliance and outreach efforts to further reduce Canada's tax gap.

Moving forward, the next tax gap reports will focus on tax non-compliance by small and medium-sized enterprises and large corporations to add to the understanding of the overall picture of non-compliance in Canada. Through an ongoing effort to understand different components of Canada's tax gap, the CRA will continue to preserve the integrity of the tax system and protect Canada's revenue base that supports programs and benefits that improve the quality of life of all Canadians.

Annex 1: Additional T1135 Statistics

TABLE A1.1: CORPORATIONS – Top Countries Based on Number of Properties, Foreign Assets, Income and Capital Gains, 2014*

NUMBER		FOREIGN ASSETS		INCOME		CAPITAL GAINS	
US	65.3%	US	52.0%	US	63.8%	US	77.3%
UK	4.6%	UK	5.7%	Netherlands	3.5%	UK	4.4%
Switzerland	2.1%	Netherlands	4.2%	Cayman Islands	2.4%	France	2.3%
Germany	1.9%	Germany	2.7%	UK	2.3%	Cayman Islands	1.7%
Japan	1.8%	*Subtotal*	*64.6%*	*Subtotal*	*72.0%*	Switzerland	1.4%
Netherlands	1.7%					Japan	1.0%
Australia	1.3%					*Subtotal*	*88.1%*
Bermuda	1.1%						
Subtotal	*79.9%*						

**Countries where the share is at least 1% of the reported total.*

Form T1135 permits filers to identify Canada as the country of their property, foreign assets, income or capital gains if the related property is held or received through a domestic broker. These amounts are small percentages of the totals and have been excluded from the above tables.

Due to confidentiality, the data for some countries are excluded.

TABLE A1.2: TRUSTS – Top Countries Based on Number of Properties, Foreign Assets, Income and Capital Gains, 2014*

NUMBER		FOREIGN ASSETS		INCOME		CAPITAL GAINS	
US	53.7%	US	38.1%	US	44.0%	US	50.7%
UK	5.3%	Japan	7.2%	UK	10.8%	Switzerland	6.2%
Switzerland	3.3%	UK	7.0%	Switzerland	3.2%	UK	5.3%
Ireland	2.4%	Germany	3.5%	Netherlands	2.9%	Japan	5.0%
Luxembourg	2.2%	Switzerland	3.1%	France	2.8%	France	2.5%
France	2.1%	*Subtotal*	*58.9%*	Japan	2.6%	Germany	2.3%
Germany	2.1%			Germany	2.6%	Ireland	1.9%
Japan	1.5%			*Subtotal*	*68.9%*	*Subtotal*	*73.9%*
Australia	1.4%						
Cayman Islands	1.2%						
Hong Kong	1.1%						
Subtotal	*76.1%*						

**Countries where the share is at least 1% of the reported total.*

Form T1135 permits filers to identify Canada as the country of their property, foreign assets, income or capital gains if the related property is held or received through a domestic broker. These amounts are small percentages of the totals and have been excluded from the above tables.

Due to confidentiality, the data for some countries are excluded.

TABLE A1.3: Distribution of Reported Assets, Income and Capital Gains on T1135 by Filer Type, 2014*

FOREIGN ASSETS

PROPERTY TYPE	INDIVIDUALS	CORPORATIONS	TRUSTS	PARTNERSHIPS
Bank deposits held outside Canada	12.2%	7.8%	0.7%	-
Shares of foreign corporations	13.0%	15.6%	-	23.7%
Bonds and other types of debt owed by non-residents	18.2%	29.6%	7.7%	24.8%
Interests in foreign trusts	1.2%	0.5%	-	-
Real property outside Canada	26.7%	3.0%	0.7%	10.8%
Other property outside Canada	6.4%	19.1%	3.1%	20.8%
Assets held in Canadian registered securities dealer	22.4%	24.3%	73.5%	14.5%
TOTAL	100%	100%	100%	100%

INCOME

PROPERTY TYPE	INDIVIDUALS	CORPORATIONS	TRUSTS	PARTNERSHIPS
Bank deposits held outside Canada	10.1%	4.2%	0.5%	-
Shares of foreign corporations	18.9%	20.9%	5.1%	15.8%
Bonds and other types of debt owed by non-residents	7.4%	34.6%	8.6%	32.6%
Interests in foreign trusts	1.2%	0.6%	0.3%	-
Real property outside Canada	19.3%	3.1%	0.3%	12.5%
Other property outside Canada	10.0%	7.6%	4.9%	33.3%
Assets held in Canadian registered securities dealer	33.1%	29.0%	80.4%	4.6%
TOTAL	100%	100%	100%	100%

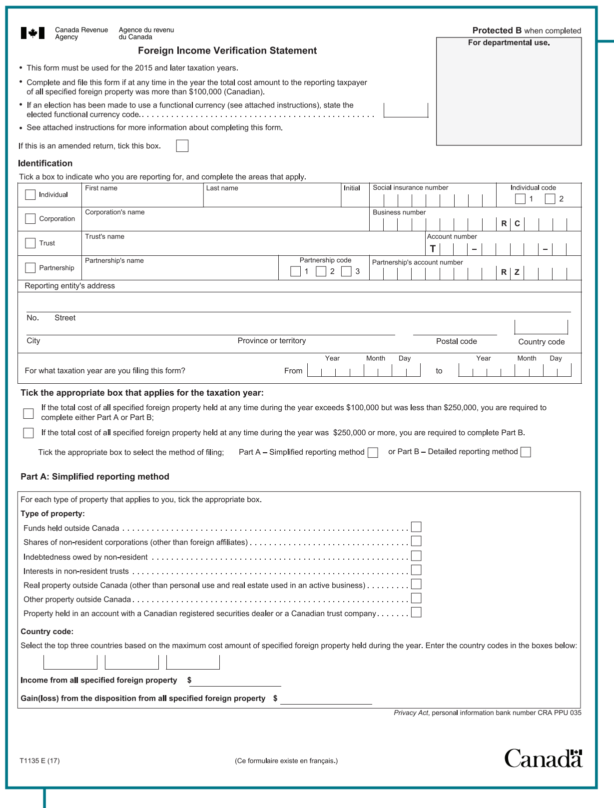
CAPITAL GAINS

PROPERTY TYPE	INDIVIDUALS	CORPORATIONS	TRUSTS	PARTNERSHIPS
Bank deposits held outside Canada	-	-	-	-
Shares of foreign corporations	32.9%	37.4%	5.9%	30.2%
Bonds and other types of debt owed by non-residents	1.2%	5.3%	0.1%	10.7%
Interests in foreign trusts	0.6%	0.5%	0.5%	-
Real property outside Canada	5.2%	2.5%	0.1%	-
Other property outside Canada	6.9%	10.3%	3.0%	12.3%
Assets held in Canadian registered securities dealer	53.2%	44.1%	90.5%	39.5%
TOTAL	100%	100%	100%	100%

**Due to confidentiality, some values are excluded.*

Annex 2: T1135 Form (2014)

T1135 2017 version can be found here:
https://www.canada.ca/content/dam/cra-arc/formspubs/pbg/t1135/t1135-17e.pdf



Canada Revenue Agency / Agence du revenu du Canada

Protected B when completed

For departmental use.

Foreign Income Verification Statement

- This form must be used for the 2015 and later taxation years.
- Complete and file this form if at any time in the year the total cost amount to the reporting taxpayer of all specified foreign property was more than $100,000 (Canadian).
- If an election has been made to use a functional currency (see attached instructions), state the elected functional currency code. . . . .
- See attached instructions for more information about completing this form.

If this is an amended return, tick this box. ☐

Identification

Tick a box to indicate who you are reporting for, and complete the areas that apply.

☐ Individual	First name	Last name	Initial	Social insurance number	Individual code ☐ 1 ☐ 2
☐ Corporation	Corporation's name			Business number R C	
☐ Trust	Trust's name			Account number T – –	
☐ Partnership	Partnership's name	Partnership code ☐ 1 ☐ 2 ☐ 3		Partnership's account number R Z	

Reporting entity's address

No. Street

City | Province or territory | Postal code | Country code

For what taxation year are you filing this form? From (Year Month Day) to (Year Month Day)

Tick the appropriate box that applies for the taxation year:

☐ If the total cost of all specified foreign property held at any time during the year exceeds $100,000 but was less than $250,000, you are required to complete either Part A or Part B;

☐ If the total cost of all specified foreign property held at any time during the year was $250,000 or more, you are required to complete Part B.

Tick the appropriate box to select the method of filing; Part A – Simplified reporting method ☐ or Part B – Detailed reporting method ☐

Part A: Simplified reporting method

For each type of property that applies to you, tick the appropriate box.

Type of property:

- Funds held outside Canada . . . . ☐
- Shares of non-resident corporations (other than foreign affiliates) . . . . ☐
- Indebtedness owed by non-resident . . . . ☐
- Interests in non-resident trusts . . . . ☐
- Real property outside Canada (other than personal use and real estate used in an active business) . . . . ☐
- Other property outside Canada . . . . ☐
- Property held in an account with a Canadian registered securities dealer or a Canadian trust company . . . . . . ☐

Country code:

Select the top three countries based on the maximum cost amount of specified foreign property held during the year. Enter the country codes in the boxes below:

Income from all specified foreign property $ ________

Gain(loss) from the disposition from all specified foreign property $ ________

Privacy Act, personal information bank number CRA PPU 035

T1135 E (17) (Ce formulaire existe en français.) Canada

For departmental use.

Foreign Income Verification Statement

- This form must be used for the 2014 and later taxation years.
- Complete and file this form if at any time in the year the total cost amount to the reporting taxpayer of all specified foreign property was more than $100,000 (Canadian).
- If an election has been made to use a functional currency (see attached instructions), state the elected functional currency code. . . . .
- See attached instructions for more information about completing this form.

If this is an amended return check this box. ☐

Identification

Check (✓) a box to indicate who you are reporting for, and complete the areas that apply

☐ Individual	First name	Last name	Initial	Social insurance number	Individual code ☐ 1 ☐ 2
☐ Corporation	Corporation's name			Business number (BN) R C	
☐ Trust	Trust's name			Account number T – –	
☐ Partnership	Partnership's name	Partnership code ☐ 1 ☐ 2 ☐ 3		Partnership's account number R Z	

Reporting taxpayer's address

Number | Street

City | Province or territory | Postal or zip code | Country code

For what taxation year are you filing this form? From Year Month Day to Year Month Day

Categories of specified foreign property

In each of the tables below, provide the required details of each specified foreign property held at any time during the particular tax year. If you need additional space, please attach a separate sheet of paper using the same format as the tables.

A taxpayer who held specified foreign property with a Canadian registered securities dealer or a Canadian trust company is permitted to report the aggregate amount, on a country by country basis, of all such property in Category 7, *Property held in an account with a Canadian registered securities dealer or a Canadian trust company*. See attached instructions for Category 7 for details as to how to report under this method.

1. Funds held outside Canada

Name of bank/other entity holding the funds	Country code	Maximum funds held during the year	Funds held at year end	Income (loss)
		Total		

2. Shares of non-resident corporations (other than foreign affiliates)

Name of corporation	Country code	Maximum cost amount during the year	Cost amount at year end	Income (loss)	Gain (loss) on disposition
		Total			

3. Indebtedness owed by non-resident

Description of indebtedness	Country code	Maximum cost amount during the year	Cost amount at year end	Income (loss)	Gain (loss) on disposition
		Total			

4. Interests in non-resident trusts

Name of trust	Country code	Maximum cost amount during the year	Cost amount at year end	Income received	Capital received	Gain (loss) on disposition
		Total				

5. Real property outside Canada (other than personal use and real estate used in an active business)

Description of property	Country code	Maximum cost amount during the year	Cost amount at year end	Income (loss)	Gain (loss) on disposition
		Total			

6. Other property outside Canada

Description of property	Country code	Maximum cost amount during the year	Cost amount at year end	Income (loss)	Gain (loss) on disposition
		Total			

7. Property held in an account with a Canadian registered securities dealer or a Canadian trust company

Name of registered security dealer/Canadian trust company	Country code	Maximum fair market value during the year	Fair market value at year end	Income (loss)	Gain (loss) on disposition
		Total			

Certification

I certify that the information given on this form is, to my knowledge, correct and complete, and fully discloses the reporting taxpayer's foreign property and related information.		If someone other than the taxpayer or the partnership prepared this form, provide their:	
Print name		Name	
Sign here (It is a serious offence to file a false statement.)		Address	
Position/title			
Telephone number	Date	Postal or zip code	Telephone number

Annex 3: Top-down Methodology for Estimating Offshore Investment Income Tax Gap

This annex outlines the methodology developed for the tax gap estimates presented in section 4. The methodology consisting of five steps (see figure A3.1) is based on the work of Zucman (2013 through 2017, which include publications with various co-authors[36]) and Pellegrini et al. (2016), who independently examined one key component of the international tax gap: the offshore investment income gap. This annex highlights how the approach was adapted to estimate the tax loss due to the unreported investment income earned offshore by Canadian-resident individuals.

FIGURE A3.1: Steps for Estimating Offshore Investment Income Tax Gap based on Literature

A3.1 Global Stock of Hidden Offshore Wealth

In order to estimate unreported offshore investment income for a given country, the literature begins by estimating the global stock of offshore wealth held by individuals[37] by adding together estimates of:

- Hidden global portfolio securities, and
- Offshore bank deposits.

Combined, the literature estimates these two asset types to total between US$6.0 trillion and $7.7 trillion globally.

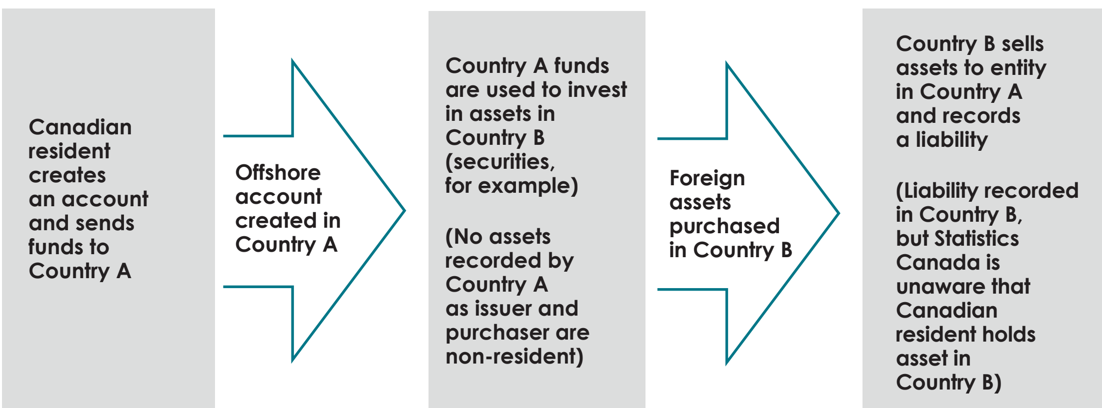
[36] Zucman (2013a), Johannesen and Zucman (2014), Zucman (2015), Alstadsæter et al. (2017a), and Alstadsæter et al. (2017b)
[37] Including those held through related entities like shell corporations.

A3.1.1 Hidden Global Securities

At the global level, there are discrepancies between countries' total declared assets and liabilities as compiled by national statistical agencies. Liabilities globally should equal assets, but global liabilities declared to statistical agencies actually exceed global assets. Given the high confidence in the liability estimate[38], and the fact that assets must equal liabilities on a global level, the gap between assets and liabilities is used by Zucman (2015) and Pellegrini et al. (2016) as a proxy for offshore securities that are not tracked by the government/jurisdiction where the owner is resident and is therefore at risk of being hidden from the government for tax purposes. While these discrepancies may be explained by other factors than hidden securities, including, for instance, statistical discrepancies, the authors note that a large portion of these discrepancies can be attributed to countries that have tax haven characteristics. Box A3.1 describes how these discrepancies can arise.

Box A3.1: Explaining Discrepancies in International Financial Statistics

When a country issues a security (such as a share, bond or mutual fund) and this is sold to an individual or company that does not reside in the issuing country, this is recorded as a liability in the issuing country but, in some cases, no country records a corresponding asset, as in the figure below.



Both Zucman (2015) and Pellegrini et al. (2016) used the International Monetary Fund (IMF) International Investment Position survey, the IMF Coordinated Portfolio Investment Survey, and the External Wealth of Nations II database as their data sources for external assets and liabilities data by country. Nonetheless, they differed in how they reconciled these data sources and how they filled the gaps for non-reporting countries using supplementary data. As a result, there are some differences between the authors' estimates of the global hidden securities, despite the similarity of their methods.

This paper uses the estimates of the total 2013 global wealth stock of hidden portfolio securities developed by Pellegrini et al. (2016) and Zucman (2015), respectively, of between US$4.9 trillion and US$6.2 trillion[39].

[38] Given that a jurisdiction is likely to have a relatively complete record of the main sources of liabilities created within its borders.

[39] Because this report combines the authors' estimated asset bases by component, the overall total of global offshore wealth estimated in this analysis has a slightly different range: US$4.8 billion to US$6.3 billion.

A3.1.2 Offshore Bank Deposits

The Bank of International Settlements (BIS) publishes "locational banking statistics" that break down the amount of deposits that are held in different countries by the country of residence of the depositors. Of note, however, is that in the BIS data, there is no distinction in these banking statistics between personal and corporate accounts, and an allocation between the two is assumed by the authors. Zucman (2013a and 2015) assumes that half of the deposits in tax havens are owned by individuals including entities closely linked to them (with the remainder being attributed to corporations), though analysis of Swiss deposits (Zucman and Johannesen 2014) and Isle of Man and the Channel Islands data (Bank of England) suggest that 50% could be an underestimate.

Pellegrini et al. (2016)'s estimates are based on the assumption that between one-third and two-thirds of offshore deposits are owned by individuals. At the high end, the authors support their estimate with data on deposits in Jersey, Guernsey and the Isle of Man (Bank of England data), Switzerland and Liechtenstein (Swiss National Bank data), as well as the Euro area (European Central Bank). However, some of this data relates only to domestic deposits; the proportion owned by individuals is likely lower in offshore deposits than domestic ones. The low-end estimate of one-third is based on data published by the Central Bank of Luxembourg.

The range of individual offshore bank deposits in this report based on BIS data are those of Pellegrini et al. (2016) and Johannesen and Zucman (2014), which range from US$1.1 trillion to US$2.3 trillion[40].

A3.2 Stock of Hidden Offshore Wealth Held by Canadians

% CANADIAN

Once the global stock of offshore deposits and hidden offshore securities is estimated for 2013, the next step in estimating the associated tax gap for Canada involves identifying the portion that belongs to Canadians.

The literature makes use of several different indicators as proxies for countries' shares of global offshore wealth. Zucman (2014, 2015) assumes that global hidden wealth is held in proportion to offshore bank deposits, similar to his work in Alstadsæter et al. (2017b), which leads to an estimated Canadian share of 1.21%. By contrast, Pellegrini et al. (2016) estimate national offshore wealth stocks by using countries' shares of global GDP, leading to an estimate for Canada of 2.40%, or, alternatively, by using the Canadian share of recorded portfolio investments, which implies a rate of 2.63%. Based on these assumptions, the stock of hidden offshore wealth held by Canadians could be between $75.9 billion and $240.5 billion (in Candian dollars) in 2013.

[40] The Johannesen and Zucman deposit data are used in Zucman (2015).

Box A3.2: Ultimate Ownership

BIS data are reported by national statistical agencies on the basis of the country of immediate rather than ultimate ownership. Shell companies therefore pose problems for the attribution of offshore wealth to their true owners. This means that Canadian residents holding deposits *through* offshore companies end up having these deposits being attributed to the countries where the offshore companies have been established, rather than Canada. Using an estimate of directly held wealth understates the true stock of wealth held by Canadians overseas. As a result, the literature uses various methods and assumptions to estimate amounts held indirectly through tax havens (for example, by allocating offshore deposits attributed to tax havens to other countries proportional to their share of global GDP; or by taking deposits attributed to tax havens and allocating them to other countries based on the deposits directly owned by residents of those countries in years that were thought to have significantly fewer shell companies).

A3.3 Investment Income Earned on Wealth Held by Canadians

% RETURN

To estimate an offshore investment income tax gap, it is necessary to identify an actual income flow. The literature estimates income flows for a given country's residents as a function of wealth stocks owned by its residents along with estimated rates of return. Pellegrini et al. (2016) create a range by reviewing the returns realized by the 25th and 75th percentile on bank deposits, equities, and debt securities, respectively, and thereby creating a lower and upper bound (of about 1-3%) for realized returns in each of these three asset classes. Pellegrini et al. do not include capital gains in the income estimates from equities, but rather use dividends and interest as the rate of return.

In contrast, Zucman (2015) applies an 8% rate of return on the US dollar denominated stock amount informed by various benchmark indices that attained returns in the 6-8% range.

For the analysis presented in section 4, rates of return were assumed for bank deposits (interest), debt securities (interest), and asset securities (dividends and capital gains).

1) Bank accounts were assumed to achieve a 1% annual rate of return, which is in line with the observations of Pellegrini et al. (2016), as well as the low-interest rate environment at that time[41].

2) For debt securities, a corporate bond weighted average interest rate calculated by the Internal Revenue Service to have averaged 4.60% in 2014 is used[42]. This index reflects long-term, investment grade US corporate bonds. It is possible that the actual investments held offshore by Canadians could have attracted higher yields (as would be expected on riskier bonds) or lower yields (as one might expect on short-term bonds). However, this index was used as a proxy for overall reasonable returns that could be expected on offshore investments in debt securities.

[41] Pellegrini et al. (2016) found 1% was an average return in 2013, and the analysis in this paper is in reference to 2014 returns; nonetheless, the interest rate environment was similar and a similar interest rate would be expected.

[42] https://www.irs.gov/retirement-plans/composite-corporate-bond-rate-table.

3) Realized dividends were assumed to amount to 2% of 2013 year-end asset security value; this is supported by S&P 500 Index data indicating that dividends paid in 2014 were equivalent to 2.13% of the 2013 year-end index price.

4) Capital gains generated by individuals' investments are particularly difficult to estimate because only *realized* capital gains are taxable. This means that an assumption must be made regarding the total gain on the investment portfolio as well as an assumption regarding how much of that gain is actually realized in a given year. In the absence of reliable economic or financial data on the realized capital gains on offshore assets, the particular assumptions used in this paper are that 10% of the asset securities held were originally invested in each year from 2005-2014, that the return on these investments are in line with the S&P 500 Index from the time invested, and that 20% of asset security holdings are sold at the end of 2014. These assumptions are consistent with a realized capital gain in 2014 equivalent to 8.0% of the 2013 year-end assets[43] and with assumptions used by the Office of the Parliamentary Budget Officer in a recent report[44].

A3.4 Investment Income Unreported by Canadians

% INVESTMENT INCOME UNREPORTED

For the current analysis, the reporting rates used for bank deposits are:

- 20% (consistent with Zucman 2015 and the upper-bound reporting rate estimate of Pellegrini et al. 2016),
- 25% (Alstadsæter et al. and Zucman 2017), and
- 40% (consistent with the lower-bound reporting rate estimate of Pellegrini et al. 2016).

For portfolio securities, the same assumptions of 20% and 25% reporting rates are used, as well as Pellegrini et al. (2016)'s lower-bound reporting estimate for portfolio securities of 10%.

In the absence of reliable underreporting rates on offshore investment income earned by Canadians, the aforementioned reporting rates were all incorporated into the current analysis for the applicable asset type.

A3.5 Effective Federal Tax Rate Applicable to Hidden Investment Income

TAX RATE

Calculating the true federal tax rate that would apply to unreported foreign income would require knowledge of the total income of the Canadians that hold hidden offshore wealth, and would also differ based on the particular investment income source (that is, capital gains, dividends, and interest).

[43] A sensitivity analysis on assumptions was conducted by testing other holding periods (5 and 10 years) as well as assuming other distributions of when assets were initially invested (equally distributed across years, normally distributed, skewed distributions and log-normal distributions).The results showed that the return rate was not highly sensitive to the assumptions chosen.

[44] Office of the Parliamentary Budget Officer. *The Tax-Free Savings Account*. 2015.

Zucman (2015) applies 33.8% to investment income regardless of the asset type. This rate represents an approximate combined federal and provincial dividend income tax rate for Canada[45], which is generally consistent with the net personal tax rate on dividend income paid out to shareholders by large Canadian controlled private corporations in 2014 (adjusted for the dividend tax credit). Alstadsæter et al. (2017a)'s analysis by contrast is based on Scandinavian data, which found that hidden offshore holdings were overwhelmingly owned by those in the highest marginal tax bracket.

The tax rate used for this analysis is the highest federal statutory marginal tax rate in tax year 2014 of 29% but adjusted for an analysis by asset type[46]. For instance, it is assumed that the highest marginal rate is applicable to foreign interest and dividend income. However, capital gains are subject to a 50% inclusion rate which reduces the effective rate on these gains to 14.5%.

Based on these estimated and assumed parameters explained above, a number of scenarios for tax loss estimates for the Canadian offshore investment income tax gap by type (asset) of offshore wealth was created. See table A3.1 for details. Using this approach, federal revenue loss due to unreported offshore investment income is estimated to be between $0.8 billion and $3.0 billion in 2014.

TABLE A3.1: Parameters and Steps for Estimating Offshore Investment Income Tax Loss (2014*)

	Bank accounts	Debt securities	Asset securities
Hidden global offshore wealth stock (billions US dollars) (2013)	$1,135 to $2,270	$1,750 to $1,894	$3,014 to $4,435
Hidden global offshore wealth stock (billions Canadian dollars)[47] (2013)	$1,207 to $2,414	$1,861 to $2,014	$3,206 to $4,717
% Canadian	1.21% to 2.63%	1.21% to 2.63%	1.21% to 2.63%
% Return	1%	4.6%	2% (dividends) 8% (capital gains)
% Unreported	60% to 80%	75% to 90%	75% to 90%
UNREPORTED INCOME (in billions)[48]	$0.1 to $0.55	$0.85 to $2.39	$3.2 to $12.2
Effective tax rate	29%	29%	29% (dividends) 14.5% (capital gains)
ESTIMATED TAX LOSS (in billions)	$0.03 to $0.16	$0.25 to $0.69	$0.55 to $2.13
TOTAL ESTIMATED TAX LOSS (in billions)		$0.8 to $3.0	

Unless specified otherwise.

[45] As reported in OECD Statistics.

[46] This analysis does not account for the effective tax rate of taxpayers which could be lower than the statutory rate if they had deductions, credits or losses from other years to apply. As well, the Quebec Abatement would reduce the federal tax rate by 16.5% for Quebec residents. In the absence of data on the share of Quebec residents of total hidden income unreported by Canadians, this was not taken into account.

[47] The year-end 2013 exchange rate of $1.0636 Canadian dollars per one US dollar is used for calculating global offshore wealth in Canadian dollars.

[48] The analysis is based on rates of return being realized on a US dollar-denominated wealth stock, resulting in US-denominated income in 2014, which is then converted into Canadian dollars (the year-end 2014 exchange rate of $1.1601 Canadian dollars per US dollar is used).

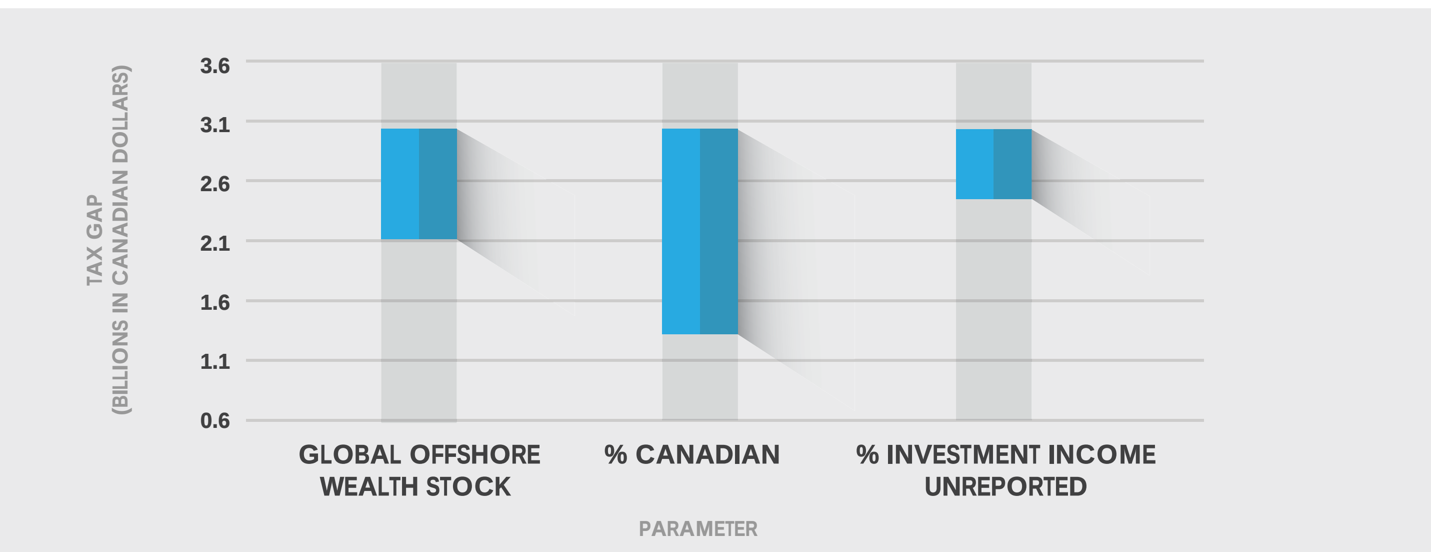
A3.6 Sensitivity Analysis

Section 4 uses the approaches and assumptions of academics in the literature to estimate undeclared offshore investment income in the Canadian context to produce a reliable range of tax gap estimates. The analysis presented benefits from a published methodology that has been refined by multiple authors, departing only on points that can be informed by data available to the CRA. Despite this approach representing a credible and transparent method for estimating the offshore investment income tax gap based on data available, it must be stressed that the estimate only indicates a magnitude of potential tax loss rather than a precise point estimate for tax year 2014.

It merits stressing that these tax loss estimates are very sensitive to the assumptions chosen. In general, an increase or decrease in any of the individual parameters (for instance, the Canadian portion of global hidden wealth or the appropriate tax rate) would increase or decrease the estimate of tax loss by the same proportion.

Figure A3.2 below shows how the maximum tax gap estimate is affected by the range of point estimates for the global offshore wealth stock, Canadian share of offshore wealth and percentage of investment income unreported[49]. For instance, assuming that Canada's share of offshore wealth is 2.63% of the global stock, holding all other parameters at their maximum, leads to an overall individual investment income tax gap of $3.0 billion, whereas assuming a 1.21% share leads to an estimate of $1.4 billion.

FIGURE A3.2: Sensitivity of Maximum Tax Gap Estimate by Parameter



[49] Assuming the maximum value of all other parameters.

Of note, the range of estimates for the Canadian proportion of global offshore wealth is larger than for all other parameters. This is also a parameter in which academics have expressed particular concerns about reliability, especially given the increasing use of shell companies over time and the contribution of illegal activity[50]. Zucman (2015) used an estimate of 3.74% as the Canadian share, which is three times larger than the 1.21% that was the basis of his co-authored Alstadsæter et al. (2017b) work. However, this 3.74% estimate was not used for the analysis in this report because the Alstadsæter et al. (2017b) work, which Zucman was involved in, was more reliable, being based on more detailed bilateral banking data becoming available and attributed on a direct national basis.

In fact, among the various parameters used in this analysis, it is perhaps the Canadian proportion of global offshore wealth that is most subject to error. This variance in estimates arises for two reasons: first, it is not obvious which estimate is the best proxy for allocating proportions to any given country and, second, because all allocations must add to 100%, any error in a single country's allocation will affect the others. These shares of offshore assets are also not adjusted for the proceeds of crime. However, there are no known data sources available at this time that could support a more precise estimate of these allocations.

One final note on the sensitivity of the analysis to specific parameters is that, in general, estimates are relatively insensitive to bank deposit-related parameters given their smaller portion of the estimated hidden asset base and income.

[50] See Zucman (2015) and Alstadsæter et al. (2017), for concerns regarding shell companies.

Glossary

TERM	DEFINITION
Appeal	A taxpayer who disagrees with a CRA Notice of Assessment can file a Notice of Objection with the CRA. The review of the Notice of Objection by the CRA will result in a reassessment, a confirmation or a determination. If the taxpayer does not agree with the CRA's answer, he or she may appeal to the Tax Court of Canada within 90 days. If the appeal proceeds to a court hearing, the appeal is resolved by having both parties appear in court to present their versions of the facts to a judge. The judge will then decide the appeal based on the evidence and arguments presented to the Court.
Assessed Federal Tax	Federal tax that is determined to be payable based on assessed income, indicated on individuals' Notice of Assessment or Reassessment. See Line 260 on the personal income tax return.
Assessed Income	An individual's reported income after any adjustments made by the CRA through assessment or reassessments. See Line 150 on the personal income tax return.
Audit	The examination of taxpayers' books and records to determine the taxes, interest and penalties payable under the law.
Bank of International Settlements (BIS)	An international financial organization that represents countries that make up about 95% of the global GDP. Its mission is to serve central banks in their pursuit of monetary and financial stability and to foster international cooperation.
Bottom-Up Methodology	Generally uses a tax administrator's internal taxpayer data to estimate the amount of taxes theoretically owing. Often, for tax gap purposes, a statistically representative sample of audits is used to estimate the rate of non-compliance, which is then extrapolated to the overall population to produce a tax gap estimate.
Canadian Resident	Individuals are Canadian residents for tax purposes if they maintain or establish residential ties to Canada.
Capital Gains	The total amount that is earned when capital property (for example, land, buildings, shares, bonds, and fund and trust units) is sold or transferred for proceeds that exceed its costs. The income inclusion for capital gains is calculated in Schedule 3 of the personal income tax return. A taxpayer can claim a capital loss when the sale price of the capital property is lower than its cost. However, capital losses cannot be claimed against other sources of income. See Schedule 3 and Line 127 of the personal income tax return.
Common Reporting Standard (CRS)	An OECD-led initiative that encourages the sharing of financial account information between tax administrations. As of 2018, 100 countries have signed an agreement to implement CRS. Countries will share the name, address, date and place of birth of non-resident taxpayers in addition to their account numbers, balances and financial institutions, with other tax jurisdictions that have committed to the CRS.

Dividends	Profits received from owning shares in a corporation. An individual can receive profits based on the shares they own. Under Canadian tax rules, there are three types of dividends: • Eligible: any taxable dividend paid after 2005 to a Canadian resident by a Canadian corporation that has been designated by that corporation as an eligible dividend, • Other than eligible: generally all other taxable dividends, and • Capital dividends: tax-free dividends that represent, generally, the untaxed portion of capital gains earned at the corporate level.
Electronic Funds Transfers (EFT)	An EFT is the transmission of instructions for the transfer of funds. Reporting entities must report international EFTs of $10,000 or more, and must also report two or more EFTs of less than $10,000 each when made within 24 consecutive hours by the same individual or entity.
Federal Foreign Tax Credit	If individuals pay foreign taxes on income received from outside Canada and report this on their tax return, they may be eligible for this tax credit. See Form T2209, Schedule 1 and Line 405 on the personal income tax return.
Federal Tax Loss	Federal tax revenue lost due to non-compliance by those who would otherwise owe taxes. Non-compliance can include not reporting taxable income, underreporting taxable income or not paying tax assessed in full and on time.
Foreign Affiliates	A foreign corporation that is at least 10% owned by a Canadian. See Form T1134.
Foreign Securities	Securities issued by foreign governments or companies. Income earned and capital gains from foreign securities can be taxed in both Canada and in the country where the security was issued.
Gross Domestic Product (GDP)	The total unduplicated value of the goods and services produced in the economic territory of a country or region during a given period. GDP reveals information about the size of an economy while the change in GDP from one period to another period indicates whether the economy is expanding or contracting.
Hidden Assets	Assets are considered hidden if the country whose resident holds an overseas asset is unaware of the asset holding.
High Net Worth Individuals (HNWIs)	Individuals who, either alone or together with associates, control a net worth of a certain minimum threshold. (See section 5.3 Related Party Initiative.)
IMF - The External Wealth of Nations Mark II	Published in 2006, this International Monetary Fund (IMF) publication estimates the external assets and liabilities for 145 countries for the period 1970-2004. The estimates rely heavily on the International Investment Position (IIP). Since not all countries report IIP on an annual basis, or countries joined after 1970, the missing years are imputed.

International Investment Position (IIP)	A statistical statement that shows, at a point in time, the value of offshore foreign assets and liabilities owned by residents of a particular country. Each country is responsible for evaluating its own IIP.
Investment Income	Investment income includes all amounts included in computing an individual's income in the year from property, including taxable amount of dividends, rental income, taxable capital gains, and interest and other investment income. See Schedule 4 and Lines 121, 126 and 127 on the personal income tax return.
Non-Resident (Individual)	A non-resident either: i) normally, customarily, or routinely lives in another country and is not considered a resident of Canada; OR ii) does not have significant residential ties in Canada; <u>and</u>, lives outside Canada throughout the tax year <u>or</u> stays in Canada for less than 183 days in the tax year. A deemed non-resident is an individual that is considered a resident of another country due to a tax treaty signed between that country and Canada.
Non-Resident Trust (NRT)	NRTs are trusts that are not factually residents of Canada and generally are not subject to Canadian taxation. However, distribution of income from an NRT to a Canadian resident beneficiary is fully taxable. In addition, an NRT can be deemed to be a resident trust under certain circumstances.
Offshore Assets	Assets held in foreign jurisdictions.
Offshore Investment Income	Income earned from investments located outside Canada. Canadian residents must report investment from both Canadian and foreign sources. See Schedule 4 and Line 121 on the personal income tax return and Form T1135.
Partnership	A partnership is the relationship that exists between persons carrying on a business in common with a view to profit.
Post-Audit Change	Following a reassessment due to audit, changes made to tax owed due to, for example, taxpayer requested reassessments or subsequent audits in respect of the same tax year.
Random Audit	Audit where the entity audited is selected based on a random and representative sample of the target population.
Rate of Return on Investment	Generally, the gain or loss on an investment over a specified time period, expressed as a percentage of the investment's cost. Gains on an investment is income received plus any capital gains realized on the sale of the investment.
Reassessed Taxes	When the CRA reviews already assessed tax returns and assesses a different amount of taxes owed by the taxpayer.
Related or Linked Entities	Economic entities, such as corporations or trusts, that have a close connection with an individual (for instance, an individual who owns a corporation).
Risk-based Audit	Audit where the entity audited is selected based on one or more risk factors determined by the tax administrator.

Securities	Tradable financial assets, including debt and equity securities. Debt securities (for instance, government bonds) are generally issued for a fixed term where the holder is entitled to the principal amount and interest income. Equity securities (for instance, stocks) are generally issued to signify an ownership position in a company and can provide dividend income. If securities are sold at a higher price than they were purchased, it may result in a capital gain.
Shell Corporation	A shell corporation serves as a vehicle for business transactions without itself having any significant assets or operations. In some cases, it passively owns the shares of another corporation. Shell corporations are also referred to as international business companies, personal investment companies, front companies, "mailbox" companies, or holding companies.
Stock of Offshore Wealth	For the purposes of this report, the stock of offshore wealth is composed of the total portfolio of securities and offshore bank deposits held outside of Canada by Canadian residents.
Tax Evasion	Tax evasion typically involves a taxpayer deliberately ignoring a specific part of the law for the purposes of reducing or eliminating tax liability, and where prosecution in a court of law determines the taxpayer to be criminally liable.
Tax Gap	The tax gap represents the difference between the taxes that would be paid if all obligations were fully met in all instances, and the tax actually paid and collected.
Tax Haven	A jurisdiction that offers favourable tax conditions to its taxpayers relative to other jurisdictions. Tax havens will often have strong secrecy or confidentiality laws to protect the identities of individuals, corporations and trusts who have assets held in their jurisdiction.
Tax Non-Compliance	Tax non-compliance is a broad term that encompasses revenue loss from tax evasion and other factors that contribute to the tax gap, such as taxpayer error and unpaid tax debt.
Tax Withholdings	Income taxes are required to be withheld from some sources of income in Canada including employment and pension income. The payer withholds an amount of income from each payment and remits it to the Government of Canada on the payee's behalf (for example, an employer withholds tax on an employee's pay).
Taxpayer-Initiated Reassessment	A taxpayer who disagrees with a CRA assessment, or who has additional information (for example, receipts, invoices) pertinent to their tax assessment, can request a reassessment.
Top-Down Methodology	Broadly speaking, top-down methodology uses non-tax external data to estimate the tax base and a theoretical value of tax that should be collected by applying the appropriate tax rates.

Trusts	A trust is a relationship where an individual or institution (trustee) has legal ownership, control and management of a property that is held for the benefit of another person or persons (beneficiary). A trust is a binding obligation, which may be created by a person, a court order or by way of law enacted by the legislative branch of a government.
Unnamed Persons Requirement	Under certain circumstances, the CRA can obtain information regarding third parties who are not under audit but have a relation with the party being audited. Judicial authorization is required. If judicial authorization is granted, the CRA can obtain information regarding the third parties and can audit them if needed.
Unreported Offshore Investment	Unreported investments held in foreign countries by Canadian residents.

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