

Overall federal tax gap report

Estimates and key findings for
non-compliance, tax years 2014 to 2022



Canada Revenue
Agency

Agence du revenu
du Canada

Canada

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Message from the Minister



It is my pleasure to present the second overall federal tax gap report of the Canada Revenue Agency (CRA). The report provides a comprehensive overview of potential tax non-compliance in Canada. The publication of this report supports the Government of Canada's ongoing commitment to encouraging an open and transparent discussion on tax non-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 that improve the quality of life for all Canadians.

The CRA is committed to ensuring the fairness of the tax system. As part of this commitment, tax gap research plays a key role in supporting the CRA's strategic analysis and data-driven decision-making.

Canadians aspire to live in a fair society. The majority of Canadians pay their fair share and we are committed to making sure that all taxpayers abide by tax laws. It is important that the CRA continue to maintain a fair tax and benefits system that ensures all Canadians access the benefits and credits to which they are entitled.

Looking ahead, the CRA will continue its work to better understand Canada's tax gap. The CRA will keep the lines of communication open with stakeholders and all Canadians as it makes progress in this important area.

The CRA will continue working with international and domestic stakeholders to ensure it is a world-class tax and benefits administration that is trusted, fair, and helpful.

Original signed

The Honourable François-Philippe Champagne, P.C., M.P.

Minister of Finance and National Revenue

Message from the Commissioner



I am pleased to present the second overall federal tax gap report of the Canada Revenue Agency (CRA). Tax gap measurement encourages an open and transparent discussion on tax non-compliance. It also helps the CRA better understand the tax gap, improve its compliance and collection activities in the long run, and protect the integrity of the tax system.

Since 2016, the CRA has had a dedicated team studying the tax gap. Canada has published reports for all major tax gap components including the first overall tax gap report. The overall tax gap report provides a comprehensive analysis of non-compliance across various tax revenues, offering valuable insights into compliance trends in the Canadian tax system. The second overall federal tax gap report contains the latest estimates for the 2014 to 2022 tax years. The report contains two new components - the payroll payment gap and the cannabis excise gap, as well as the impact of the COVID-19 pandemic on the federal tax gap.

Despite an increase in the gross tax gap as a percentage of tax revenue during and after the COVID-19 pandemic, with the CRA's compliance and collection efforts, the net tax gap remained stable. This reflects the CRA's continued efforts to address tax non-compliance and maintain effective tax collection measures, even in the face of unprecedented challenges.

The CRA remains dedicated to playing a central role in maintaining tax fairness by administering tax law and regulations impartially, conducting audits, and taking appropriate actions to foster trust and compliance among taxpayers.

The CRA is committed to estimating Canada's federal tax gap on an ongoing basis and to making this information publicly available. All data in this report is also available on the Open Government Portal to ensure easy access to this information.

Original signed

Bob Hamilton

Commissioner of the Canada Revenue Agency

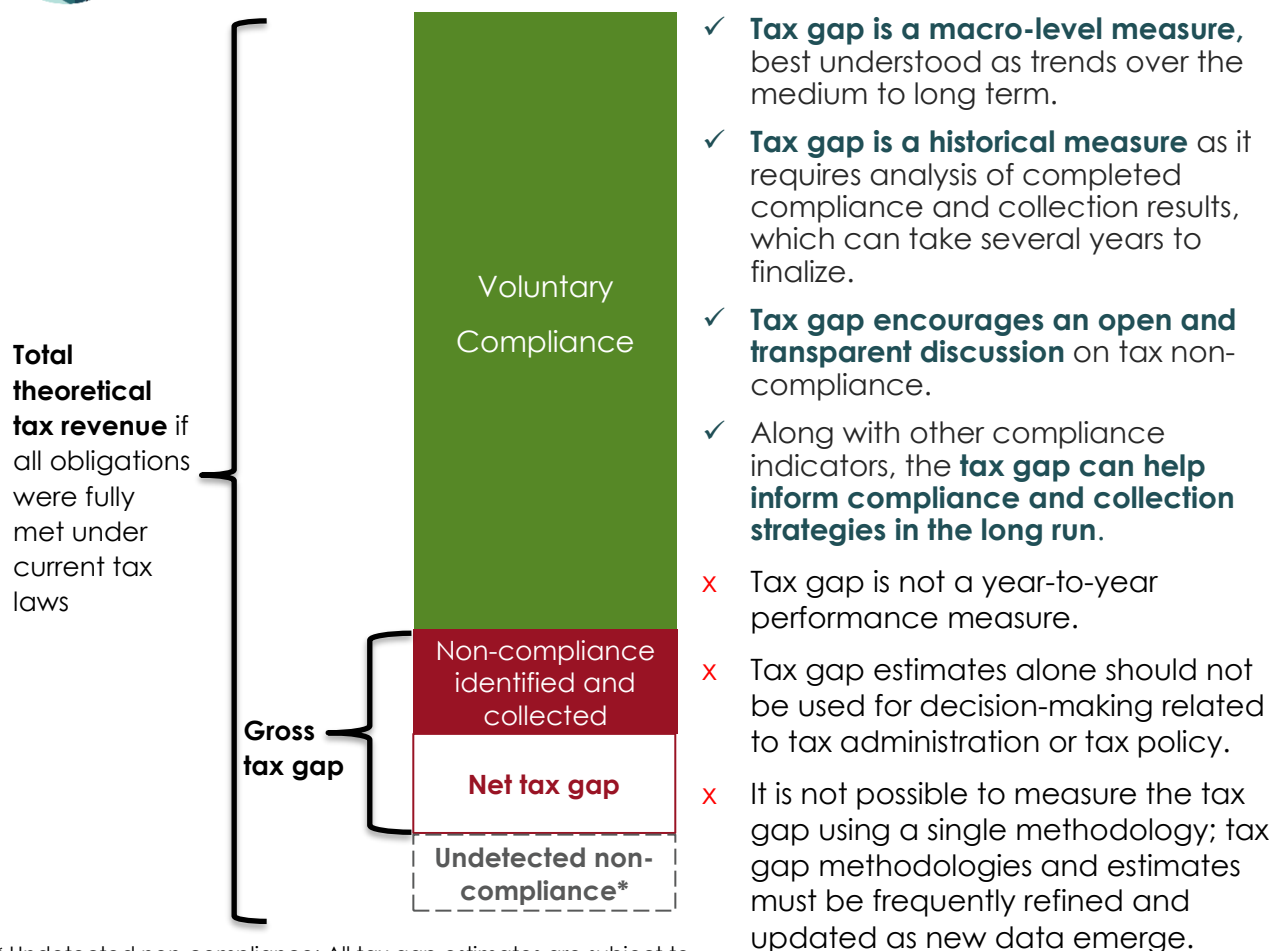
List of abbreviations

Acronym/Abbreviation	Definition
CARF	Crypto Asset Reporting Framework
CBSA	Canada Border Services Agency
CCHS	Canadian Community Health Survey
CCS	Canadian Cannabis Survey
CEBA	Canada Emergency Business Account
CERB	Canada Emergency Response Benefit
CERS	Canada Emergency Rent Subsidy
CESB	Canada Emergency Student Benefit
CEWS	Canada Emergency Wage Subsidy
CIT	Corporate Income Tax
CPP	Canada Pension Plan
CRA	Canada Revenue Agency
CRB	Canada Recovery Benefit
CRCB	Canada Recovery Caregiving Benefit
CRS	Common Reporting Standard
CRSB	Canada Recovery Sickness Benefit
CTS	Canada's Tobacco Strategy
CWLB	Canada Worker Lockdown Benefit
EI	Employment Insurance
FSM	Foreign Source Matching
GDP	Gross Domestic Product
GST	Goods and Services Tax
GST/HST	Goods and Services Tax / Harmonized Sales Tax
HST	Harmonized Sales Tax
NOA	Notice of Assessment
OECD	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
RCMP	Royal Canadian Mounted Police
SMEs	Small and Medium Enterprises
TIEAs	Tax Information Exchange Agreements
TWS	Temporary Wage Subsidy for Employers
TY	Tax Year
UE	Underground Economy
WHO	World Health Organization

1. Tax gap overview



Broadly defined, the **tax gap** is the difference between the taxes that would be paid if all obligations were fully met in all instances, and taxes that are reported and collected.



* Undetected non-compliance: All tax gap estimates are subject to varying degrees of uncertainty, and it is not possible to fully capture all non-compliance. The Canada Revenue Agency (CRA) studies the tax gap on an ongoing basis to improve methodologies and revise estimates based on the latest available data.

Although the tax gap is sometimes seen as a measure of tax evasion or fraud, the tax gap is the result of both intentional and unintentional actions. In addition, changes to tax rules and economic events can affect the tax gap. For example, simplification of the tax system can improve reporting compliance, while increased bankruptcies during a recession can make payment compliance worse. This means that not every dollar of the tax gap can be collected and as a result, the **tax gap is unlikely to ever be zero.**

The **impact of CRA's compliance and collection actions** can take multiple years to be fully completed, especially for complex cases. Since there could still be ongoing CRA's activities for some tax years, the results of these activities were projected to show the full impact if historical trends hold. As more data become available, all estimates will be reviewed and updated.

Tax gap estimates, considered along with other information and intelligence on non-compliance, can provide insight into the overall health of the tax system and estimate the level of non-compliance with tax laws. However, the tax gap is **not an appropriate measure to set specific performance targets because:**

- Tax gap estimates are an **evolving measure** because they need to be revised on an ongoing basis based on new data or improvements in tax gap methodologies.
- Tax gap estimates are a **historical measure** as they involve analyzing historical data such as compliance and collection activities that can take multiple years to complete.
- Fluctuations in the tax gap **are not fully under the control of the CRA**. For example, increases in the tax gap could be due to changes in the economy or the tax system.

1.1. Value of tax gap research

Tax gap measurement encourages an open and transparent discussion on tax non-compliance. In addition, a more insightful understanding of the tax gap can help the CRA better target its compliance and collections activities. 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 that improve the quality of life for all Canadians.

1.2. What is new?

Since 2016, the CRA has published a series of reports analyzing different components of the federal tax gap. In 2022, the first overall federal tax gap report brought together all previously published tax gap components with updated estimates and key findings for tax years from 2014 to 2018.

This edition of the overall federal tax gap report contains:

- **two new subcomponents** – payroll payment gap and cannabis excise gap;
- **updated estimates for tax years 2014 to 2022** based on the latest available data (the data for this report was updated as of January 2025 and for the PIT gap related to the underground economy as of March 2025);
- **the impact of the COVID-19 pandemic¹** on the federal tax gap.

This report includes “**Tax gap estimates at a glance**” (a high-level summary of key estimates and findings for each component) and “**Detailed tax gap findings by tax gap components**” (further details on each tax gap component).

In addition to this overall tax gap report, there is a supporting document called “[Tax gap methodological annex](#)” on Canada.ca. This document contains more technical details related to the methods used to estimate the different components of the federal tax gap. It also includes key methodological updates made since the last publication in 2022.

¹ The timing of the pandemic impact could be different for various components. In addition, in 2020 and 2021, the CRA implemented several emergency measures and recovery benefits to help Canadians and businesses facing hardship because of the COVID-19 pandemic. Given the temporary nature of these benefits, and in line with current international practices, non-compliance related to emergency benefits is not covered in this publication. The CRA has [reported](#) on emergency benefits directly to Parliament.

2. Tax gap estimates at a glance²

The COVID-19 pandemic was a disruptive force to the Canadian tax system. However, the CRA's compliance and collection efforts are playing a key role in putting downward pressure on the tax gap. The net tax gap is projected to be 9.3% of the federal tax revenue or \$34.7 billion, which is a potential reduction of 42% of the overall tax gap for tax year 2022.

An overarching summary by tax gap components can be found in the following pages (for example, refer to Figure 1) and the annex (for example, refer to Table A.1).

Key findings include:

- The corporate income tax (CIT) gap as a percentage of the CIT revenue has decreased, especially for the reporting gap for small and medium enterprises (SMEs) and payment gap for corporations, indicating a lower level of non-compliance in recent years (tax years 2019 to 2022).
- The risk of the offshore tax gap increased during the early stages of the pandemic (tax years 2019 to 2021). However, offshore reporting is getting better due to international information sharing agreements and this information exchange can reduce the risk of the tax gap.
- The tax gap related to the underground economy decreased during the pandemic (tax years 2020 and 2021), but it remained a consistent aspect of the personal income tax (PIT) gap. That said, the majority of Canadians and Canadian businesses are compliant and pay the correct amount of tax. This is consistent with the findings of this report, which shows that the tax gap related to the underground economy represents around 5% of federal PIT revenue.
- The reporting excise gap related to cannabis has decreased and is expected to continue declining over time due to the reductions in the illegal cannabis market.

² All numbers in this report are in 2022 "constant dollars." This concept allows to compare amounts for multiple years in terms of their values ("purchasing power") in a single year or base year. This type of adjustment is done to eliminate the impact of price changes or inflation (Source: [Analytical concepts \[statcan.gc.ca\]](https://www150.statcan.gc.ca/n1/pub/92-621-x/2018001/article/00001-eng.htm)). Previous [overall tax gap report \(2022\)](#) used 2018 as the base year, and the current report uses 2022 as the base year; thus, the numbers cannot be compared directly. For comparison of multiple tax years, refer to the [Annex](#).

2.1. Overall tax gap

In tax year 2022, the gross tax gap was 16% of the federal tax revenue³ or \$59.5 billion.

The CRA's compliance and collection efforts are playing a key role in putting downward pressure on the tax gap. If historical trends hold, the net tax gap would be **9.3%** of the federal tax revenue or **\$34.7 billion**. This is a potential reduction of the overall gross tax gap by **42%**.

Key findings

The COVID-19 pandemic was a disruptive force for the Canadian tax system. The gross tax gap increased in tax year 2020, reaching 16.5% of federal tax revenue. Although the gross tax gap decreased to 16.0% by tax year 2022, it remains elevated compared to the pre-pandemic period (tax years before 2020).

► The **reporting tax gap**, when taxpayers fail to provide complete or accurate information on their tax returns by under-reporting income or claiming deductions or credits to which they are not entitled, accounted for 72% of the gross tax gap. The CIT gap was the largest component.

► The **payment tax gap**, when assessed taxes are not fully paid by the payment deadline, accounted for 28% of the gross tax gap. The personal income tax (PIT) gap was the largest component.

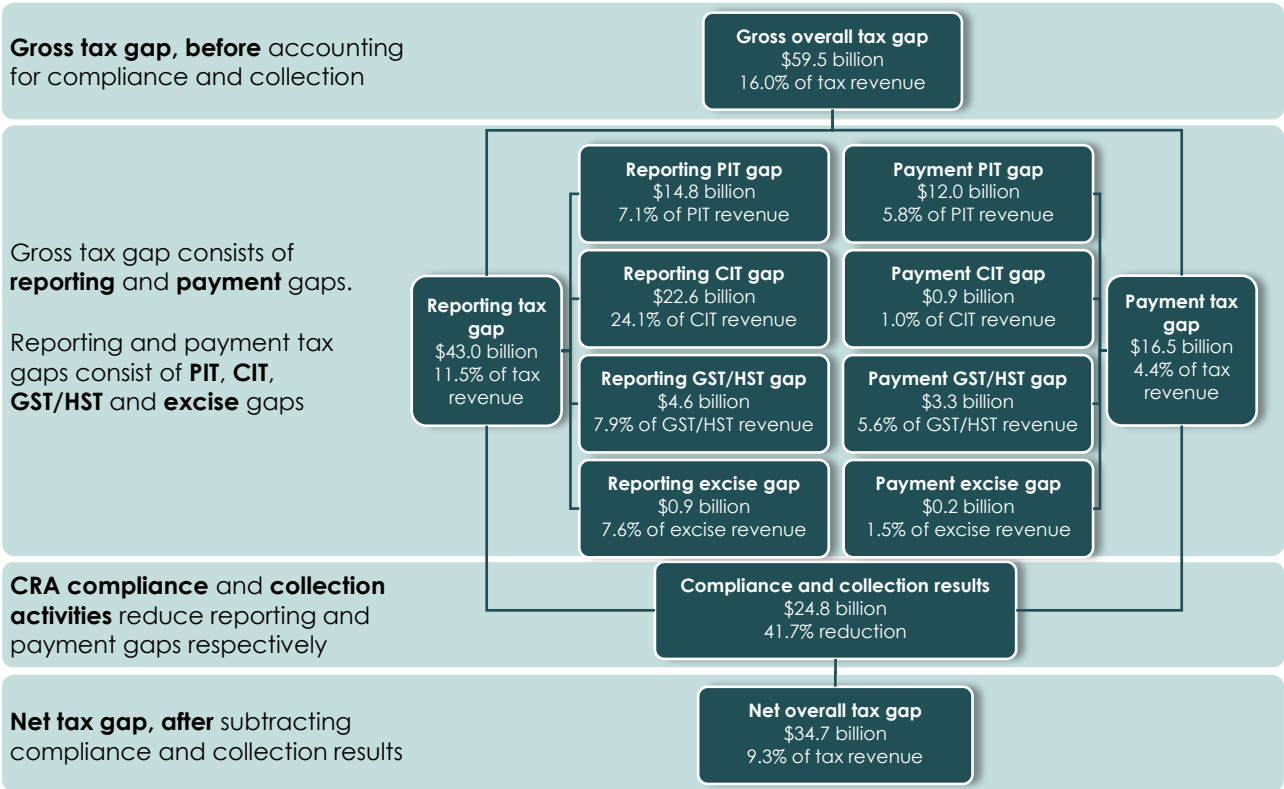
Despite the economic impact of the COVID-19 pandemic, the **CRA's compliance and collection activities** have continued to put sustained downward pressure on the tax gap. For tax year 2022, there was a:

- 40% reduction of the PIT gap
- 40% reduction of the CIT gap
- 57% reduction of the GST/HST gap
- 14% reduction of the Excise gap

The CRA is keeping the **net tax gap** relatively low and stable at approximately 9% of the total federal tax revenue.

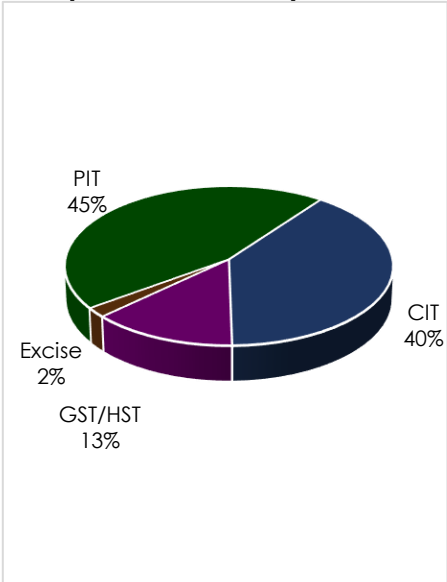
³ The total tax revenue for the purpose of this report includes the federal tax revenue from PIT, CIT, federal portion of GST/HST and excise. Refer to the actual tax revenue in [Table A.4 in the Annex](#).

Figure 1: Tax gap estimates for tax year 2022, in billions and in percentage of tax revenue*



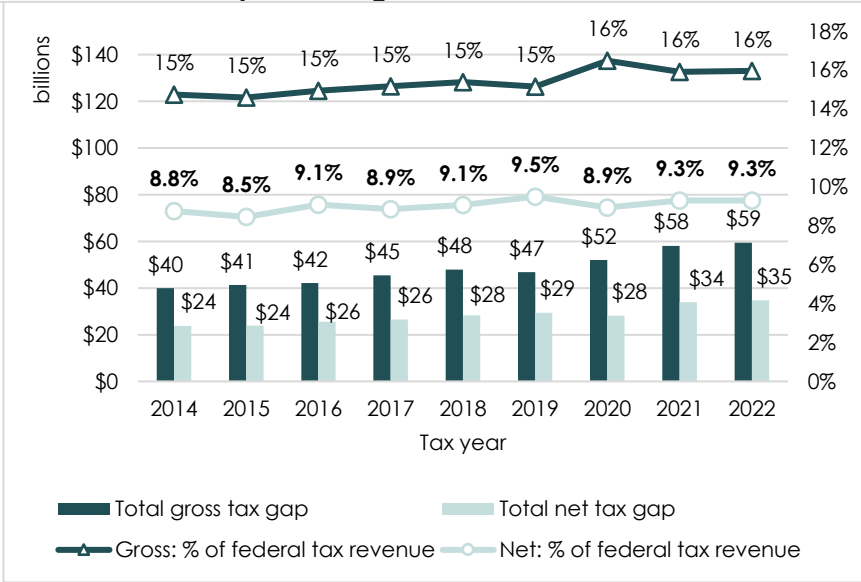
* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound.⁴ Totals may not add due to rounding.

Figure 2: Gross tax gap by components for tax year 2022* in billions and in percentage of tax revenue*



* Estimates are based on upper bound as of January 2025. Totals may not add due to rounding.

Figure 3: Tax gap (gross and net) for tax years 2014 to 2022, in billions and in percentage of tax revenue*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding.

⁴ Refer to details about upper bound and the methodology in the [methodological annex](#).

2.2. Personal income tax (PIT) gap

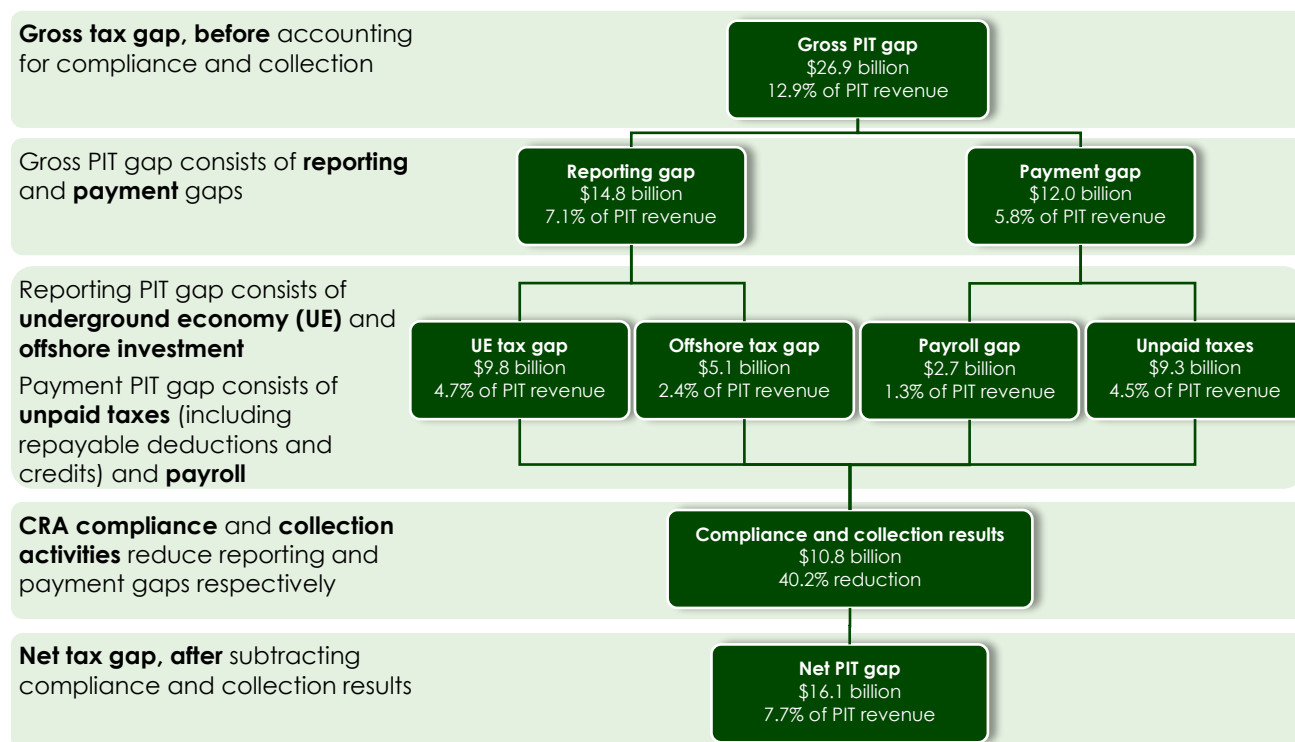
In tax year 2022, the gross PIT gap was 13% of the federal PIT revenue or \$26.9 billion.

The CRA's compliance and collection efforts are playing a key role in putting downward pressure on the tax gap. If historical trends hold, the net PIT gap would be **7.7%** of the federal PIT revenue or **\$16.1 billion**. This is a potential reduction of the gross PIT gap by **40%**.

Key findings

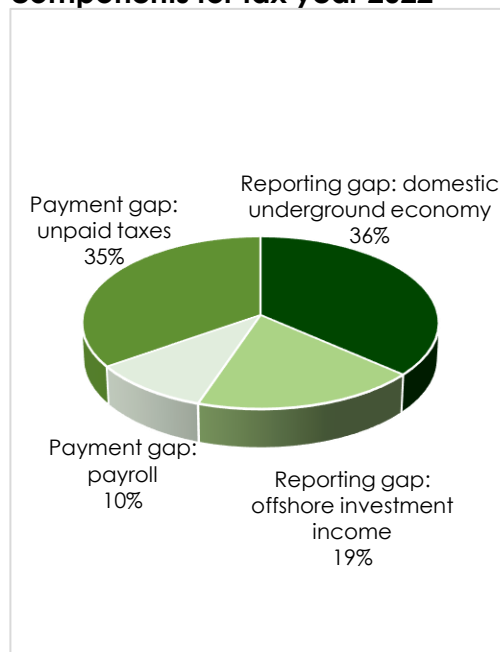
- ▶ The **gross PIT gap** was relatively stable during the pre-pandemic years (up to tax year 2019). However, the PIT gap increased since tax year 2020, indicating a higher risk of tax non-compliance during the early stage of the COVID-19 pandemic.
- ▶ Most of this increasing risk was related to **offshore investment income**, which increased during the pandemic (2020 and 2021) due to high returns on capital gains. There seems to be an emerging risk in offshore real estate that has become a more common type of offshore investments since the implementation of information exchange agreements in 2017.
- ▶ There was also an increasing level of **payment non-compliance**, indicating that the pandemic had a major impact on Canadian taxpayers' ability to pay their taxes. This included the payment gap related to payroll (a new subcomponent of this tax gap report).
- ▶ Although the tax gap related to the **underground economy** decreased during the pandemic (tax years 2020 and 2021), it remained a consistent aspect of the PIT gap. That said, Canada's underground economy is relatively small compared to countries with similar tax administrations.
- ▶ Despite the increase in the gross tax gap since the pandemic (tax year 2020), the **CRA's compliance and collection activities** continue to put downward pressure on the PIT gap.
- ▶ The CRA temporarily reduced some of its compliance and collection activities during the COVID-19 pandemic (in 2020 and 2021) and redirected resources to administer new programs to support individuals and businesses. Therefore, the **net PIT gap** may be higher for certain tax years.
- ▶ The CRA continues to tailor its compliance and collection efforts to **focus on high-risk areas** related to PIT to ensure fairness in Canada's tax system.

Figure 4: PIT gap estimates for tax year 2022, in billions and in percentage of PIT revenue*



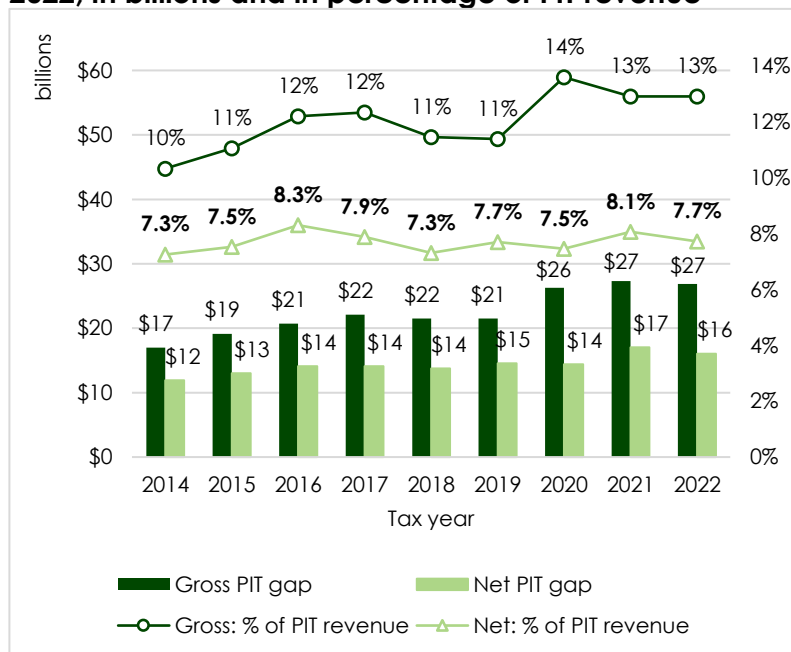
* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding.

Figure 5: Gross PIT tax gap components for tax year 2022*



* Estimates are based on upper bound as of January 2025.

Figure 6: PIT gap (gross and net) for tax years 2014 to 2022, in billions and in percentage of PIT revenue*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding.

2.3. Corporate income tax (CIT) gap

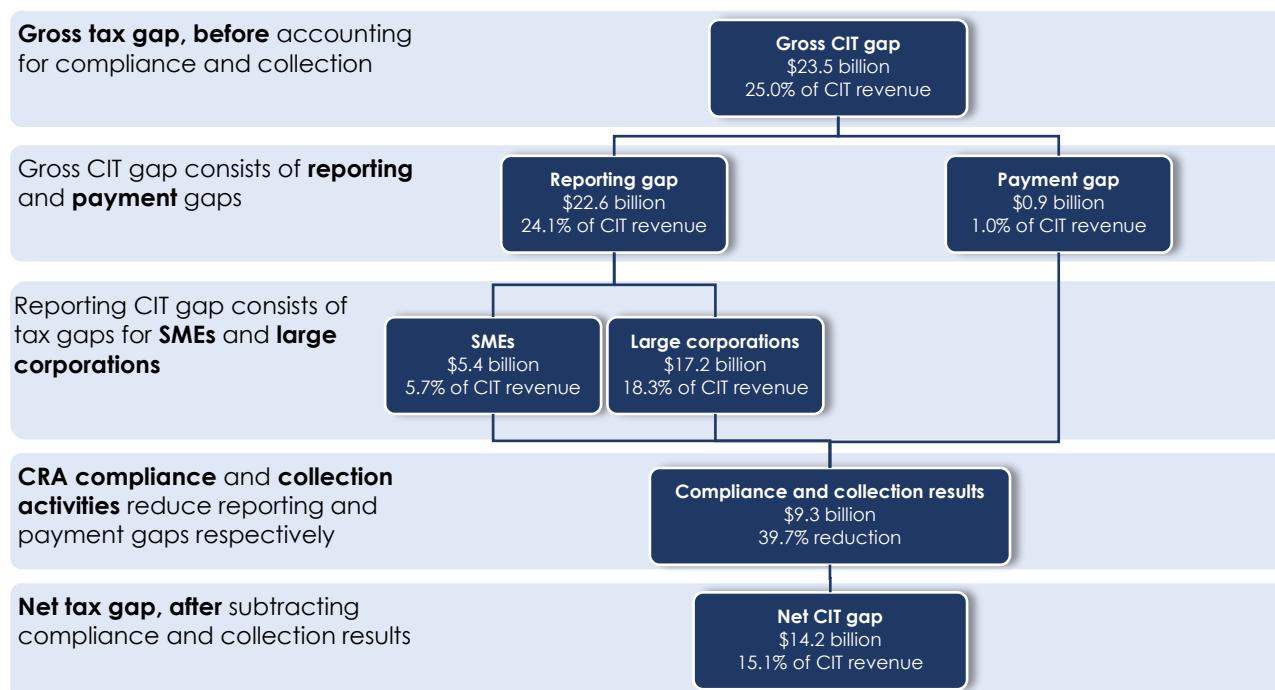
In tax year 2022, the gross CIT gap was 25% of the federal CIT revenue or \$23.5 billion.

The CRA's compliance and collection efforts are playing a key role in putting downward pressure on the tax gap. If historical trends hold, the net CIT gap would be **15.1%** of the federal CIT revenue or **\$14.2 billion**. This is a potential reduction of the gross CIT gap by **40%**.

Key findings

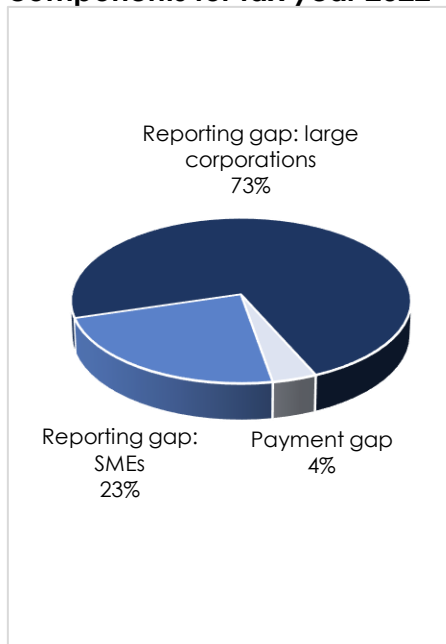
- ▶ The **gross CIT gap** as a percentage of the federal CIT revenue had a decreasing trend since tax year 2018 despite increasing CIT revenue during most of this period. This indicates that there may be decreasing level of non-compliance among corporations.
- ▶ The **reporting gap for small and medium enterprises (SMEs)** as a percentage of the federal CIT revenue was mostly stable during the pre-pandemic years (up to tax year 2019). SMEs were negatively impacted by the economic downturn when the pandemic started with drops in corporate profits and the corresponding tax revenue for tax year 2020. The reporting gap for SMEs as a percentage of the CIT revenue started decreasing for tax year 2020. It continued this trend, despite increases in corporate profit for tax years 2021 and 2022, indicating a lower level of reporting non-compliance.
- ▶ The **reporting gap for large corporations** as a percentage of the federal CIT revenue was relatively stable during 2014 to 2022 with some fluctuations before tax year 2019. Large corporations were impacted by the pandemic, but quickly recovered with increasing corporate profits at the later stage of the pandemic (tax year 2021). Despite the increased profits, the level of non-compliance remained stable with a slight decrease in tax year 2022.
- ▶ The COVID-19 pandemic negatively affected corporations, especially SMEs, leading to a higher **payment CIT gap** in tax years 2019 and 2020. However, in the later pandemic years (tax years 2021 and 2022), the payment gap decreased below pre-pandemic (before tax year 2019) levels indicating a lower risk of payment non-compliance.
- ▶ The **CRA's compliance and collection efforts** continue to put sustained downward pressure on the CIT gap.
- ▶ The **net CIT gap** decreased starting for tax year 2020, reaching 15% of the CIT revenue in tax year 2022, compared to 17% on average for the pre-pandemic years (before tax year 2020).

Figure 7: CIT gap estimates for tax year 2022, in billions and in percentage of CIT revenue*



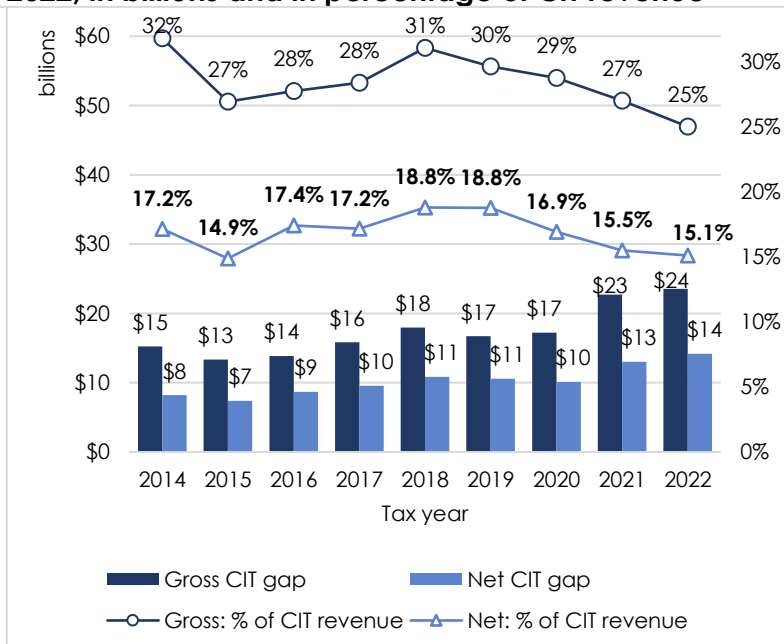
* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding. Does not include non-residents.

Figure 8: Gross CIT gap components for tax year 2022*



* Estimates are based on upper bound as of January 2025. Does not include non-residents.

Figure 9: CIT gap (gross and net) for tax years 2014 to 2022, in billions and in percentage of CIT revenue*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding. Does not include non-residents.

2.4. Goods and services tax/harmonized sales tax (GST/HST) gap

In tax year 2022, the gross GST/HST gap was 13% of the federal GST/HST revenue or \$7.9 billion.

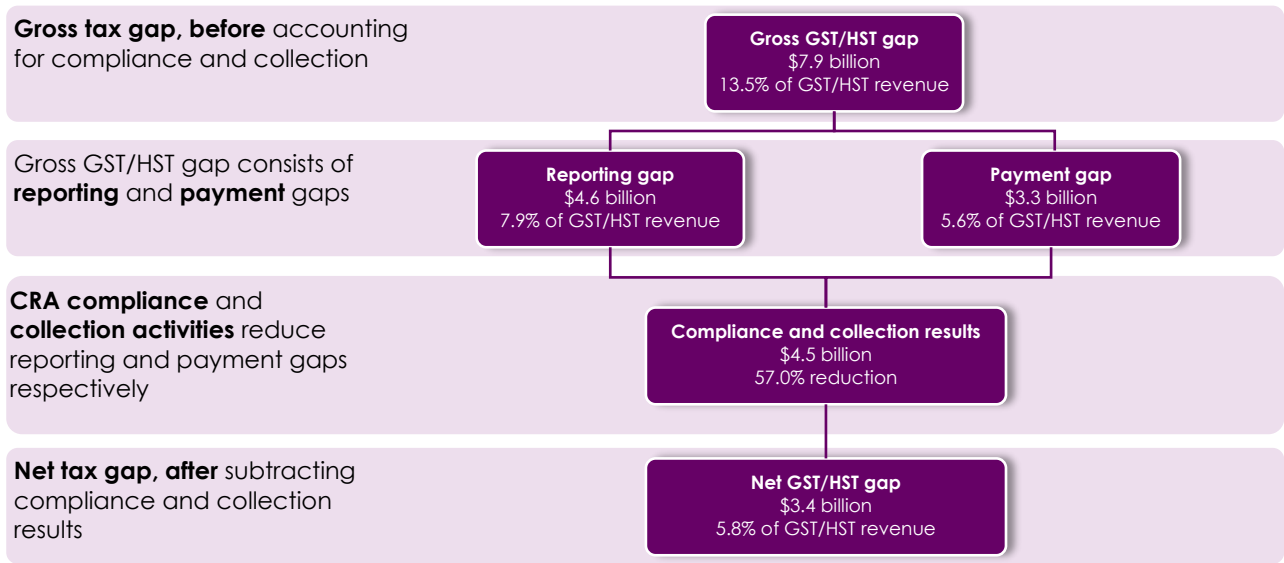
The CRA's compliance and collection efforts are playing a key role in putting downward pressure on the tax gap. If historical trends hold, the net GST/HST gap would be **5.8%** of the federal GST/HST revenue or **\$3.4 billion**.

This is a potential reduction of the gross GST/HST gap by **57%**.

Key findings

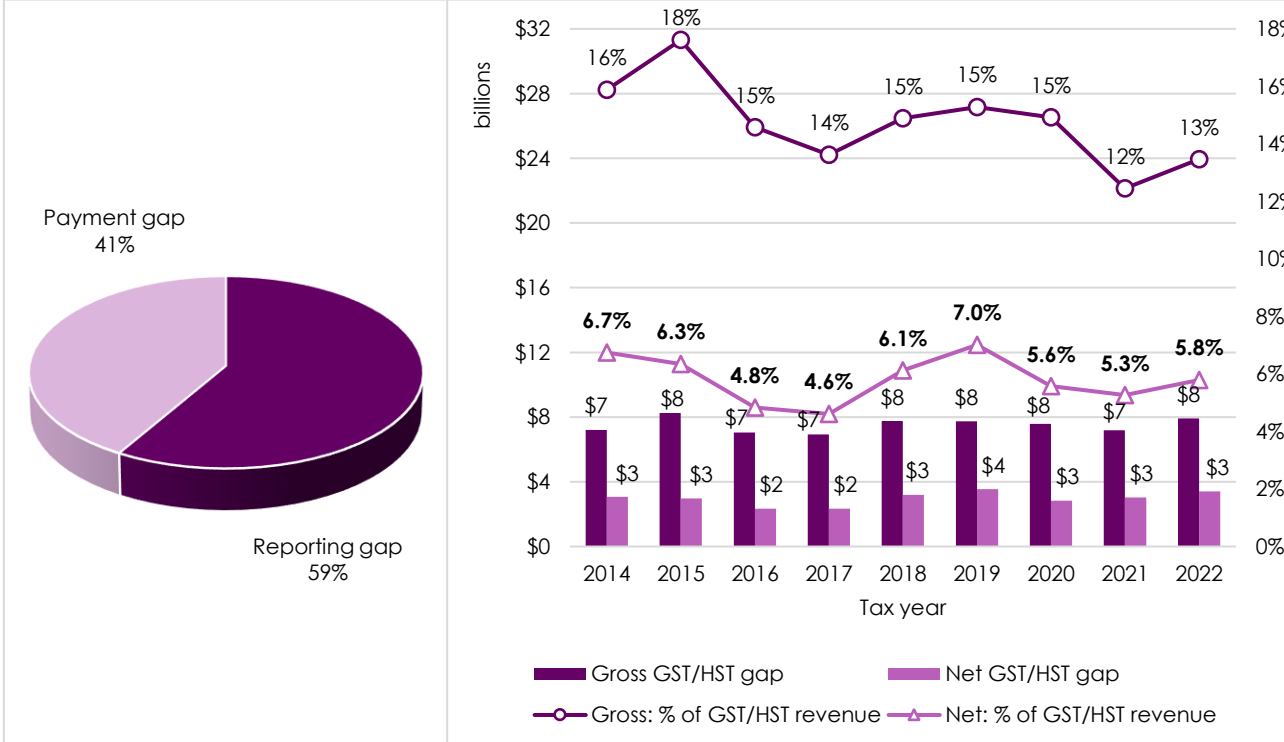
- ▶ During the pre-pandemic tax years and early stages of the pandemic (up to tax year 2020), the **gross GST/HST gap** as a percentage of the federal GST/HST revenue fluctuated but remained around 15% of the federal GST/HST revenue. For tax years following the pandemic (2021 and 2022), the gap decreased (13% in tax year 2022), indicating a lower level of non-compliance.
- ▶ The **reporting GST/HST gap** decreased during the COVID-19 pandemic (tax year 2020) and remained lower for the tax years following the pandemic compared to the pre-pandemic tax years (before 2020), indicating a lower level of reporting non-compliance.
- ▶ Although the reporting gap decreased, the **payment GST/HST gap** increased when the COVID-19 pandemic started (in 2020), reflecting potential financial hardships faced by many businesses. The payment gap was lower in the years following the pandemic (tax years 2021 and 2022).
- ▶ The impact of **CRA's compliance and collection actions** on the GST/HST gap slightly decreased as certain CRA's activities were suspended and resources were redirected during the COVID-19 pandemic (the highest impact was observed for tax year 2019). Despite this, the net GST/HST gap was 6% of GST/HST revenue in tax year 2022.

Figure 10: GST/HST gap estimates for tax year 2022, in billions and in percentage of GST/HST revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

Figure 11: Gross GST/HST gap components for tax year 2022* **Figure 12: GST/HST gap (gross and net) for tax years 2014 to 2022, in billions and in percentage of GST/HST revenue***



* Data updated as of January 2025.

* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

2.5. Excise gap

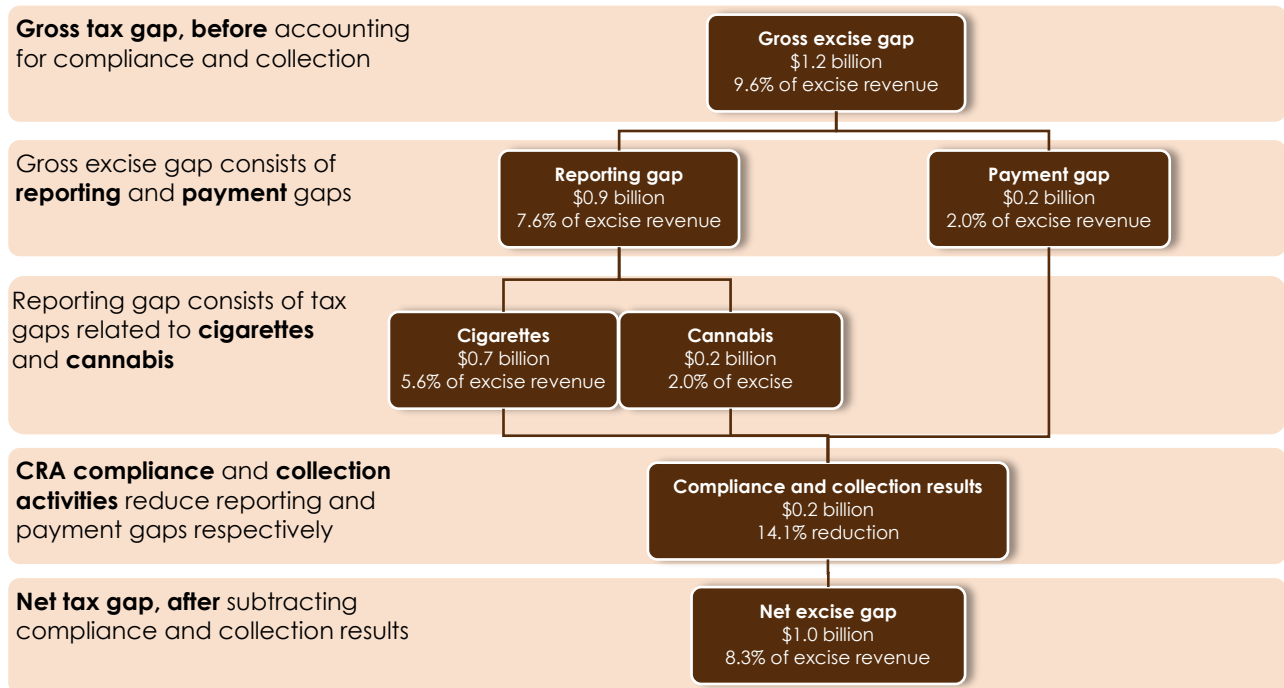
In tax year 2022, the gross excise gap was 10% of the federal excise revenue or \$1.2 billion.

The CRA's compliance and collection efforts are playing a key role in putting downward pressure on the tax gap. If historical trends hold, the net excise gap would be **8.3%** of the federal excise revenue or **\$1.0 billion**. This is a potential reduction of the gross excise gap by **14%**.

Key findings

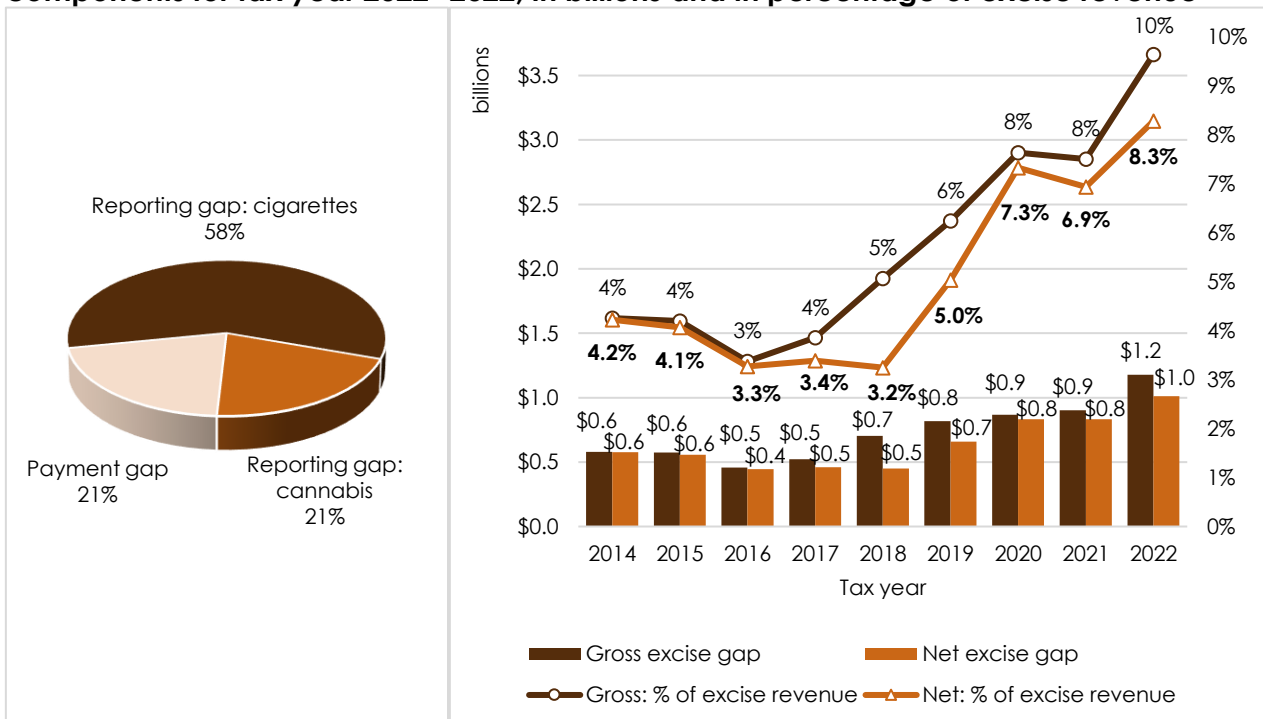
- ▶ The **gross excise gap** includes a new subcomponent, cannabis, starting in tax year 2019 as it was legalized in late 2018.
- ▶ The **reporting excise gap for cigarettes** has been increasing since the COVID-19 pandemic started in 2020 despite decreases in the total cigarette consumption. This may be due to increases in cigarette excise duty rates and some shifts in consumption.
- ▶ The **reporting excise gap for cannabis** has been decreasing, indicating the reduction of consumption from unlicensed producers and the increase in the excise revenue from legal manufacturers. Although unlicensed cannabis continues to exist, the reporting excise gap related to cannabis is expected to continue declining over time.
- ▶ The **payment excise gap** fluctuated since tax year 2014 and slightly increased since tax year 2018, mainly due to late payments. That said, the payment gap for excise remained relatively small, contributing to less than 2% to the total payment gap.
- ▶ The **impact of the CRA's actions** fluctuated over time. The payment excise gap was generally reduced within the first year. Compliance actions focused on verification, education and proactive measures to prevent the excise gap.
- ▶ The **net excise gap** increased for tax year 2019 and continued this trend through the pandemic up to tax year 2022, mostly due to increases in the reporting excise gap for cigarettes.

Figure 13: Excise gap estimates for tax year 2022, in billions and in percentage of excise revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

Figure 14: Gross excise gap components for tax year 2022* **Figure 15: Excise gap (gross and net) for tax years 2014 to 2022, in billions and in percentage of excise revenue***



* Data updated as of January 2025.

* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

2.6. Conclusion

The COVID-19 pandemic was a disruptive force on the Canadian tax system and impacted tax gap components in different ways (refer to Table 1 for details).

- The **PIT gap** was the most impacted, reflecting financial hardship for individuals since the pandemic started in 2020.
- The **CIT gap** was also impacted by the pandemic, but corporate revenues grew at a faster rate than the tax gap leading to a decreasing tax gap percentage. This may indicate potentially lower levels of non-compliance.
- The **GST/HST gap** decreased following the pandemic (since tax year 2021), indicating a lower level of non-compliance.
- The **excise gap** started increasing right before the pandemic (tax year 2018) and continued this trend through the pandemic up to tax year 2022. However, the excise gap remains a relatively small component of the overall tax gap.

The overall tax gap increased to 16.5% of federal tax revenue in tax year 2020 and has remained slightly elevated at 16.0% in tax year 2022.

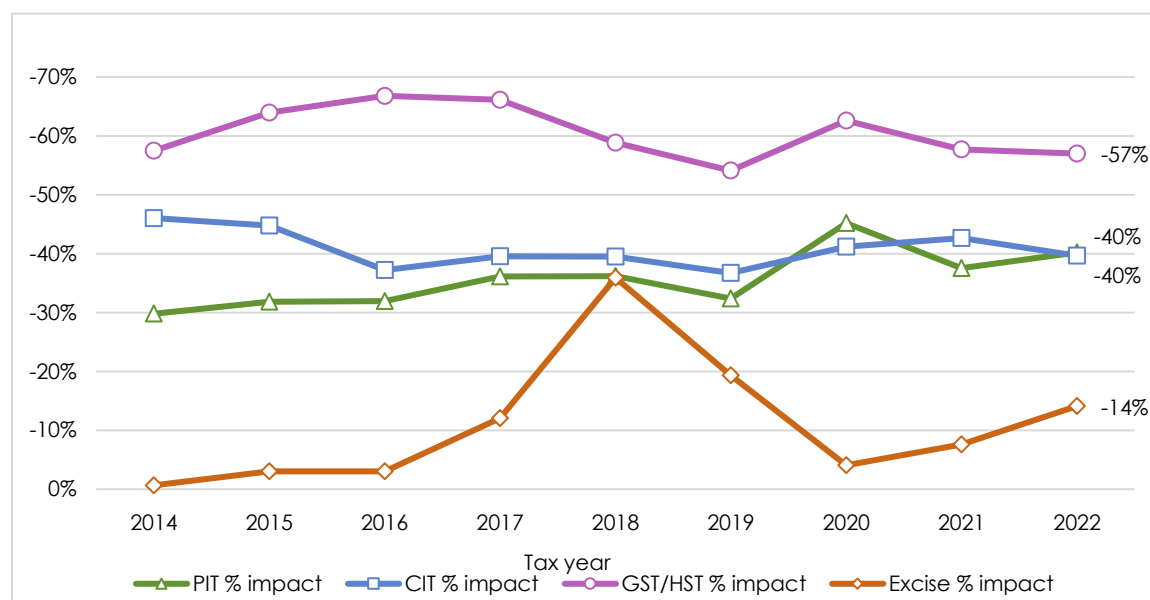
Table 1: Gross tax gap as a percentage of corresponding federal revenue during the pandemic and in post-pandemic tax years (TY)*

Tax gap component	During the pandemic (TY2019-TY2020)	Late pandemic stage (TY2021-TY2022)
PIT gap	↑ Increased to 14% in TY2020	↓ Decreased to 13% in TY2022, but has remained higher than the pre-pandemic level
CIT gap	↓ Decreased to 29% in TY2020, maintaining the pre-pandemic trend	↓ Decreased to 25% in TY2022, lower than the pre-pandemic level
GST/HST gap	Stable at 15% in TY2020 =	↓ Decreased to 13% in TY2022
Excise gap	↑ Increased to 8% in TY2020, maintaining the pre-pandemic trend	↑ Increased to 10% in TY2022, maintaining the pre-pandemic trend
Overall tax gap	↑ Increased to 16.5% in TY2020	↓ Decreased to 16.0% in TY2022, but remained higher than the pre-pandemic level

* Estimates are based on upper bound. Totals may not add due to rounding. Data updated as of January 2025.

Despite the economic disruption from pandemic, the CRA's compliance and collection activities have continued to put sustained downward pressure on the tax gap. The breakdown of this impact is illustrated in the graph below.

Figure 16: The impact of CRA's compliance and collection actions by tax gap components for tax years 2014 to 2022, in percentage of gross tax gap reduction*



* Estimates are based on upper bound. Totals may not add due to rounding. Data updated as of January 2025.

During the COVID-19 pandemic in 2020 and 2021, the CRA temporarily reduced some of its compliance and collection activities and redirected resources to administer new programs to support individuals and businesses. This included administering new benefits and redirecting resources to address increased call volumes. During this time, the CRA concentrated on high risk, high dollar audit adjustments and closed lower risk cases at an earlier stage.⁵ As a result, the net tax gap was higher for certain tax years during the pandemic period. With the resumption of all activities, the CRA is expected to continue putting downward pressure on the tax gap (refer to Table 2).

Table 2: Net tax gap as a percentage of corresponding federal revenue during the pandemic and in post-pandemic tax years (TY)*

Tax gap component	During the pandemic (TY2019-TY2020)	Late pandemic stage (TY2021-TY2022)
PIT gap	Stable at almost 8% =	Stable at 8% =
CIT gap	↑ Increased to 19% in TY2019, but ↓ decreased in TY2020	↓ Decreased to 15% in TY2022, lower than the pre-pandemic level
GST/HST gap	↑ Increased in TY2019 and TY2020 (peaked at 7% in TY2019)	↓ Decreased to 6% in TY2022, returned to the pre-pandemic level
Excise	↑ Increased in TY2019 and TY2020 (peaked at 7% in TY2020)	↑ Increased to 8% in TY2022, higher than the pre-pandemic level

⁵ Source: [2020-21 Departmental Results Report - Canada.ca](https://www150.commerce.gc.ca/2020-21-Departmental-Results-Report-Canada)

Tax gap component	During the pandemic (TY2019-TY2020)	Late pandemic stage (TY2021-TY2022)
Overall tax gap	 Increased to 9.5% in TY2019 but  decreased in TY2020	 Decreased to 9.3% in TY2022, almost reached the pre-pandemic level

* Estimates are based on upper bound and historical trends. Totals may not add due to rounding. Data updated as of January 2025.

While the CRA suspended some of its actions at the early stage of the pandemic to administer the COVID-19 emergency measures, the CRA encouraged compliance through eligibility criteria of these measures. For example, to be eligible for the Canada Emergency Business Account program, taxpayers had to be compliant with their filing obligations.⁶ The current report does not explore the direct impact of these measures on filing compliance. While these requirements could temporarily reduce filing non-compliance, the sustained impact, as well as its effect on overall tax compliance would need to be confirmed empirically.

The CRA is committed to estimating Canada's federal tax gap on an ongoing basis and make this information publicly available. Detailed findings for each component of the overall tax gap can be found in the next section of this report. In addition, a separate document called "[Tax gap methodological annex](#)" on Canada.ca contains more technical details on the tax gap methodologies. All data in this report is also available on the [Open Government Portal](#) to ensure easy access to this information.

⁶ Source: [Canada Emergency Business Account \(CEBA\) | Eligibility \(Closed\)](#)

3. Detailed tax gap findings by tax gap components

3.1. Personal income tax (PIT) gap

The **gross PIT gap** is estimated by combining the reporting and payment gaps related to individual taxpayers. The **reporting PIT gap** is comprised of two main forms of non-compliance: (1) individuals not fully reporting income earned through Canada's underground economy and (2) potential tax revenue loss from hidden offshore investment income. The **payment PIT gap** is comprised of (1) unpaid taxes and repayable deductions and credits; and (2) the payroll payment gap. **The net PIT gap** is calculated by accounting for the impact of the CRA's compliance and collection efforts related to individual taxpayers.

3.1.1. Domestic underground economy

The **underground economy (UE)** is defined as economic transactions in goods and services which are unreported, resulting in failure to comply with tax laws administered by the CRA. In general, Canada's PIT system relies heavily on the arm's-length third-party reporting for tax verification, and such income would be deemed "tax assured." This means that a significant amount of information in an individual's tax return is automatically verified using information slips received directly from third parties. For example, employers must file T4 slips to the CRA which contain information such as employees' salary, withheld taxes, and contributions to Employment Insurance (EI) and the Canadian Pension Plan (CPP).

Thus, the reporting PIT gap tends to originate from tax non-assured areas of the tax system such as UE activities. The reporting PIT gap is estimated using Statistics Canada's underground economy estimates.⁷ Analysis of the UE tax gap has been integrated as part of the CRA's Underground Economy Strategy.

During tax years 2014 to 2022, the reporting PIT gap, as a percentage of the PIT revenue, was relatively stable. On average it was 4.7% with some decline during the pandemic years (tax years 2020 and 2021) due to reduced economic activities.

Most of the reporting PIT gap related to the UE came from compensation to employees (around 80%) rather than self-employed income (around 20%), and this ratio was stable for tax years from 2014 to 2022. However, it is worth noting that self-employed individuals represented around 13% to 15% of the population over these years, meaning that self-employed individuals may be more likely to participate in the UE than employees.⁸

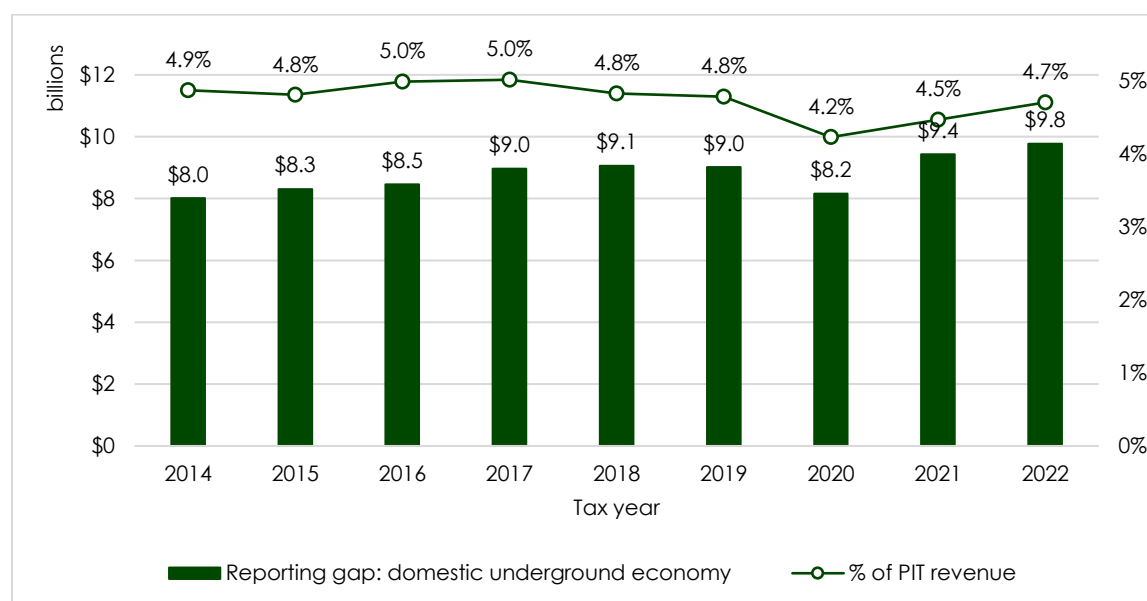
The self-employed population (13% to 15% of the PIT population) was responsible for 20% of the PIT gap, indicating higher risk of tax non-compliance.

The highest proportion of UE activities for both populations, self-employed and employees, was from other activities that include maintenance and repair of vehicles, childcare services, and services related to household maintenance (other than renovation). However, the level of contribution from other activities decreased since the start of the COVID-19 pandemic in 2020.

⁷ For details on the methodology, refer to tax gap [methodological annex](#) published separately on Canada.ca.

⁸ Source: [Employment by class of worker and industry, monthly, unadjusted for seasonality](#)

Figure 17: Reporting PIT gap from the UE for tax years 2014 to 2022, in billions and in percentage of PIT revenue*



* All amounts are in constant 2022 dollars as of March 2025. Totals may not add due to rounding.

The second-largest contribution to the tax gap related to UE was from the construction sector. Potential tax non-compliance in the construction sector increased during the pandemic period (from 29% as a share of the UE tax gap in tax year 2019 to 36% in tax year 2022). While the residential construction industry has historically been the largest contributor to the UE, the share of this sector was particularly high in tax years 2021 and 2022. This was consistent with a 31% rise in economy-wide business investment in residential construction in 2021.⁹

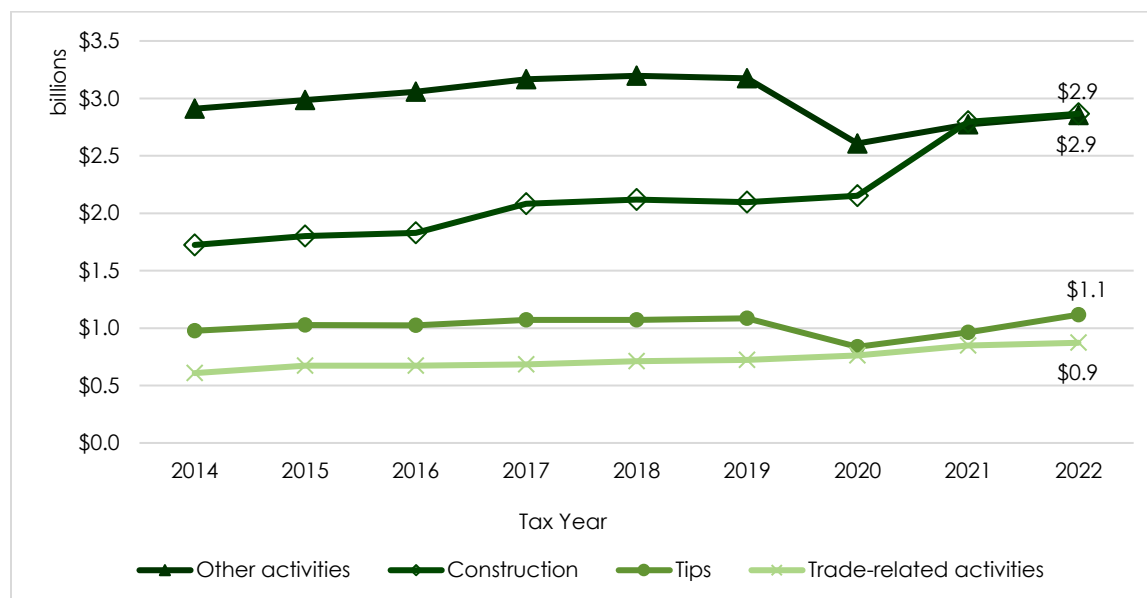
In contrast, potential tax non-compliance from undeclared tips declined sharply in tax year 2020 as economic activities related to services were reduced during the COVID-19 pandemic. As the economy began to reopen, the share of income earned from tips in the UE increased slightly in tax years 2021 and 2022 (refer to Figure 18 and Figure 19).

The rate of participation in the underground economy is unlikely to ever reach zero. That said, the CRA continues to focus its efforts to address the underground economy through tax compliance actions and education efforts. For example, compliance interventions generally follow an escalating approach, from encouraging compliance through respectful and empathetic service (for example, educational outreach) to enforcing it (for example, audits). Additional information on how the CRA responds to the underground economy can be found in the CRA's Underground Economy Strategy.¹⁰

⁹ Source: [The Daily — The underground economy in Canada, 2021 \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/26-267-x/2021001/article/00001-eng.htm)

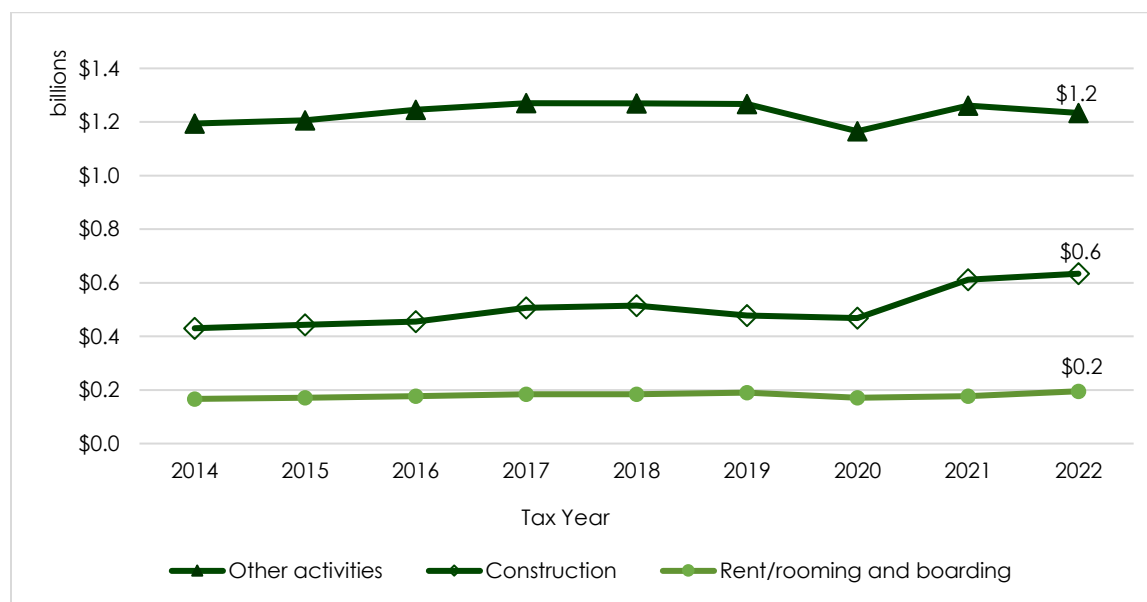
¹⁰ Source: [2022+ Underground Economy Strategy - Canada.ca](https://www.cra-arc.gc.ca/ue/ue-strategy/2022-2023/2022-2023-ue-strategy-eng.htm)

Figure 18: Tax gap from the UE compensation to employees for tax years 2014 to 2022, in billions*¹¹



* All amounts are in constant 2022 dollars as of March 2025. Totals may not add due to rounding.

Figure 19: Tax gap from the UE from self-employed individuals for tax years 2014 to 2022, in billions*



* All amounts are in constant 2022 dollars as of March 2025. Totals may not add due to rounding.

¹¹ Other activities include maintenance and repair of vehicles, childcare services, and services related to household maintenance (other than renovation).

Box 1: Crypto-asset compliance

In general, a crypto-asset is a digital representation of value that relies on a cryptographically secured distributed ledger, or a similar technology, to validate and secure transactions.¹² Transactions related to crypto-assets often have tax implications and must be reported. Tax non-compliance related to crypto-assets can arise from misunderstanding tax obligations, miscalculations in gains, uncertainty whether a transaction is capital or business income and sometimes intentional fraudulent activity.

Internationally, crypto-asset taxation has varied, with some tax authorities molding crypto-assets into pre-existing tax rules and others introducing new legislation. Recognizing the importance of addressing global tax compliance risks with respect to crypto-assets, the Organisation for Economic Co-operation and Development (OECD) developed the Crypto Asset Reporting Framework (CARF) to ensure the collection and automatic exchange of information on specified crypto-asset transactions. The CARF aims to provide additional information for tax administrations to identify and analyze compliance risks related to crypto-assets.¹³

Canada's Budget 2024 proposed to implement and continually administer the CARF.¹⁴ In the meantime, the CRA continues to expand audit activities, taxation policies, technology and business intelligence in relation to crypto-assets to better understand and target high-risk tax non-compliance. Currently, there is not enough data to estimate the tax gap related to crypto-assets in Canada. The CRA will continue to monitor this emerging area of risk to protect the integrity of the tax system.

3.1.2. Hidden offshore investment income

Tax non-compliance related to offshore activities generally occurs when individuals use complex schemes to hide their investment income earned from hidden offshore wealth. The nature of certain offshore activities creates challenges for detecting unreported foreign income.

Research has found that international information sharing agreements are putting downward pressure on the unreported income from offshore financial assets, reducing the incentive to invest in jurisdictions of concern.^{15,16} In addition, the information received through these agreements have helped strengthen the CRA's ability to detect and deter international tax non-compliance (refer to Box 2).¹⁷

¹² Source: [Information for crypto-asset users and tax professionals - Canada.ca](#)

¹³ Source: [International Standards for Automatic Exchange of Information in Tax Matters | OECD](#)

¹⁴ Source: [Tax Measures: Supplementary Information | Budget 2024](#)

¹⁵ Generally speaking, jurisdictions or financial institutions of concern are usually those that operate in countries that have low or no effective tax rate or have banking secrecy or confidentiality laws that provide for anonymity. Source: [How we combat tax evasion and avoidance - Canada.ca](#)

¹⁶ Sources: [Cross-border tax evasion after the common reporting standard: Game over? - ScienceDirect](#); [Hidden Treasure: The Impact of Automatic Exchange of Information on Cross-Border Tax Evasion \(imf.org\)](#)

¹⁷ Source: [How we combat tax evasion and avoidance - Canada.ca](#)

Box 2: International agreements to combat tax evasion and avoidance

Canada's treaty network supports the CRA in obtaining and exchanging information for the purpose of combatting tax evasion and avoidance. The CRA exchanges information with a wide network of international Exchange of Information partners under tax treaties, tax information exchange agreements (TIEAs) and conventions. These exchanges take many forms: specific, spontaneous and automatic. Canada currently has 94 tax treaties, 24 TIEAs in force, and is also a party to the Convention on Mutual Administrative Assistance in Tax Matters, which includes 150 signatories.¹⁸

Examples of collaborative work through the treaty network include the automatic exchange of information under the Common Reporting Standard (CRS) and the CARF.¹⁹

Exchange of information through the CRS began in 2018, and the exchange of information through the CARF is set to commence as of 2027, pending legislation.

The CRA adopted and adapted a methodology developed by academics to capture the potential tax loss from hidden offshore investment income using the latest available macroeconomic data to estimate this tax gap subcomponent.²⁰

As a percentage of the PIT revenue, the reporting PIT gap from offshore investment income was around 2.6% on average through tax years 2014 to 2022.

In tax years 2016 and 2021, the offshore reporting gap was the highest (3.2% and 3.1% of the PIT revenue, respectively) due to an increase in the PIT rate in tax year 2016, and due to high returns earned on realized capital gains in tax year 2021.

Analyses by wealth management and consulting groups show record growth in wealth portfolios through 2020 and 2021 calendar years²¹, and additional wealth being moved offshore by high net-worth individuals at the onset of the COVID-19 pandemic.^{22,23} Unreported income earned from capital gains makes up a substantial portion of the offshore reporting PIT gap, with the share ranging from 44% to 71%, as the annual rate of return on capital gains tends to fluctuate depending on global economic conditions.

Strong performance in equity markets in the 2021 calendar year led to a sharp increase in the amount of offshore investment income earned from realized capital gains, resulting in high levels of offshore reporting gap in tax year 2021. The subsequent fall in the offshore reporting gap for tax year 2022 is largely due to lower returns on capital gains driven by

¹⁸ Sources: [Convention on mutual administrative assistance in tax matters | OECD](#); [Enhanced financial account information reporting - Canada.ca](#); [Reporting and sharing of financial account information with the United States - Canada.ca](#)

¹⁹ Sources: [Common Reporting Standard \(CRS\) and Crypto-Asset Reporting Framework \(CARF\) - Organisation for Economic Co-operation and Development \(oecd.org\)](#); [Common Reporting Standard - Canada.ca](#)

²⁰ The offshore reporting gap may be reduced if offshore investments were reported and taxed in a jurisdiction with an active tax treaty agreement with Canada. Source: [Tax treaties - Canada.ca](#)

²¹ Income from this wealth is usually generated one year after, therefore, it would be taxed one year after as well. Refer to [methodological annex](#) for details.

²² Source: [Boston Consulting Group, Global Wealth Report 2021 - "When Clients Take the Lead"](#)

²³ Source: [Boston Consulting Group, Global Wealth Report 2022 - "Standing Still is Not an Option"](#)

high inflation and increased interest rates (refer to Table 3 and Figure 20).²⁴ The increase in the amount of offshore wealth and returns have been partially offset by the reduced risk of unreported income since the implementation of key information sharing agreements.²⁵

Table 3: Reporting PIT gap from offshore investment income by investment type for tax years 2014 to 2022, in billions*

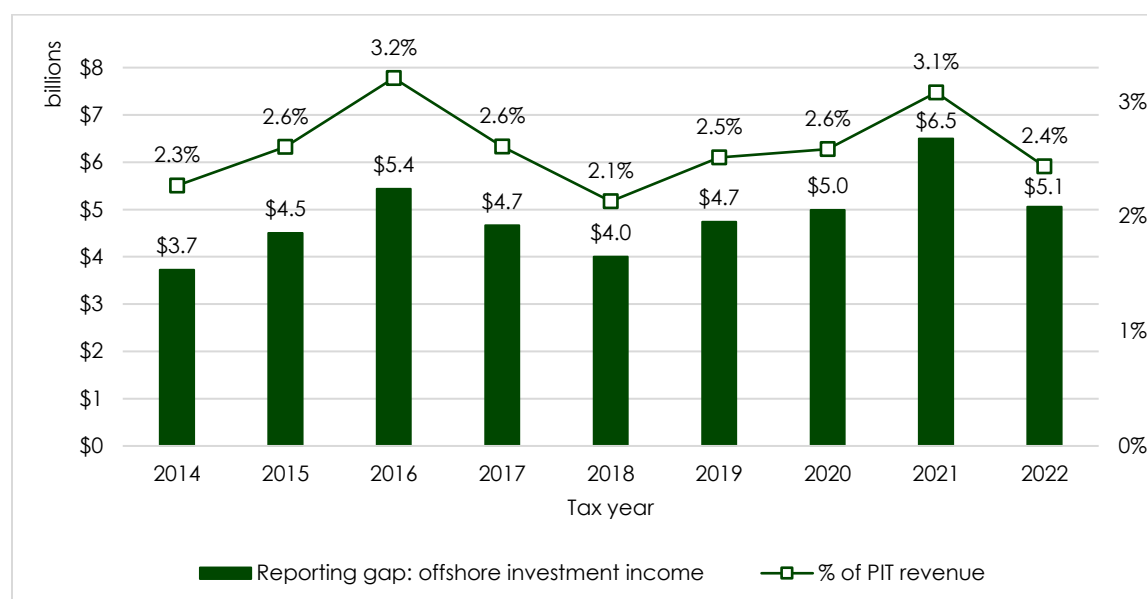
Offshore investment	Estimated federal tax loss – tax gap, in billions								
	(% of reporting PIT gap related to offshore investment income)								
	2014	2015	2016	2017	2018	2019	2020	2021	2022
Bank deposits	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.1	\$0.3
	(4%)	(5%)	(4%)	(4%)	(5%)	(4%)	(3%)	(2%)	(7%)
Debt securities	\$0.6	\$0.8	\$0.9	\$0.7	\$0.7	\$0.6	\$0.7	\$0.6	\$1.2
	(15%)	(18%)	(17%)	(15%)	(18%)	(14%)	(14%)	(10%)	(23%)
Asset securities (dividends)	\$1.0	\$1.4	\$1.6	\$1.2	\$1.2	\$1.2	\$1.0	\$1.1	\$1.3
	(28%)	(31%)	(30%)	(25%)	(30%)	(24%)	(21%)	(17%)	(26%)
Asset securities (capital gains)	\$2.0	\$2.1	\$2.7	\$2.6	\$1.9	\$2.7	\$3.1	\$4.6	\$2.2
	(53%)	(46%)	(50%)	(57%)	(47%)	(58%)	(62%)	(71%)	(44%)
Total	\$3.7	\$4.5	\$5.4	\$4.7	\$4.0	\$4.7	\$5.0	\$6.5	\$5.1
	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)	(100%)

* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding. The information is based on external data sources, explained in the [Methodological Annex](#), and are not sourced from the CRA administrative data.

²⁴ Source: [Boston Consulting Group, Global Wealth Report 2023 – “Resetting the Course”](#)

²⁵ Source: [Taxing Capital in a Globalized World: The Effects of Automatic Information Exchange – Boas et al. \(2024\)](#)

Figure 20: Reporting PIT gap from the hidden investment income for tax years 2014 to 2022, in billions and in percentage of PIT revenue*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding.

Box 3: Examples of offshore investments

Reporting specified foreign property

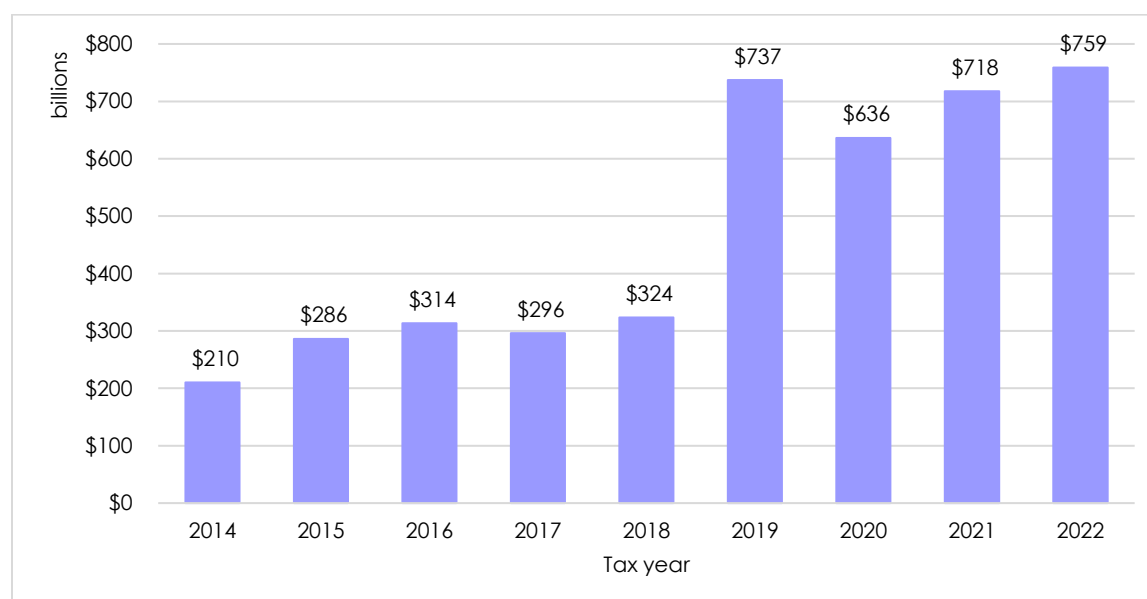
Canadians are required to file the Foreign Income Verification Statement (Form T1135) to report specified foreign property they own and the associated income and gains.²⁶ The information reported on the T1135 form helps the CRA track and verify tax obligations related to Canadian's offshore assets.

Overall, there was an increasing trend in the amount of offshore property, income and capital gains reported between tax years 2014 and 2022. In particular, there was a significant growth in the amount of reported income in tax year 2019, which may be due to the implementation of the international exchange of information agreements which reduced the risk of unreported offshore income (refer to Figure 21).²⁷ Reported capital gains were significantly higher and had the upward trend from tax years 2019 to 2021 before sharply falling in tax year 2022 when more capital losses were reported (refer to Figure 22). The trend in reported capital gains is largely the result of the return earned on these assets during this period.

²⁶ A Canadian resident has to file a T1135 form if the total value of the foreign property they own exceeds \$100,000 at any point in the year, with specified foreign property defined in subsection 233.3(1) of the Income Tax Act.

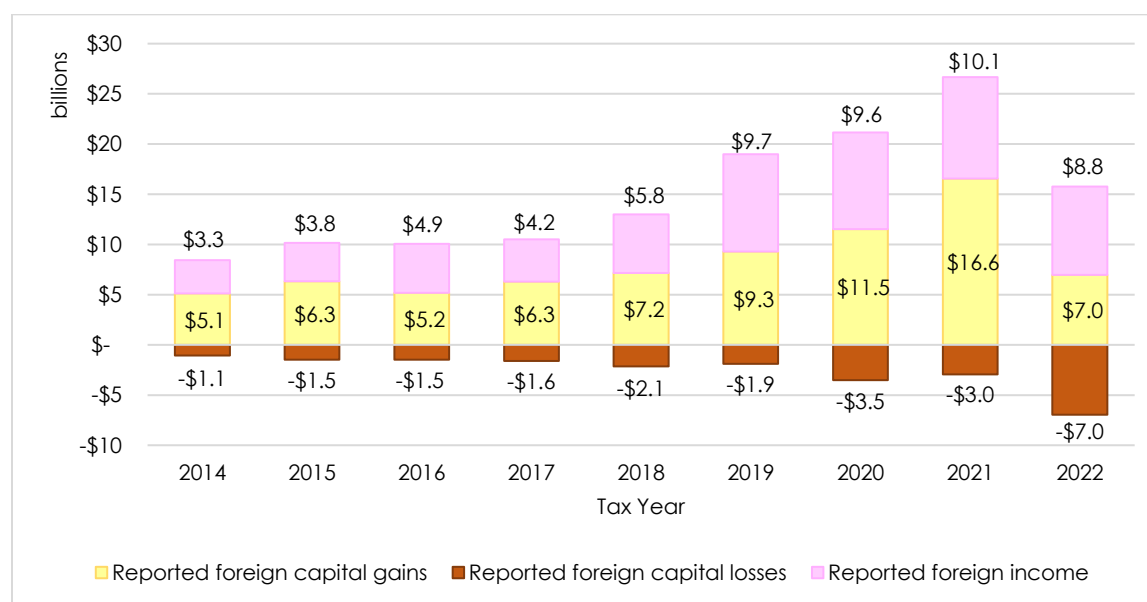
²⁷ The Common Reporting Standard was implemented by over 100 countries in 2017 which involves the exchange of information about offshore financial accounts.

Figure 21: Total foreign property value reported by individuals for tax years 2014 to 2022, in billions*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding. Source: Form T1135

Figure 22: Total foreign income, capital gains and capital losses reporting by individuals for tax years 2014 to 2022, in billions*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding. Source: Form T1135

In tax year 2022, Canadian individuals reported offshore property with a total value of approximately \$759 billion, \$8.8 billion in foreign income, \$7.0 billion in capital gains, and \$7.0 billion in capital losses. In tax year 2022, the value of offshore assets, income, and capital gains (and losses) reported by individuals were predominantly from real property held outside of Canada and property held in accounts with a Canadian registered securities dealer. Income and gains from assets held in an account with Canadian

registered securities dealers increased significantly through the COVID-19 pandemic years (tax years 2020 and 2021).

Real estate as a growing source of offshore investments

Recent research on international tax non-compliance highlights that a significant and growing portion of offshore wealth is shifting from financial assets to real estate.²⁸ Academic work has begun to compile and analyze offshore ownership in certain international cities.²⁹ A recent report estimates that Canadians own approximately \$11.1 billion of offshore real estate in six major international cities.³⁰

Currently, there is no methodology to estimate Canada's tax gap related to offshore real estate due to the lack of data. However, the CRA continues to monitor this sector and implement necessary compliance actions. For example, the CRA created its Real Estate Action Plan to expand its capacity to audit real estate transactions.³¹

3.1.3. Payment PIT gap related to unpaid taxes (including repayable deductions and credits)

Individuals typically have to file their Income Tax and Benefit Return (T1 return) and pay their balance owing by April 30 of the following year.³² Failure to pay their balance on time contributes to the tax gap. This payment tax gap is comprised of unpaid taxes and repayable deductions and credits from individuals. Typically, unpaid taxes are comprised of federal, provincial (except for Quebec) and territorial taxes owed³³, including amounts written off as uncollectible or in other words, write-offs. It excludes appealed amounts as well as interest and penalties as these amounts do not represent tax liabilities.

During tax years 2014 to 2022, the majority of payment non-compliance was from individuals failing to pay their taxes, rather than from individuals failing to repay deductions and credits they wrongly claimed.

On average, 9% of the individual payment gap was due to repayable deductions and credits, with the remaining 91% due to unpaid taxes. This breakdown remained consistent over the entire period and no differences were observed during the pre-pandemic, pandemic, and post-pandemic periods.

There was a sharp decrease in unpaid taxes in tax year 2019, when the payment deadline was extended from April 30 to September 30, 2020, due to the COVID-19 pandemic. There was also a decrease in the number of individuals with a payment gap³⁴ for tax year 2019

²⁸ Sources: [Alstadsaeter and Okland \(2022\)](#); [Bomare and Le Guern Herry \(2022\)](#); [ECORYS \(2021\)](#)

²⁹ Source: [Alstadsaeter et al. \(2023\)](#), [Global Tax Evasion Report 2024](#)

³⁰ Source: [EU Tax Observatory, Atlas of the Offshore World – Canada](#)

³¹ Sources: [How the Canada Revenue Agency addresses non-compliance in the real estate sector – Canada.ca](#); [Canada Revenue Agency's 2024-25 Departmental Plan – Canada.ca](#)

³² The due date can slightly vary due to particular circumstances (for example, falls on a weekend or extended due to a pandemic). For more information, please visit: [Payments to the CRA - Canada.ca](#)

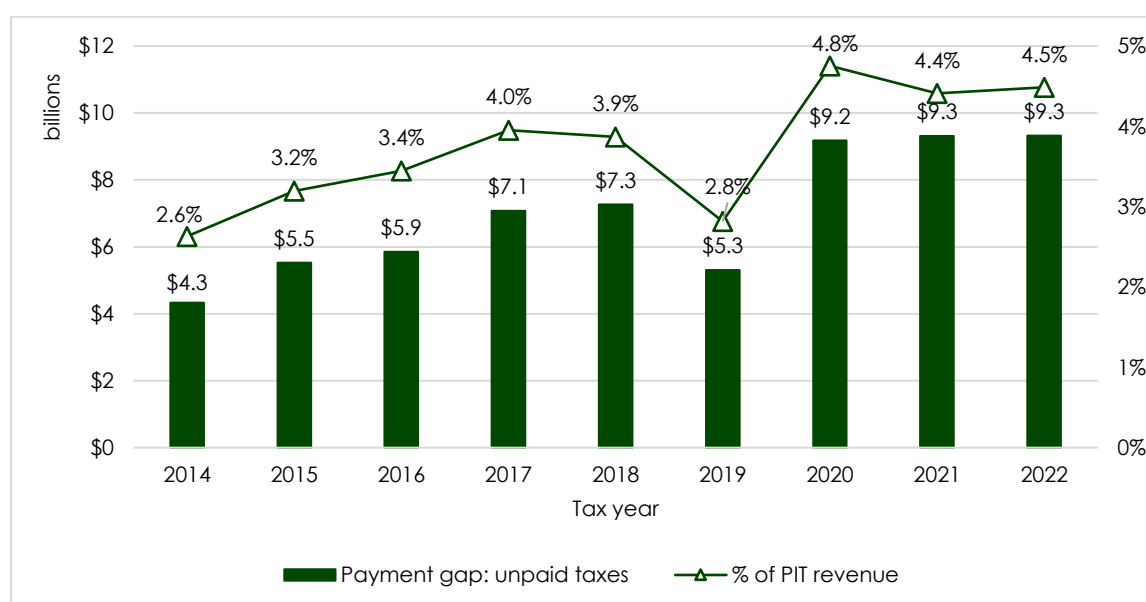
³³ The CRA is responsible for collecting certain provincial taxes and always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed). Therefore, this report considers these provincial tax liabilities as part of the federal tax debt.

³⁴ The percentage was calculated for gross payment gap, or balance owing that was not paid by the due date.

(4.5% of filing individuals for tax year 2019 compared to the average of 6.2% for tax years 2015 to 2018).

Following the COVID-19 pandemic, more individuals had a payment gap (9% in tax year 2020) before declining back to 6% in tax year 2022. During this period, there was an increase in the number of non-compliant taxpayers and the average payment gap amounts per taxpayer. Therefore, the payment PIT gap for unpaid taxes grew, ranging between 4.8% of the PIT revenue in the tax year 2020 and 4.5% in the tax year 2022. This indicates that the COVID-19 pandemic had a major impact on Canadian individuals' ability to pay their taxes, increasing the payment PIT gap for tax year 2020 and the following two years.

Figure 23: Payment PIT gap from unpaid taxes for tax years 2014 to 2022, in billions and in percentage of PIT revenue^{*35}



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding. Does not include non-residents.

3.1.4. Payment PIT gap related to payroll

If an employer pays remuneration such as salary or wages, or gives a taxable benefit to an employee, they need to register a payroll program account and withhold source deductions from their employees. An employer is responsible for remitting these amounts to the CRA on behalf of their employees.³⁶ Even though an employer is responsible for paying these taxes, payroll payment is part of the potential PIT revenue base and, therefore, it is part of the payment PIT gap.

³⁵ In the [previous overall tax gap report](#) (2022), the payment PIT gap for tax year 2014 was significantly lower. With further research, the timeframe of the analysis was adjusted due to unexpected changes in the deadline for tax year 2014, and the numbers in this report reflect a more accurate payment PIT gap.

³⁶ Source: [Employers' Guide – Payroll Deductions and Remittances - Canada.ca](#)

Employers usually withhold the following source deductions: CPP contributions, EI premiums, and federal, provincial (except for Quebec) and territorial income taxes.³⁷ For the purposes of this tax gap report, the payroll payment gap does not include CPP contributions and EI premiums since these amounts are not considered tax liabilities.

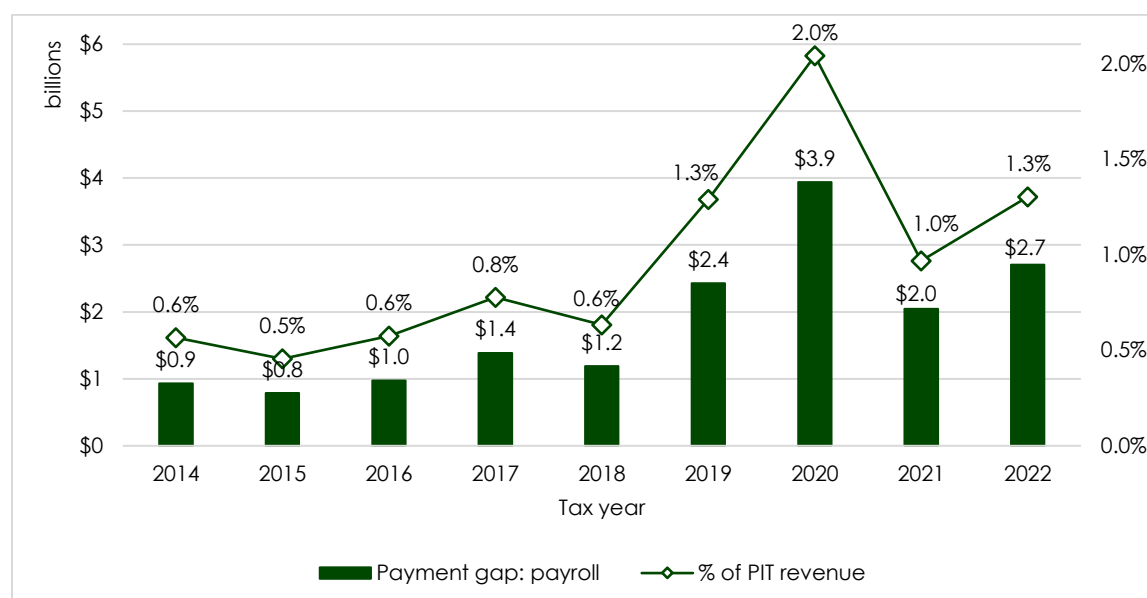
Employers must file a payroll information return for a tax year by the last day of February of the following year. When employers do not pay payroll withheld amounts to the CRA fully and on time, it contributes to the payroll payment gap.

For tax years 2014 to 2018, the payment gap related to payroll was relatively low and stable, compared to unpaid taxes by individuals, ranging between 0.5% to 0.8% of the federal PIT revenue. A sharp increase was observed in tax year 2019, for which the payment due date coincided with the start of the COVID-19 pandemic. The payment payroll gap reached \$2.4 billion or 1.3% of the federal PIT revenue in tax year 2019. This upward trend continued in tax year 2020 where the payment payroll gap reached its peak. The payment gap related to payroll decreased in the following two years, but it remains higher than pre-pandemic levels (refer to Figure 24).

The COVID-19 pandemic impacted financial situations of individuals and businesses that influenced their behaviour.

Therefore, the risk of payment non-compliance increased during the early stage of the COVID-19 pandemic (tax years 2019 and 2020), but there are signs that this risk is decreasing for the following two tax years.

Figure 24: Payment PIT gap from payroll for tax years 2014 to 2022, in billions and in percentage of PIT revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

³⁷ The CRA is responsible for collecting certain provincial taxes and always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed). Therefore, this report considers these provincial tax liabilities as part of the federal tax debt.

During the first two years of the COVID-19 pandemic (tax years 2019 and 2020)³⁸, some industries were facing financial and operational challenges that impacted the capacity of employers to fulfill their obligations, such as filing and remitting payroll deductions on time. The improving economic conditions, additional support from the Government of Canada, and the CRA's actions helped reduce the risk for the payment payroll gap.³⁹ For example, the Temporary Wage Subsidy for Employers (TWS) was implemented in March 2020 as a temporary measure to reduce the amount of payroll deductions that needed to be paid to the CRA.⁴⁰ At the same time, the higher inflation in 2021 and 2022 has affected many Canadians' ability to meet day-to-day expenses. As a result, Statistics Canada observed that many Canadians adjusted their behaviour during this period.⁴¹

3.1.5. Impact of CRA compliance and collection activities

After accounting for compliance and collection efforts by the CRA, the gross PIT gap is projected to be reduced by 40% for tax year 2022, potentially recovering up to \$10.8 billion. As the CRA continues applying its compliance and collection actions for previous tax years, the impact of reducing the tax gap will be updated as more data become available.

Although the PIT gap grew during the COVID-19 pandemic period, the CRA's compliance and collection efforts had a strong impact on reducing this gap.

Starting in March 2020, the CRA reduced some of its core collection and compliance activities to support individuals and businesses during the COVID-19 pandemic. For example, the CRA temporarily refocused its resources to help administer benefits and address increasing call volumes. To accommodate taxpayers during unprecedented times, the Government of Canada also deferred the filing date for tax year 2019 and enabled flexible payment arrangements.^{42,43} During 2021-22, the CRA fully resumed its operations and resolved most backlogs due to the COVID-19 pandemic.⁴⁴

Despite the pause, the impact of CRA's compliance and collection efforts is projected to be the largest for tax year 2020, reducing the gross tax gap by 45%. This impact was driven by large reductions in the payment gap.

For tax years 2014 through 2022, there was generally an upward trend in the impact of the CRA's compliance and collection actions - from a 30% gross tax gap reduction in tax year 2014 to a 40% reduction in tax year 2022 (refer to Figure 25).

³⁸ Even though the pandemic officially started in 2020 in Canada, it had an impact on tax year 2019 as taxpayers needed to file and pay their taxes for that tax year in 2020.

³⁹ Source: [The Daily — The role of the Canada Emergency Wage Subsidy program in assisting businesses through the pandemic \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/28-2631-x/2020001/article/00001-eng.htm)

⁴⁰ Source: [10% Temporary Wage Subsidy for Employers - Canada.ca](https://www150.statcan.gc.ca/n1/pub/28-2631-x/2020001/article/00001-eng.htm)

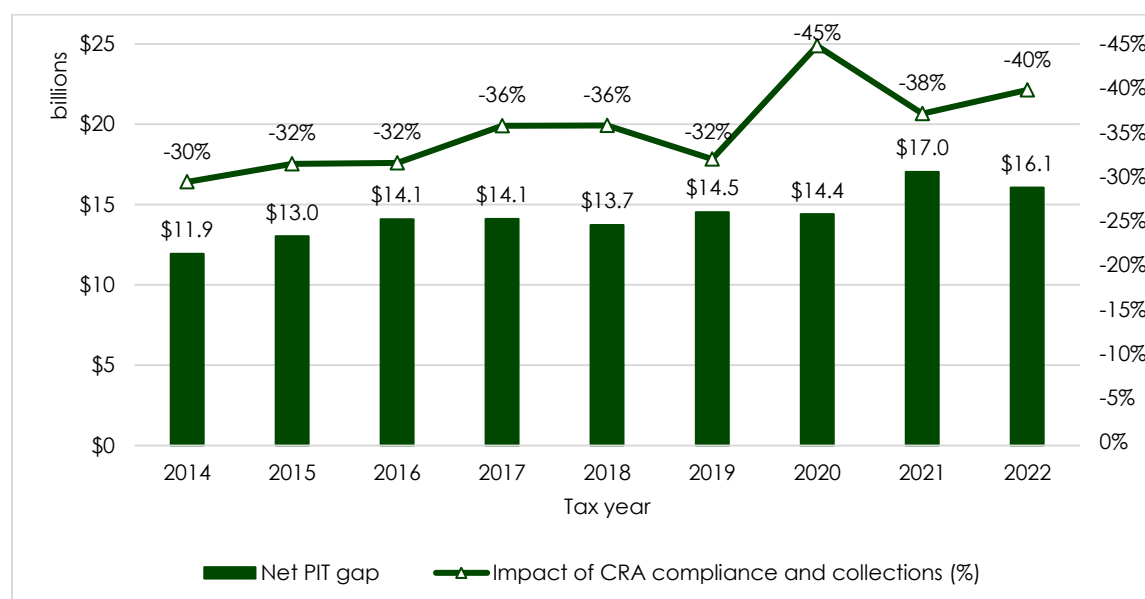
⁴¹ Source: [Inflationary pressures, wages and profits \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/28-2631-x/2021001/article/00001-eng.htm)

⁴² Source: [Collections 2020-22 - Canada.ca](https://www150.statcan.gc.ca/n1/pub/28-2631-x/2021001/article/00001-eng.htm)

⁴³ Source: [2020-21 Departmental Results Report - Canada.ca](https://www150.statcan.gc.ca/n1/pub/28-2631-x/2021001/article/00001-eng.htm)

⁴⁴ Source: [2021-22 Departmental Results Report - Canada.ca](https://www150.statcan.gc.ca/n1/pub/28-2631-x/2021001/article/00001-eng.htm)

Figure 25: The impact of CRA's compliance and collection actions and net PIT gap for tax years 2014 to 2022, in billions and in percentage of gross PIT gap reduction*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding. Does not include non-residents.

The net PIT gap remained largely stable at around 7.7% of the PIT revenue on average, highlighting the effectiveness of CRA's compliance and collection activities.

Box 4: Examples of compliance activities to reduce the tax gap

Audit activities for COVID-19 emergency benefits and subsidies

During the COVID-19 pandemic, the CRA administered several emergency benefits and subsidies to help Canadians and businesses facing hardship because of the pandemic. The CRA also continues to preserve the integrity of the tax system by ensuring that those receiving the benefits are in fact entitled to them. The CRA has conducted reviews and audits to ensure that high-risk applications are reviewed, and payments and claims are stopped (refer to Table 4).

Table 4: Audit activities related to the COVID-19 emergency benefits and subsidies in 2022-23⁴⁵

Benefit/Subsidy	Number of audits	Results
Canada Emergency Rent Subsidy (CERS)	338 CERS post-payment audits	\$14.8 million of claims denied or adjusted
Canada Emergency Wage Subsidy (CEWS)	2,500 audits (since August 2020)	\$5.21 billion of claims verified and approved \$325 million of claims denied or adjusted

⁴⁵ Source: [2022-23 Departmental Results Report - Canada.ca](https://www150.com.gc.ca/2022-23-Departmental-Results-Report)

COVID-19 Individual Benefits ⁴⁶	700,000 blocks on accounts 209,600 reviews 184,600 post-validation reviews	\$378 million of direct payments stopped and up to \$5 billion of future benefits prevented from blocks on accounts \$1.3 billion of direct payments stopped from reviews \$3.57 billion of ineligible payments from post-validation reviews
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T1 matching program and its impact

Protecting the integrity of Canada's voluntary self-assessment system is one of the CRA's fundamental roles. The CRA's **T1 matching program** plays an important role in the Agency's compliance continuum to ensure the fairness and integrity of the tax system for all Canadians. The program compares the information on an individual's tax return with information provided by third-party sources, such as employers and financial institutions, and takes responsible compliance and enforcement actions to identify and resolve discrepancies between the two, when necessary.

Generating an average return of \$46 on every \$1 invested, the program is tremendously cost-effective and efficient in preventing and reducing the tax gap. The program also addresses beneficial client adjustments by identifying unclaimed tax credits.

The T1 matching program consists of three main workflows:

- **Pre-matching** is a review of a T1 Tax and Benefit Return prior to the issuance of the Notice of Assessment (NOA).
- **Post-matching** is a post-assessment review that uses system data to compare the information filed by taxpayers against third-party and spousal information. This includes **beneficial matching** that identifies unclaimed taxes or social contributions deducted at source.
- **Foreign source matching** (FSM) is a review of taxpayers' income from other countries against information received from abroad as a results of tax treaties or other international agreements.

Table 5 provides detailed statistics on the T1 matching program results.

⁴⁶ COVID-19 Individual Benefits include Canada Emergency Response Benefit (CERB), Canada Recovery Benefit (CRB), Canada Recovery Caregiving Benefit (CRCB), Canada Recovery Sickness Benefit (CRSB), Canada Emergency Student Benefit (CESB) and Canada Worker Lockdown Benefit (CWLb).

Table 5: T1 matching program results for the program year 2023-24

Program	Number of returns reviewed ('000)	Fiscal impact ⁴⁷ (\$ millions)	Reversal rate
Post-matching	1,588	\$1,319	3.0%
Beneficial matching	307	(-\$87)	0.3%
Pre-matching	1,054	\$332	1.7%
FSM	19	\$7	4.5%
Total	2,968	\$1,571	2.4%

Moving forward, the T1 matching program will continue to refine its case selection criteria and fund new initiatives to maximize compliance coverage and ensure the Canadian tax system is fair and equitable for all taxpayers.

All compliance programs, including T1 matching and audits related to emergency benefits, are measures to detect and reduce non-compliance, and as a result, reduce the tax gap.

⁴⁷ Fiscal impact is a measure for audit activities that is determined based on tax assessed, tax refunds reduced, interest and penalties, and present value of future federal tax assessable arising from compliance actions. Source: [Evaluation - Audit yield - Canada.ca](#)

3.2. Corporate income tax (CIT) gap

The **gross CIT gap** is estimated by combining the reporting and payment gaps related to corporations. The **reporting CIT gap** is estimated separately for small and medium enterprises (SMEs) and large corporations.⁴⁸ The **payment CIT gap** is calculated for SMEs and large corporations together. The **net CIT gap** is calculated by removing the results of the CRA's compliance and collection efforts related to corporate taxpayers, measuring the remaining potential non-compliance.

In 2022, most corporations in Canada were SMEs. Although large corporations represent a small portion of all corporations, they operate on a much larger scale, contributing to more than half of reported federal corporate income taxes. From 2014 to 2020, corporations contributed to, on average, 18% of the total federal tax revenue.⁴⁹ Following the pandemic, corporations' contributions to the federal tax revenue increased at a faster rate than from other taxpayers, increasing from 19% of the total federal tax revenue in 2020 to 25% in 2022 (refer to Table A.4). This indicates a faster recovery from the pandemic compared to other taxpayers.

3.2.1. Reporting gap for small and medium enterprises (SMEs)

The reporting gap for SMEs is estimated using internal audit data. In general, the CRA conducts audits targeted to high-risk areas of non-compliance, but it has also conducted random audits of SMEs to better understand compliance trends and enhance risk-assessment systems. The most recent random audit for the SME population was conducted for tax year 2011.

To estimate the tax gap for tax years after 2011, two growth rates were used to account for changes in the economy and non-compliance for tax years 2014 to 2022.⁵⁰

1. Compound annual growth rate of the reporting total federal tax which accounts for changes in the SME tax base and certain tax laws.
2. Compound annual growth rate of non-compliance in the underground economy which accounts for fluctuations in non-compliance behaviours.⁵¹

From tax years 2014 to 2019, the CIT gap for SMEs as a percentage of CIT revenue was mostly stable at around 8%. In tax year 2020, the tax gap decreased slightly, mostly due to the pause in economic activities during the COVID-19 pandemic. In 2021, the easing of pandemic-related restrictions and the economic recovery led to growth in corporate profits. Although the reporting gap in dollar amounts started growing again for SMEs, the pace of its growth has slowed down in 2021 and 2022 (especially compared to the growth of the federal tax revenue from corporations). This led to a smaller tax gap of 6% as a

⁴⁸ SMEs are defined as corporations with less than or equal to \$20 million in total gross revenues regardless of the industry sector or with less than or equal to \$50 million in total gross revenues in the following industry sectors: Manufacturing; Transportation and Allied Services; Wholesale Trade; and Retail and Services. Large corporations are defined as corporations with total gross revenues above the SME' threshold.

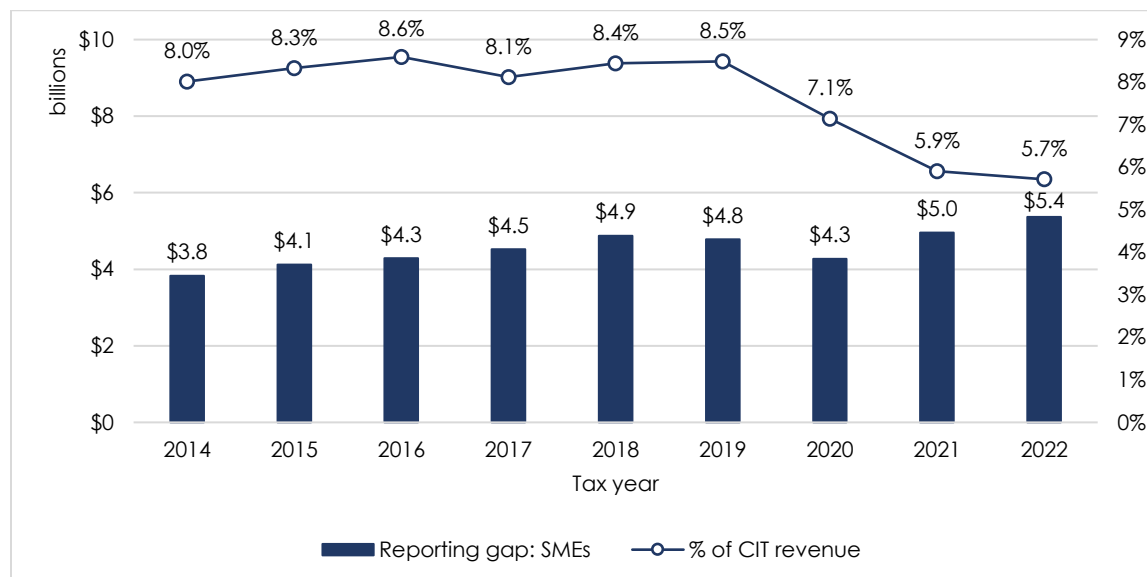
⁴⁹ For the purpose of this report, total federal tax revenue includes PIT, CIT, GST/HST and excise.

⁵⁰ Refer to [methodological annex](#) for details.

⁵¹ Besides underground economy activities, other types of non-compliance may occur among SMEs, but changes to the other non-compliance types were not accounted for the SME tax gap estimates.

percentage of CIT revenue for tax years 2021 and 2022, potentially indicating lower levels of reporting non-compliance for SMEs.

Figure 26: Reporting CIT gap estimates for SMEs for tax years 2014 to 2022, in billions and in percentage of CIT revenue*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding. Does not include non-residents.

The reporting CIT gap for SMEs was mostly stable during the pre-pandemic years (around 8% of the CIT revenue). The COVID-19 pandemic had a significant impact on SMEs, but their economic activities started recovering with the easing of pandemic restrictions.

Following the pandemic, the reporting CIT gap for SMEs as a percentage of CIT revenues had a decreasing trend and reached around 6% in 2021 and 2022.

Economic shocks during the pandemic were the main drivers for the fluctuations in the SME reporting gap. Following the onset of the pandemic, Canada experienced a drastic drop in its real gross domestic product (GDP), with the economy contracting 18.2% between March and April 2020. Compared to other corporations, small businesses were more likely to experience a decrease in revenue.⁵² However, in 2021-22 CIT revenue started increasing at a higher rate than the pre-pandemic period. During the recovery, SMEs increased their corporate revenue by 11% and 7% in tax years 2021 and 2022 respectively.

The CIT gap estimates for SMEs indicate a lower level of reporting non-compliance in the years following the COVID-19 pandemic (tax years 2021 and 2022), when the reporting non-compliance for tax year 2020 remained similar to the pre-pandemic level (before tax year 2020). This trend was mostly due to the fact that hidden income from the

⁵² Source: [Impact of COVID-19 on small businesses in Canada, first quarter of 2021 \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/28-263-x/2021001/article/00001-eng.htm)

underground economy grew at a slower pace compared to the SMEs' taxable income reported to the CRA for tax years 2021 and 2022.

3.2.2. Reporting gap for large corporations

The CRA relies on risk-based audits for large corporations given the relatively small number of taxpayers and higher dollar amounts if non-compliance occurs. The CRA continually monitors this population and risk assesses 100% of the identified corporations on a regular basis. Large corporations that are determined to be at a higher-risk of non-compliance are subject to rigorous compliance audits where the CRA examines relevant books and records to ensure that all tax obligations have been met.

While risk-based audits allow the CRA to focus its efforts on higher-risk taxpayers, non-compliance identified through these audits cannot be directly extrapolated to the population to estimate the tax gap. Therefore, the CRA uses two statistical methods to minimize this selection bias and estimate the federal reporting CIT gap for large corporations.⁵³

1. Extreme value methodology, which is used to produce a lower-bound estimate since it can underestimate the tax gap.
2. Cluster analysis, which is used to produce an upper-bound estimate since it can overestimate the tax gap.

Due to the complexity and volume of business activities completed by large corporations, it can take multiple years for auditors to identify, verify and finalize additional reassessments for large corporations. Therefore, the reporting CIT gap was projected for tax years 2017 to 2022 and will be updated once more data become available.⁵⁴

The gross CIT gap for large corporations in terms of dollar amounts increased during tax years 2014 to 2022, with the largest amounts in tax years 2021 and 2022. However, the tax gap for large corporations as a percentage of CIT revenue has been stable, around 19%, over the same period with slight fluctuations in some years (refer to Figure 27). The higher tax gap dollar amounts in tax years 2021 and 2022 mainly reflected the growth of the Canadian economy. For example, the federal CIT revenue grew 46% and 19% in tax years 2021 and 2022 respectively (refer to Table A.4).

The reporting CIT gap for large corporations as a dollar value increased for tax years 2021 and 2022. However, as a percentage, it was relatively stable around 19% of the CIT revenue.

The revenue reported by large corporations increased at a faster rate than SMEs in the years following the pandemic (tax years 2021 and 2022), indicating a faster recovery for large corporations than SMEs.

The economic restrictions during the COVID-19 pandemic caused major disruptions to Canadian corporations. Although SMEs were the hardest hit, large corporations were also

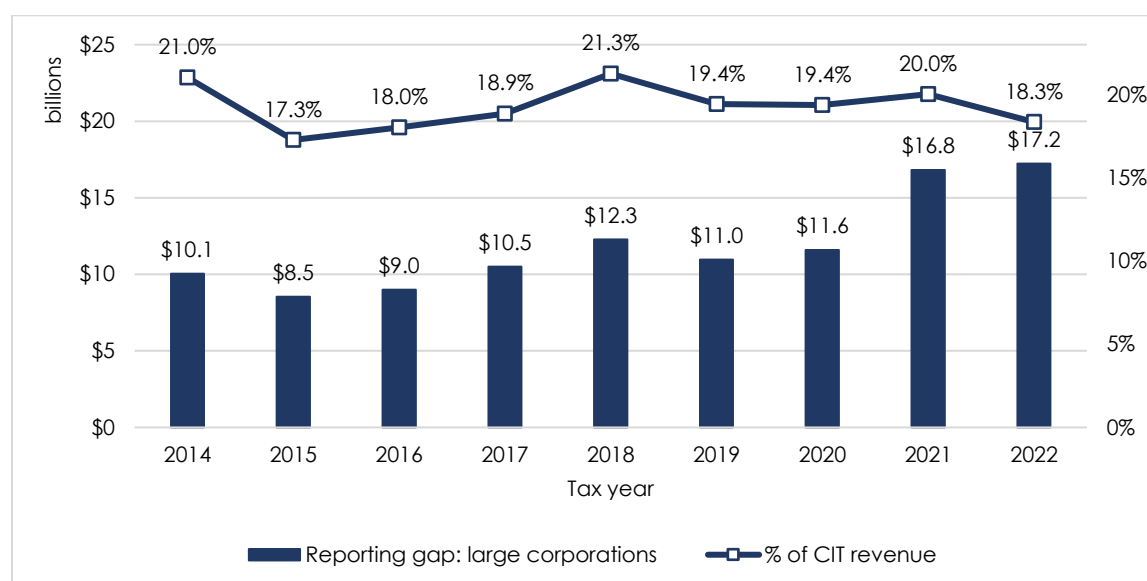
⁵³ Additional details can be found in the [methodological annex](#).

⁵⁴ For example, the CIT gap estimates in this report have been updated for tax years 2014 to 2018 from the previous [overall tax gap report](#) (2022). Additional details on the projections can be found in the [methodological annex](#).

affected by the pandemic.⁵⁵ That said, large corporations recovered quickly. For example, the total revenue reported to the CRA by large corporations decreased by 7% for tax year 2020 but increased by 19% and 18% in tax years 2021 and 2022 respectively when the economy started to recover from the pandemic.

Despite these changes in corporate revenue, the tax gap as a percentage is projected to remain stable with a slight decrease in tax year 2022. This trend will be verified once additional audit data becomes available.

Figure 27: Reporting CIT gap estimates for large corporations for tax years 2014 to 2022, in billions and in percentage of CIT revenue*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding. Does not include non-residents.

3.2.3. Payment CIT gap

Gross payment CIT gap includes federal taxes, and certain provincial and territorial taxes⁵⁶ that were reported to the CRA by corporations but were not paid by the due date.⁵⁷ Most corporations pay income tax in monthly or quarterly instalments and the balance owing is due within two or three months after the end of the corporation's reporting period depending on the balance-due day. Unlike individuals, the payment deadline can vary for each corporation depending on the reporting period.

In general, SMEs contributed the most to the payment CIT gap for tax years 2014 to 2022, as large corporations were less likely to be late with their payments and did not have much tax debt at the due date. However, some large corporations had substantial

⁵⁵ Source: [Economic Impact of the COVID-19 Pandemic on Canadian Businesses across Firm Size Classes](#)

⁵⁶ The CRA is responsible for collecting certain provincial taxes and always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed). Therefore, this report considers these provincial tax liabilities as part of the federal tax debt.

⁵⁷ For the payment gap calculation, the due date was adjusted to account for the return processing time.

reassessments after the payment due date, mostly due to audits. This additional non-compliance is captured in the reporting CIT gap.

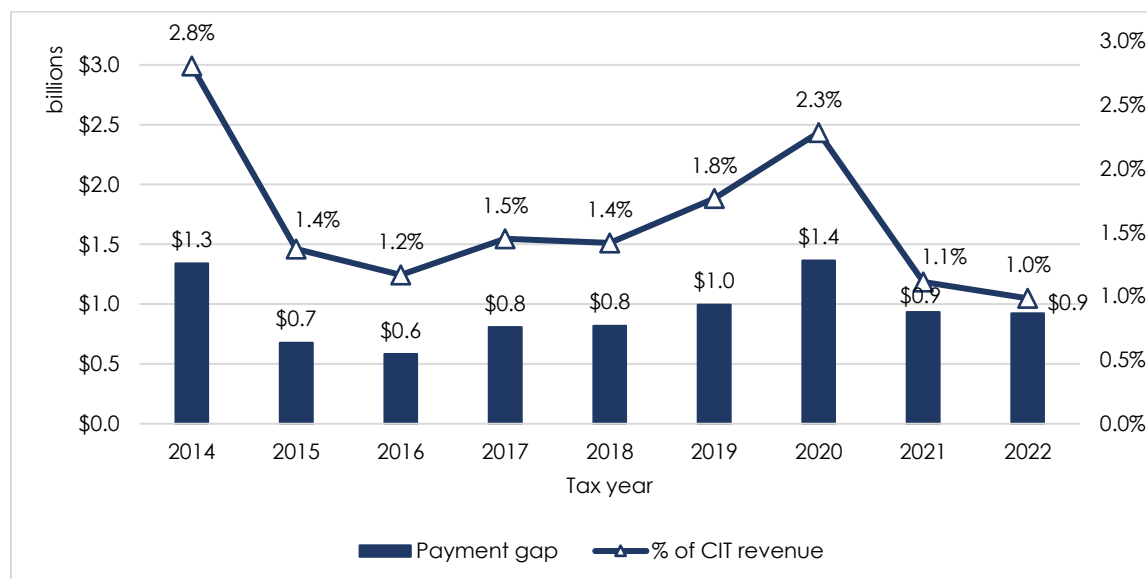
On average, around 3% of SMEs and around 1% of large corporations had a payment gap during tax years 2014 and 2022.

During the COVID-19 pandemic, many businesses were impacted by limited business activities, and the payment CIT gap increased in tax years 2019 and 2020 to 1.8% and 2.3% of the CIT revenue respectively. With increasing corporate profits in the post-pandemic years, corporations quickly recovered, and the payment CIT gap also decreased. In tax year 2022, the payment gap was 1.0% of the CIT revenue which is lower than the pre-pandemic years (before tax year 2019). This indicates that there may be a lower level of payment non-compliance for the post-pandemic tax years (2021 and 2022).

The COVID-19 pandemic negatively affected corporations especially SMEs, leading to a higher payment CIT gap in tax years 2019 and 2020.

In tax years 2021 and 2022 with business recovering from the pandemic and earning higher revenues, the payment CIT gap decreased, indicating a lower risk of payment non-compliance.

Figure 28: Payment CIT gap estimates for tax years 2014 to 2022, in billions and in percentage of CIT revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding. Does not include non-residents. Payment gap for tax year 2014 is higher than for other years due to several outliers.

3.2.4. Impact of CRA compliance and collection activities

After accounting for compliance and collection efforts by the CRA, the gross CIT gap is projected to be reduced by 40% for tax year 2022, potentially recovering up to \$9.3 billion.

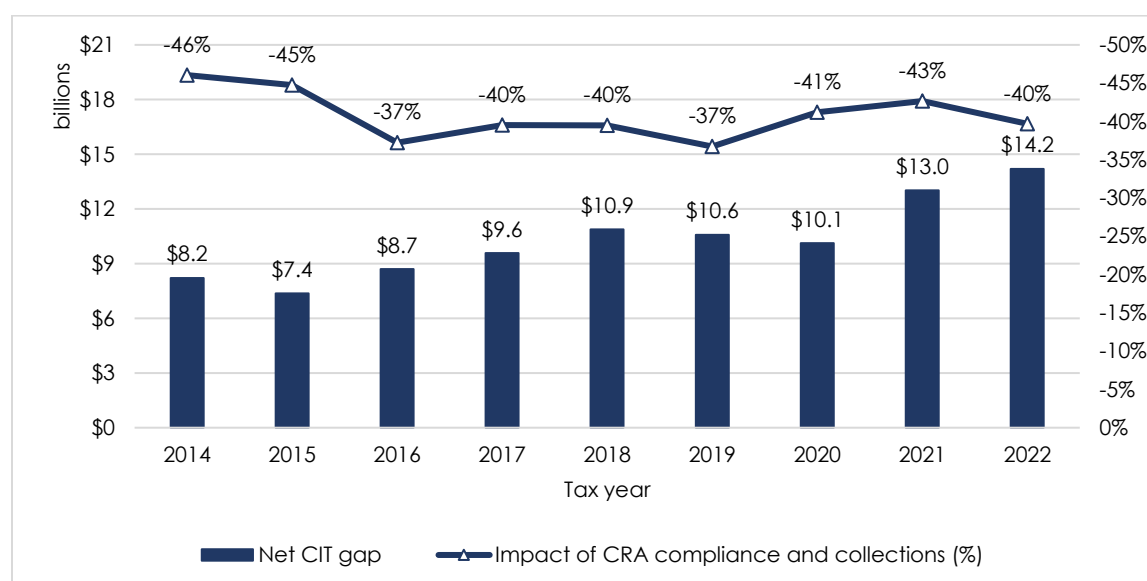
Due to the complex nature of business activities and various types of potential non-compliance, it may take multiple years to complete all compliance actions (for example, comprehensive audits for large corporations may take up to eight years). Therefore, the impact of compliance activities was projected for certain tax years using historical data.

As the CRA continues applying its compliance and collection actions, the impact of reducing the tax gap will be updated as more data become available.

During the COVID-19 pandemic, the CRA redirected resources to help deliver critical services and benefits to Canadians.⁵⁸ Despite pauses in certain compliance and collection activities, the CRA continued to respond to the highest risk of non-compliance and effectively maintained downward pressure on the CIT gap.

The impact of the CRA's compliance and collection activities is projected to be smaller (37%) for tax year 2019 due to the pause in some CRA's activities, leading to a higher net CIT gap of 19% of the CIT revenue. For the tax years 2020 to 2022⁵⁹, the CRA's compliance and collection efforts are continuing to have an impact, with a potential reduction of 40% of the CIT gap for tax year 2022.

Figure 29: The impact of CRA's compliance and collection actions and net CIT gap for tax years 2014 to 2022, in billions and in percentage of gross CIT gap reduction*



* All amounts are in constant 2022 dollars as of January 2025. Estimates are based on upper bound. Totals may not add due to rounding. Does not include non-residents. This graph is based on the upper-bound CIT estimates only.

The net CIT gap as a percentage of the CIT revenue is projected to be smaller than pre-pandemic (for tax years before 2019), potentially indicating a lower risk of non-compliance.

The net CIT gap is expected to decrease in the late stage of the pandemic (tax years 2021 and 2022), reaching 15% of the CIT revenue in tax year 2022, compared to 17% on average for the pre-pandemic years (before tax year 2019). Despite major disruptions from the COVID-19 pandemic, the CRA continues to put sustained downward pressure on the CIT gap (refer to Figure 9).

⁵⁸ Source: [2020-21 Departmental Results Report - Canada.ca](https://www150.statcan.gc.ca/n1/pub/2020-21-001-eng/2020-01-01/2020-21-001-eng.htm)

⁵⁹ Even though the pause in some CRA's activities started in 2020, tax year 2019 is expected to be the most impacted by it as usually an audit starts a year or more after the actual tax year.

3.3. Goods and services tax/harmonized sales tax (GST/HST) gap

The **gross federal GST/HST gap** includes both the reporting and payment gaps. The **reporting GST/HST gap** includes reporting non-compliance related to GST and the federal portion of HST. The **payment gap** represents the GST/HST amounts due but not paid to the CRA by the due date.⁶⁰ Like other tax gap components, the **net GST/HST gap** is calculated by accounting for CRA's compliance and collection efforts, including voluntary remittances occurring after the payment due date.

After a slight decline in GST/HST revenue during the early stage of the pandemic (2019-20), it grew by 18% in 2021 and 8% in 2022 as the economy reopened. Despite the increase in GST/HST revenue amounts (except in 2019-20), the share of the GST/HST revenue in the total tax revenue had a decreasing trend since 2016-17 and continued throughout the years studied up to 2022-23 (refer to Table A.4). The number of taxpayers reporting their GST/HST steadily increased each tax year during the study period except for tax year 2022, based on CRA administrative data.

3.3.1. Reporting GST/HST gap

The reporting GST/HST gap represents the difference between the theoretical federal GST/HST liability, which would result from full compliance, and the actual taxes assessed. The total theoretical federal GST/HST liability is estimated using a top-down approach and leveraging a number of economic and administrative data sources.⁶¹

The reporting GST/HST gap fluctuated between tax years 2014 and 2019. This fluctuation can be attributed to factors other than changes in non-compliance and reflects the normal operation of the tax system. For example, the GST/HST revenues are a function of both GST/HST on sales of goods and services and input tax credits claimed in respect of GST/HST paid on business inputs. Businesses have up to four years to claim their input tax credits and they are not required to allocate and report these amounts to preceding periods. Therefore, the tax gap can fluctuate based on the timing of businesses claiming these credits. On average, the reporting GST/HST gap was approximately 10% of the federal GST/HST revenue during tax years 2014 and 2019.

Many businesses were negatively impacted by the COVID-19 pandemic. The reporting GST/HST gap decreased for tax year 2020, coinciding with a decline in sales for GST/HST registrants. Household expenditure emerged as the largest contributor to the GST/HST revenue base, which likely affected the tax gap the most, and it also experienced some decrease in tax year 2020. Transborder flights had the largest drop during the pandemic. However, it did not have a large impact on the GST/HST gap, given that it was a small share of the tax base.

The reporting GST/HST gap decreased since 2020, coinciding with a decline in sales for GST/HST registrants due to the COVID-19 pandemic.

⁶⁰ The payment GST/HST gap includes both provincial and federal portions of HST, and certain provincial and territorial sales taxes.

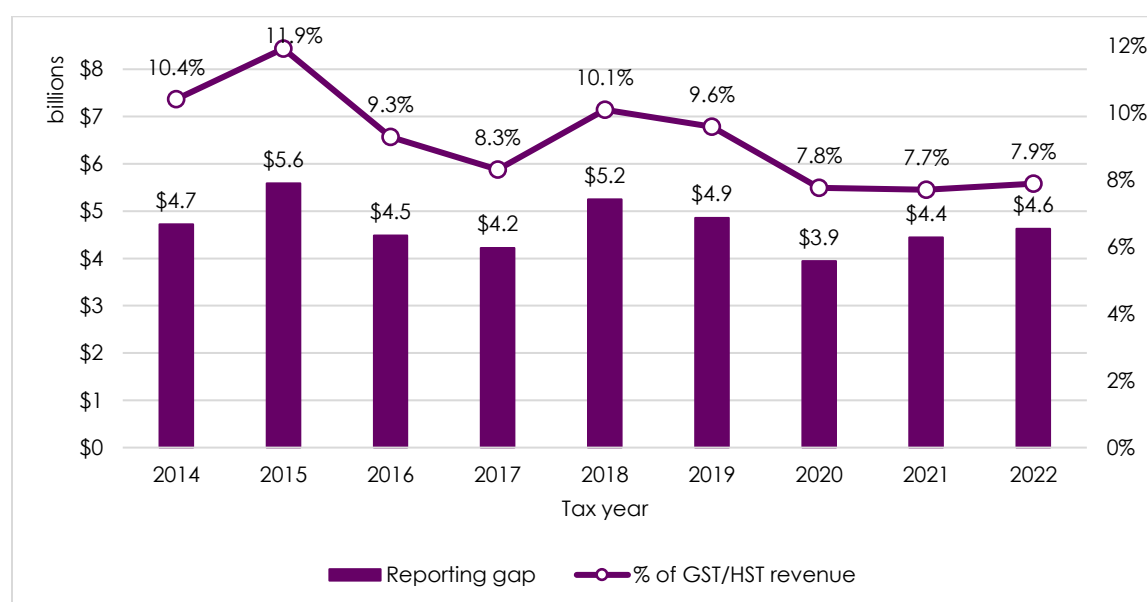
⁶¹ Refer to details in the [methodological annex](#).

Household expenditure remained the largest contributor to the GST/HST revenue base, and it experienced a decrease in 2020, potentially impacting the GST/HST gap.

The reporting GST/HST gap remained lower in the years following the pandemic (tax years 2021 and 2022).

Lifting pandemic restrictions in 2021 and 2022 led to increased sales, and an increase in the GST/HST revenue. However, the reporting GST/HST gap remained relatively stable for the same years at around 8% of the GST/HST revenue which is lower than pre-pandemic levels (before tax year 2020), indicating lower risk of non-compliance (refer to Figure 30).

Figure 30: Reporting GST/HST gap estimates for tax years 2014 to 2022, in billions and in percentage of GST/HST revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

3.3.2. Payment GST/HST gap

Gross payment GST/HST gap includes federal taxes and provincial taxes⁶² that were reported to the CRA by GST/HST registrants but were not paid by the due date. Similar to corporations, the payment deadline for GST/HST can vary for each taxpayer, depending on the filing period, which can be monthly, quarterly or annually.⁶³

The percentage of GST/HST registrants with payment gaps had been relatively stable before the pandemic (since tax year 2014) but had increased since tax year 2019. For example, 7.5% of GST/HST registrants had a payment gap for tax year 2019, compared to 6% average for tax years before 2019. Due to limited business activities and financial hardships faced by businesses during the early stage of the COVID-19 pandemic (in 2020),

⁶² The CRA is responsible for collecting certain provincial taxes and always pays the provincial taxes due first under federal-provincial tax collection agreements (before any collection actions are completed). Therefore, this report considers these provincial tax liabilities as part of the federal tax debt.

⁶³ Source: [Remit \(pay\) the tax you collected – When to remit \(pay\) - Canada.ca](#)

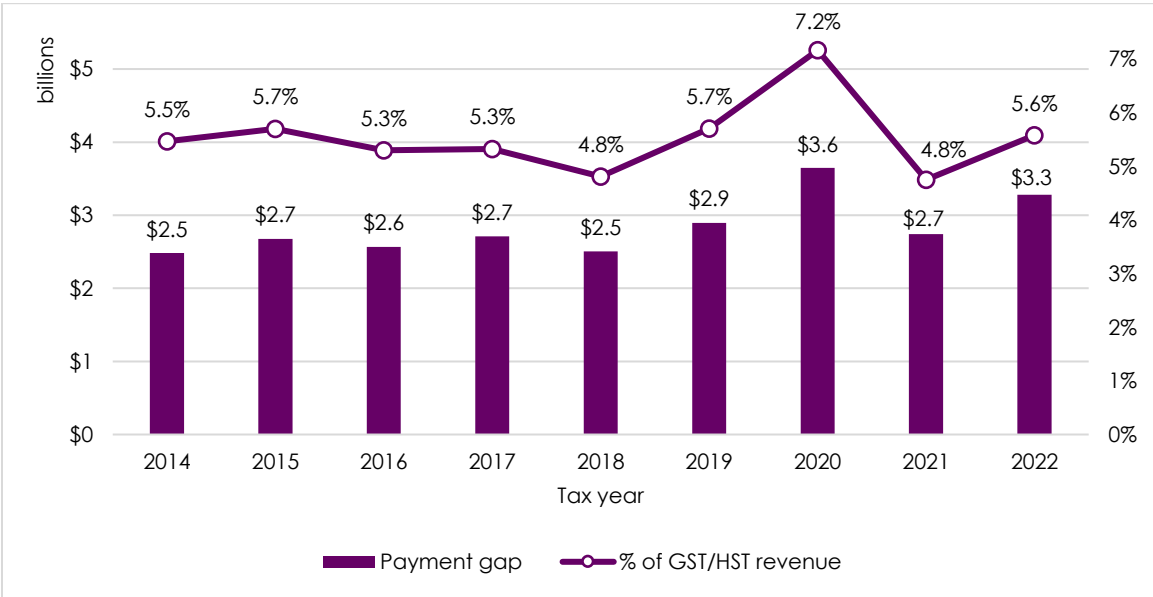
more GST/HST registrants had difficulties paying their tax debts. The percentage of GST/HST registrants with a payment gap slightly dropped for the following years (2021 and 2022) but remained higher than before the pandemic (before tax year 2019).

During tax years 2014 to 2022, around two thirds of GST/HST registrants with a payment gap had to remit more than \$1,000, and they contributed to approximately 99% of the total payment GST/HST gap.

The payment GST/HST gap was the highest for tax year 2020, reaching 7%, when historically it was 5% of the federal GST/HST revenue on average. As the economy reopened, the payment GST/HST gap was lower at around 5% (refer to Figure 31).

During the early stage of the COVID-19 pandemic (tax years 2019 and 2020), the payment GST/HST gap increased, reflecting financial hardships faced by many businesses. The payment GST/HST gap was lower in the years following the pandemic (tax years 2021 and 2022).

Figure 31: Payment GST/HST gap estimates for tax years 2014 to 2022, in billions and in percentage of GST/HST revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding. Does not include non-residents.

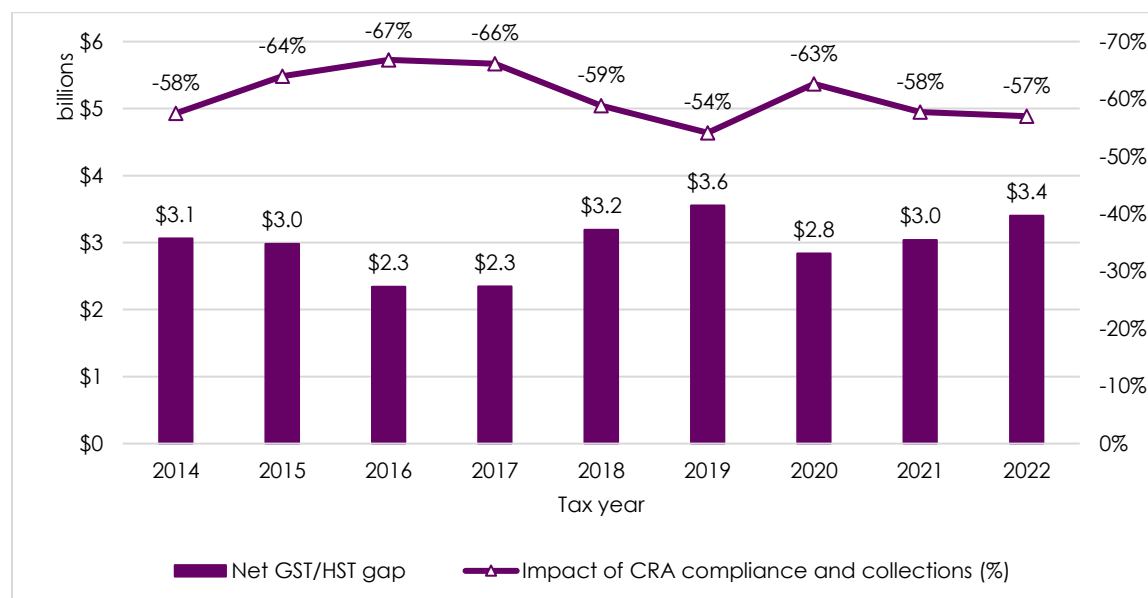
3.3.3. Impact of CRA compliance and collection activities

After accounting for the CRA's compliance and collection efforts, the gross GST/HST gap is projected to be reduced by 57% for tax year 2022, potentially recovering up to \$4.5 billion. As the CRA continues applying its compliance and collection actions for previous tax years, this impact will be revised as more data become available.

Similar to other tax gap components, certain compliance and collection activities were paused and resources were redirected during the COVID-19 pandemic. Because of this, the impact of compliance and collection activities on the GST/HST gap is projected to be

smaller for certain tax years but it is expected to recover starting in tax year 2020 (refer to Figure 32).

Figure 32: The impact of CRA's compliance and collection actions and net GST/HST gap for tax years 2014 to 2022, in billions and in percentage of gross GST/HST gap reduction*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding. Does not include non-residents.

The net GST/HST gap before the pandemic was 6% of the federal GST/HST revenue on average and was on a slight upward trend immediately before the pandemic (tax year 2018). Due to a pause in some CRA's actions, which resulted in the lowest impact of compliance and collections activities, the net tax gap for tax year 2019 was the most affected. The net GST/HST gap reached its peak of 7% of the federal GST/HST revenue for tax year 2019, but it is projected to be lower in the years following the pandemic (tax years 2021 and 2022, refer to Figure 12).

Similar to other tax gap components, the impact of CRA's compliance and collection actions decreased slightly, as certain CRA activities were suspended, and resources were redirected during the early stage of the COVID-19 pandemic.

Despite this, the net GST/HST gap seems relatively stable and low.

Although the COVID-19 pandemic which was a disruptive force for all businesses, the CRA has continued its effort in keeping the GST/HST gap stable and low.

Box 5: Combatting aggressive tax schemes

While most Canadians are compliant and pay their taxes, there are individuals and businesses that use aggressive tax schemes to obtain unwarranted GST/HST refunds. The CRA continuously works to identify and address these threats to the revenue base, whether they're carried out domestically or involve international elements.

There are different aggressive schemes within Canada's GST/HST system, but one of the most abusive is referred to as a "carousel" scheme. The name "carousel" comes from the circular manner in which the transactions flow through a fabricated supply chain.

Carousel schemes are continuously evolving and often involve complex networks of multiple entities. From early detection and prevention to audit and criminal compliance measures, the CRA is continuously evolving its methods to ensure it has the right tools to tackle this aggressive non-compliance. The CRA will continue to make investments in its processes for early detection and develop and refine the data analytics and risk assessment tools to respond to threats in real time as they emerge.⁶⁴

⁶⁴ Source: [Combatting carousel schemes - Canada.ca](#)

3.4. Excise gap

The **gross excise gap** includes the reporting excise gap and payment gap. The **reporting excise gap** consists of excise duty gaps related to illegal production and smuggling of cigarettes and cannabis.⁶⁵ The excise duty gap related to cannabis is a new tax gap subcomponent which was added to this overall tax gap report. In this report, this subcomponent contributes to the overall tax gap starting in tax year 2019 as cannabis was legalized in late 2018.⁶⁶

The **reporting excise duty gap** is slightly different from other tax gap components as it focuses on unreported excise duties by unlicensed or illegal producers for cigarettes and cannabis.⁶⁷ Non-compliance related to reporting excise duties by licensed manufacturers is assumed to be minimal as it is highly regulated. The reporting non-compliance of other excise products were not included in this report and may be examined in the future.

The **payment excise gap** includes payment non-compliance related to all excise taxes, duties and other levies in Canada reported but not paid. The **net excise gap** is calculated by accounting for the impact of CRA's compliance and collection efforts. For this component, this includes collection actions and voluntary remittances occurring after the payment due date.

3.4.1. Reporting excise gap related to cigarettes

The reporting excise gap for cigarettes results from the illegal production or smuggling of cigarettes by unlicensed producers. This excise gap is regarded as one of the main sources for federal tax loss within excise duties, taxes, and other specific levies in Canada.

The cigarette industry in Canada is highly regulated. Canadian companies manufacturing tobacco products must obtain a licence and only they can legally produce excisable goods in Canada. Licensees are subject to annual audits by the CRA to verify, for example, reported quantities of tobacco products manufactured, tobacco inventories, and excise duty payable. The CRA conducts regulatory reviews of licensees and registrants to verify, for example, that excise stamps are correctly applied to finished tobacco products. Excise stamps are used to confirm that excise duties have been paid on cannabis, tobacco, and vaping products, as required by law. If the stamp is missing, it is considered to be produced illegally.⁶⁸ Illegal production of these products contributes to the reporting excise gap.⁶⁹

According to Statistics Canada⁷⁰, vaping has become more popular than smoking among young adults, which may contribute to the decrease in cigarette consumption (refer to Figure 33). Non-compliance related to vaping may be explored in the future.

⁶⁵ Source: [Excise duty rates – Canada.ca](https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/individual-income-tax/individual-income-tax-rates/individual-income-tax-rates.html)

⁶⁶ Since cannabis was legal only for 2 months in tax year 2018, it was not estimated for that year, and it was assumed to have a minor impact on tax year 2018.

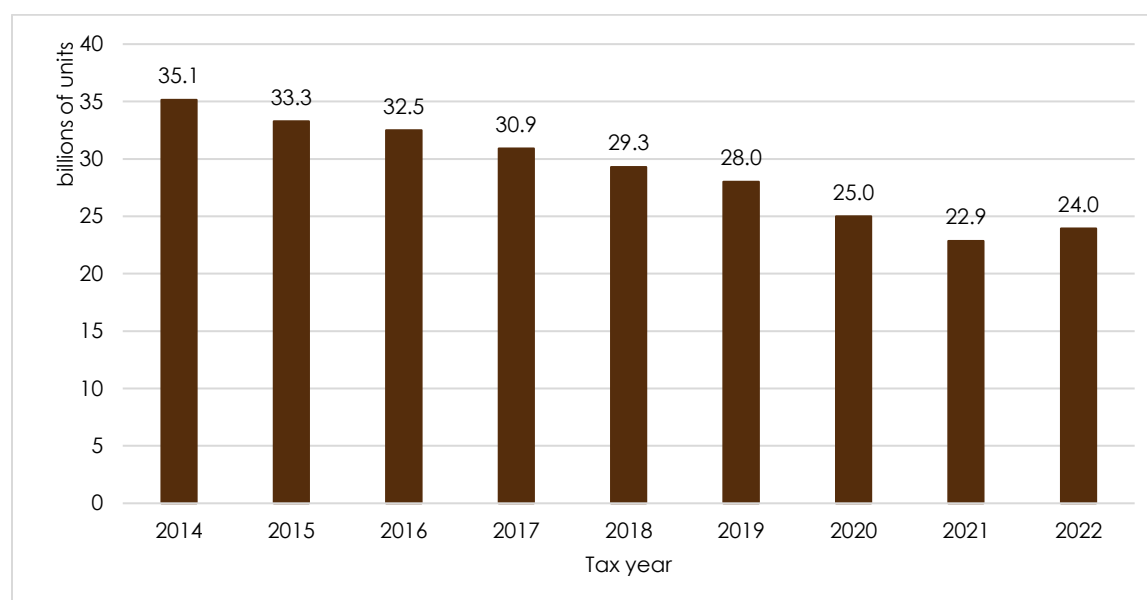
⁶⁷ Excise duty gap does not reflect non-compliance from certain illegal activities as, for example, from consumption of cannabis by minors (under legal age).

⁶⁸ Source: [Excise stamps – Information for consumers - Canada.ca](https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/individual-income-tax/individual-income-tax-rates/individual-income-tax-rates.html)

⁶⁹ Refer to [methodological annex](#) for details on excise gap estimation.

⁷⁰ Source: [The Daily — Canadian Tobacco and Nicotine Survey, 2022](#)

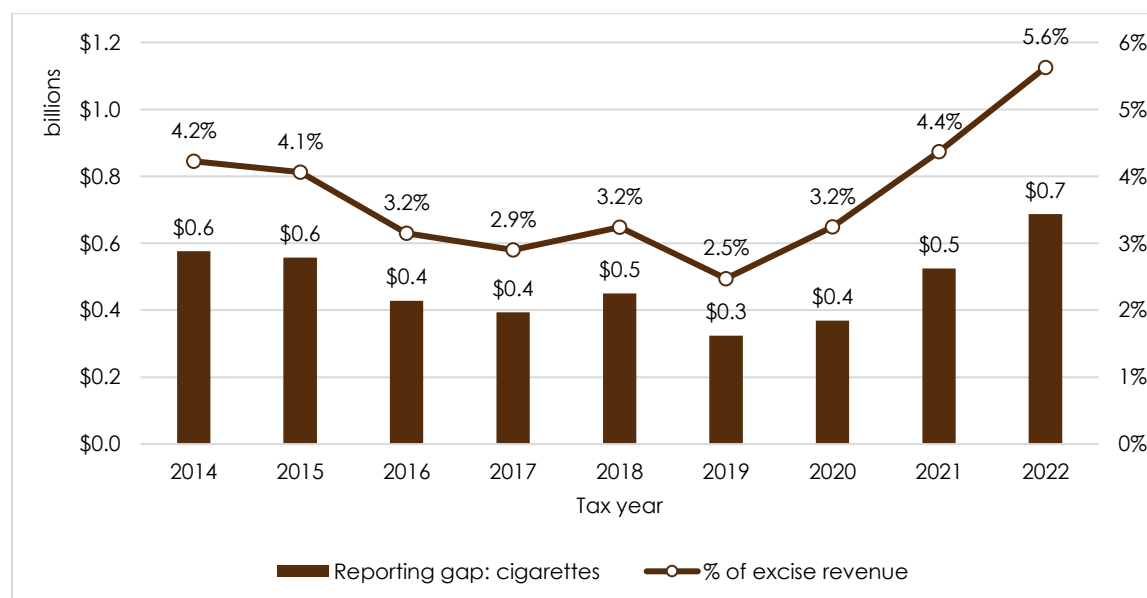
Figure 33: Total consumption of cigarettes for tax years 2014 to 2022, in billions of units*



* The total consumption was estimated using the Canadian Community Health Survey (CCHS) data.

The reporting excise gap related to illegal production of cigarettes had mostly a downward trend before the COVID-19 pandemic (before tax year 2020) with the smallest gap in tax year 2019, at 2.5% of excise revenue. During the early stage of the pandemic (tax year 2020), the reporting excise gap related to cigarettes started increasing and continued its trend up to tax year 2022 even though total cigarette consumption was generally declining (refer to Figure 33). The reporting excise gap for cigarettes increased to 5.6% in tax year 2022 (refer to Figure 34).

Figure 34: Reporting excise gap estimates for cigarettes for tax years 2014 to 2022, in billions and in percentage of excise revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

The higher reporting excise gap could be partly due to an increase in duty rates that went from \$0.62 per five (or fraction of five) cigarettes contained in any package in tax year 2020 to \$0.74 per five (or fraction thereof) in tax year 2022.⁷¹ Certain studies state that the illegal cigarette market in eight Canadian provinces had grown due to higher legal market prices. More consumers may have turned to the illegal market because illegally produced cigarettes can be purchased for less money (about 40% of the price of legal cigarettes).⁷²

Despite decreases in the total cigarette consumption, the reporting excise gap increased after the COVID-19 pandemic.

Increases in the excise cigarette duty rates and some shifts in consumption could have contributed to the trend of the cigarette duty gap.

According to some studies⁷³, during the pandemic (in 2020), there was a temporary closure of illegal tobacco manufacturing and sales operations for several months that led to an increase in the consumption from legal sources. However, the effect was temporary, and as the illegal operations reopened, legal sales decreased to their pre-pandemic level (before 2020). Due to travel restrictions during the pandemic (from 2020 to 2022), cigarette users had limited access to duty-free shops, which was reflected in a sharp decrease of their reported sales. For tax year 2022, the reported quantities of cigarettes sold by duty-free shops have not been back to their pre-pandemic level.

In conclusion, the reporting excise duty gap for cigarettes had an upward trend starting tax year 2020 despite a general decrease in total consumption. The gap trend was mostly driven by higher duty rates and some shifts in the cigarette consumption.

3.4.2. Reporting excise gap related to cannabis

The reporting excise gap for cannabis results from the illegal production of cannabis by unlicensed manufacturers or by the illegal market. Since this report measures only the federal tax gap, the cannabis excise gap includes only the federal portion of cannabis excise duties.

Due to certain data limitations, only the reporting gap for dried cannabis was estimated for this publication. As dried cannabis was the most prevalent product within the legal cannabis market, it was assumed that the excise duty gap for dried cannabis represented a substantial portion of the total reporting gap for cannabis. Other cannabis products such as edibles, concentrates, extracts, plants, plant seeds, and topicals may also be examined in the future.

⁷¹ The rates were rounded for the purpose of this report, and the actual rates were \$0.62104 effective April 1, 2020 to March 31, 2021 and \$0.74470 effective April 1, 2022 to March 31, 2023. The rates are per five cigarettes or fraction of five cigarettes contained in any package. For more details, refer to [Excise Duty Rates - Canada.ca](https://www.cra.ca.ca/excise-duty-rates-canada).

⁷² Sources: [Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador](#); [EY Report on Contraband Tobacco in Alberta, Manitoba, Quebec, New Brunswick and Nova Scotia](#).

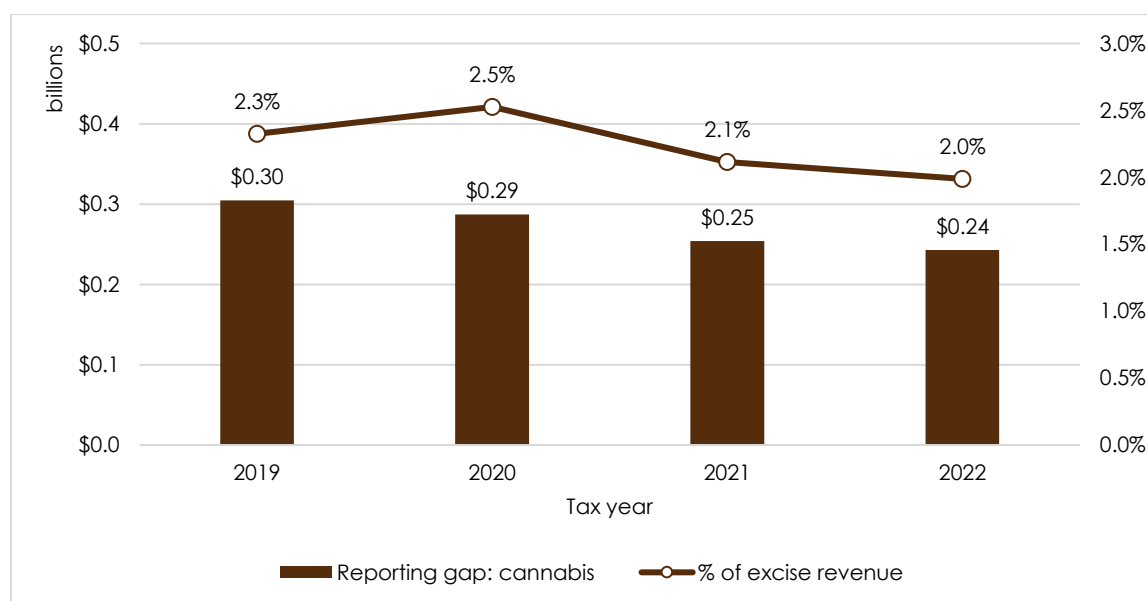
⁷³ Sources: [The Impact of COVID-19 on contraband tobacco and provincial tax revenues in Canada: Contraband Tobacco in British Columbia, Ontario and Newfoundland & Labrador](#).

Since tax year 2019, the reporting excise gap for cannabis has been decreasing. While there is less data for this subcomponent, these estimates suggest that non-compliance from the illegal market will continue to decrease (refer to Figure 35).

The reporting excise gap for cannabis has been decreasing, indicating the reduction of consumption from unlicensed producers and the increase in the excise revenue from legal manufacturers.

Although unlicensed cannabis continues to exist, the reporting excise gap related to cannabis is expected to continue decreasing over time.

Figure 35: Reporting excise gap estimates for cannabis for tax years 2019 to 2022, in billions and in percentage of excise revenue*

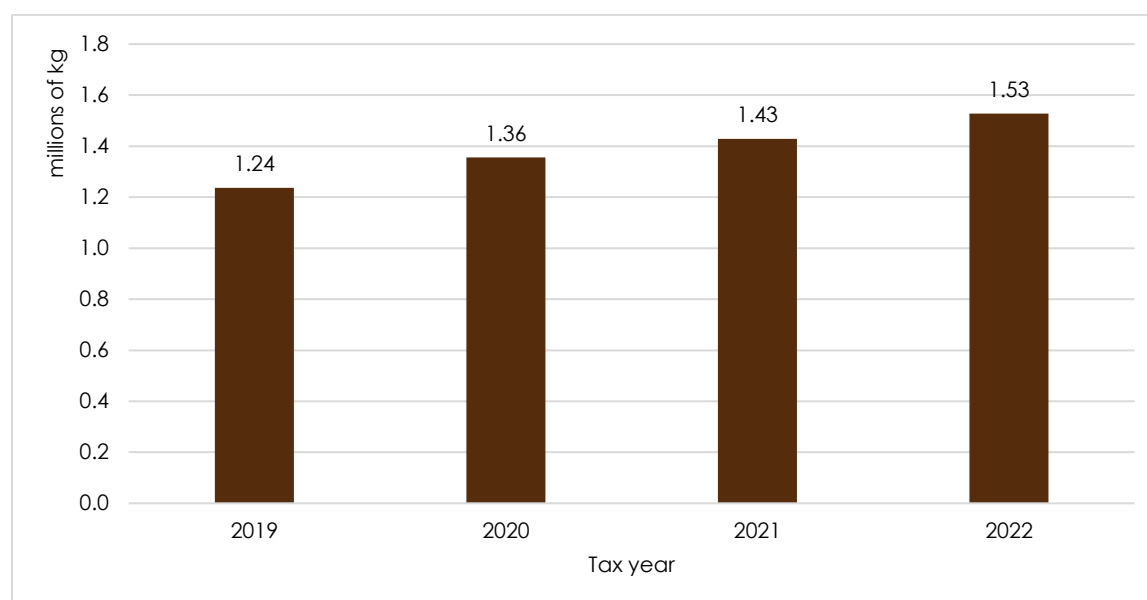


* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

Although the price of cannabis from licensed retailers and producers is generally higher than the illegal market, legal prices have been decreasing since legalization.⁷⁴ Lower prices may provide more incentives for consumers to turn to the legal market over time.

⁷⁴ Source: [2022 Cannabis Report](#)

Figure 36: Total consumption of dried cannabis from 2019 to 2022, in millions of kilograms*



* The total consumption was estimated using the Canadian Cannabis Survey (CCS) data.

Despite increases in total consumption from tax years 2019 to 2022 (refer to Figure 36), the reporting excise gap for cannabis decreased during this period. This indicates that cannabis was more likely to be purchased through licensed manufacturers.

Box 6: Cannabis illegal market

Since legalization, the illegal cannabis market has been decreasing as more consumers started turning to the legal market.⁷⁵ However, the illegal market still persists with lower prices and higher product variety.⁷⁶ For example, a study suggests that a consumer could pay 75% of the legal price to buy cannabis from an unlicensed producer in 2022.⁷⁷

Research suggests that the share of consumers in the illegal market has been decreasing since the legalization of cannabis in 2018. For instance, the 2022 Canadian Cannabis Survey shows that almost 67% of respondents never bought cannabis from illegal sources within the past 12 months, which is up from 55% in 2020 (refer to Figure 37 and 38).

⁷⁵ Source: [Legislative Review of the Cannabis Act: What We Heard Report](#)

⁷⁶ Source: [Clearing the smoke Insights to Canada's illicit cannabis market](#)

⁷⁷ Source: [2022 Cannabis Report](#)

Figure 37: Frequency of obtaining cannabis from an illegal/unlicensed source in 2020*

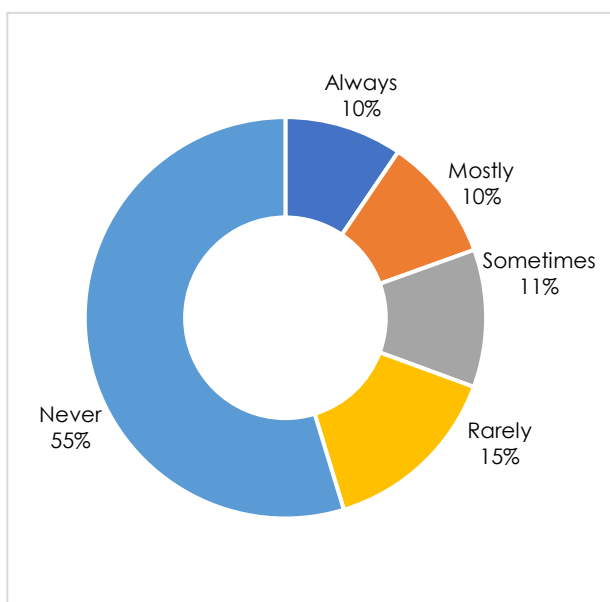
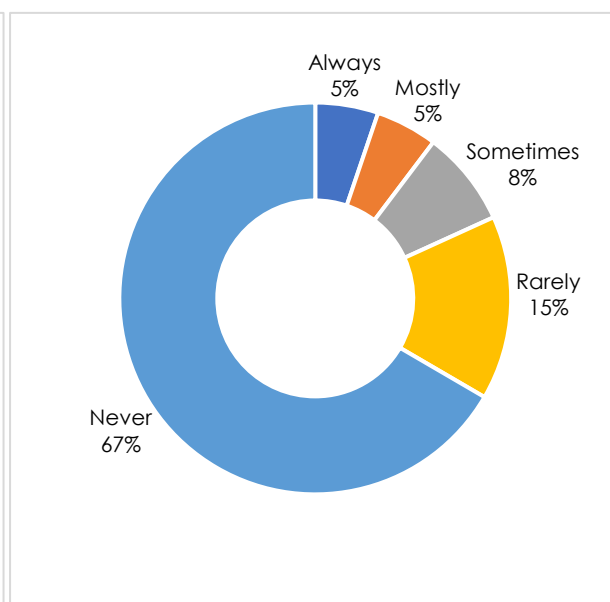


Figure 38: Frequency of obtaining cannabis from an illegal/unlicensed source in 2022*



* The graphs are based on the Canadian Cannabis Survey [2020](#) and [2022](#). Totals may not add due to rounding.

3.4.3. Payment excise gap

The producer or importer of excise goods (also referred to as excise licensees and registrants) remits the excise duty or tax to the CRA by a specific due date. In general, the CRA collects excise duties and taxes for domestically-manufactured products while the Canada Border Services Agency (CBSA) collects them for imported products.⁷⁸

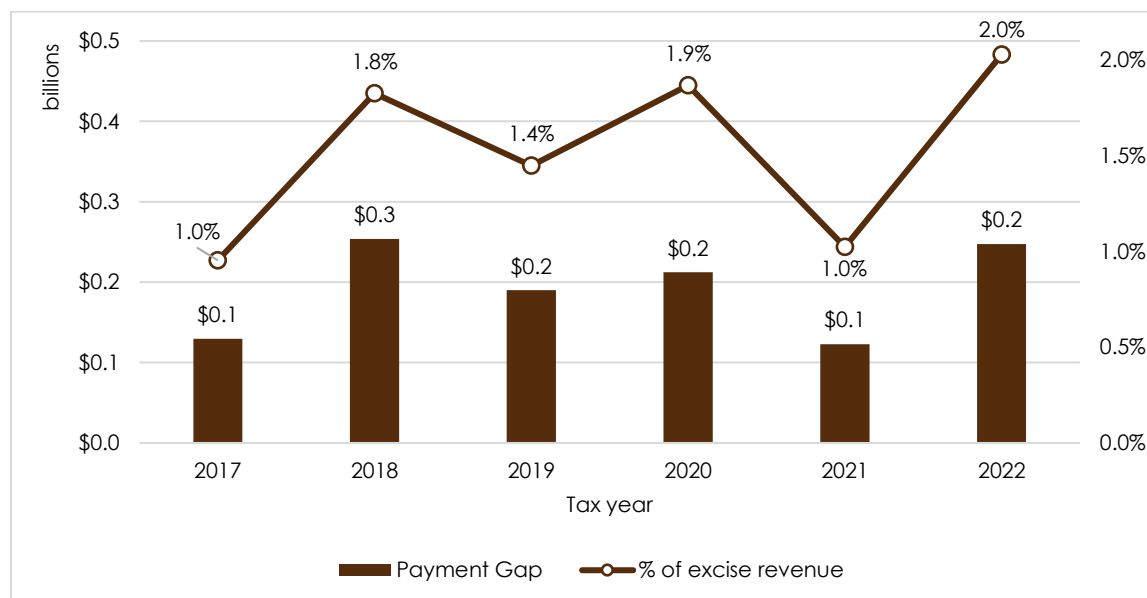
Licensees/registrants that remit excise duties and taxes are highly regulated and therefore are largely compliant. This is evident in the low payment excise gaps during tax years 2014 to 2022. Excise duties and taxes are typically paid on a monthly, quarterly, or semi-annual basis. The payment excise gap includes all unpaid excise duties and taxes, including uncollectible excise debt.

The payment excise gap was minimal for tax years 2014 to 2016. Given the small number of non-compliant licensees/registrants, the exact payment gap amounts for tax years 2014 to 2016 could not be reported to maintain taxpayer confidentiality. In general, the payment gap fluctuated from tax years 2017 to 2022 around 1.5% of the excise revenue (refer to Figure 39).

The payment excise gap fluctuated between tax years 2014 and 2022 with a slight increase since tax year 2017. The payment excise gap remained relatively small, contributing to less than 2% to the total payment gap.

⁷⁸ Since this report relied on CRA data, a gap from excise taxes and duties on imported products was not included. That said, the payment excise gap from imported products is expected to be minimal. For example, in 2022-23, 88% of the total excise revenue (includes revenues from excise taxes, duties and other levies) was from the CRA and 12% from CBSA. Source: [Public Accounts of Canada 2023](#).

Figure 39: Payment excise gap estimates for tax years 2017 to 2022, in billions and in percentage of excise revenue*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

3.4.4. Impact of CRA compliance and collection actions

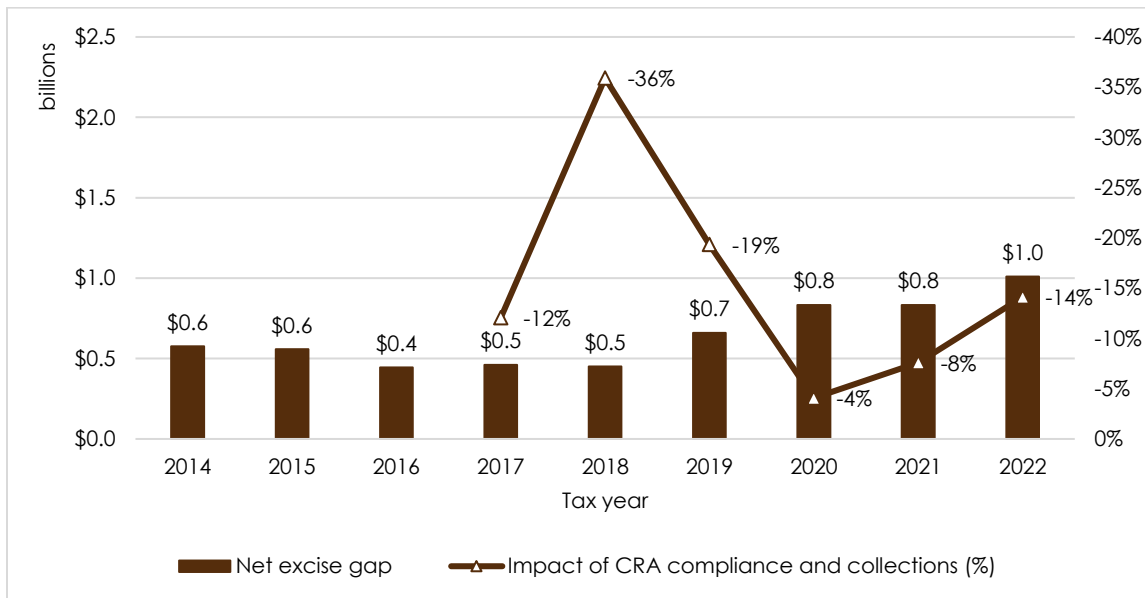
The impact of CRA's compliance and collection efforts on the excise gap includes only collection efforts. The CRA's compliance actions include verification of license eligibility and payment compliance, audits and regulatory reviews to ensure compliance with the *Excise Act, 2001* and correct assessment of excise duties, and education and preventative measures to regulate the excise industry and minimize the excise gap. The impact of these activities was not measured.

Since most payment non-compliance was usually related to late payments, the payment excise gap was mostly reduced within the first year. As a result, the net excise gap was calculated as of January 2025 and was not projected.

The net excise gap increased during the early stage of the COVID-19 pandemic (for tax year 2019 and beyond) mostly due to increases in the reporting excise gap for cigarettes.

The largest impact was observed in tax year 2018, mostly due to a large reduction in the payment excise gap due to deviations in late payments. The net excise gap fluctuated up to tax year 2019, but increased after the COVID-19 pandemic, mainly driven by higher reporting gap for cigarettes (refer to Figure 40). The net excise gap grew from 5.0% of the excise revenue in tax year 2019 to 8.3% in tax year 2022 (refer to Figure 15).

Figure 40: The impact of CRA's compliance and collection actions and net excise gap for tax years 2014 to 2022, in billions and in percentage of gross excise gap reduction*



* All amounts are in constant 2022 dollars as of January 2025. Totals may not add due to rounding.

Box 7: Examples of CRA's compliance efforts in the tobacco industry

In the context of the tobacco industry, the CRA's responsibility is to ensure compliance with the *Excise Act, 2001*, which governs federal tobacco taxation and regulates certain activities related to the manufacturing, possession, and sale of tobacco products. These activities result in high and stable compliance levels among the licensees and minimize the excise gap from illegal production. The example of such activities include:

- **Audit:** all licensees and certain registrants are subject to periodic audits by the CRA to verify, for example, reported quantities of goods manufactured, inventories, and sales, as well as excise liabilities calculated.
- **Regulatory review:** CRA conducts a minimum of eight regulatory review visits per location, based on risk assessment and compliance history. In particular, regulatory reviews may include verification of exports, inventories of raw materials, and other specific production and reporting activities.
- **Federal excise stamping regime:** tobacco excise stamps containing overt and covert security features are affixed to packages of tobacco products to indicate the excise duties have been paid on the product. There are different stamps depending on the quantity, tobacco type, and jurisdiction the tobacco products are destined for. The appropriate stamp must be applied at the time of packaging in Canada or prior to importation of the tobacco product into Canada.
- **Cooperation with the Royal Canadian Mounted Police (RCMP):** the CRA assists the RCMP and the Department of Justice by providing technical expertise and administrative enforcement services. Examples include providing affidavits and/or expert court witness testimony that an accused holds or does not hold a licence or has any legal reason to possess unstamped tobacco, or to explain the workings of the excise tobacco regulatory framework to a court.
- **Cooperation with Health Canada:** the CRA plays an important role in the Canada's Tobacco Strategy (CTS), a comprehensive federal initiative led by Health Canada to reduce tobacco consumption among Canadians. The CRA receives additional funding under the CTS which allows the CRA to conduct full audits of each tobacco licensee every year.

Annex

Table A.1: Tax gap estimates in nominal dollars for tax years 2014 to 2022, in billions*

Tax gap component	2014	2015	2016	2017	2018	2019	2020	2021	2022
PIT: reporting gap (domestic underground economy)	\$6.6	\$7.0	\$7.2	\$7.7	\$7.9	\$8.0	\$7.4	\$8.9	\$9.8
PIT: reporting gap (hidden offshore investment income)	\$2.3 to \$3.1	\$2.7 to \$3.8	\$3.0 to \$4.6	\$2.6 to \$4.0	\$2.0 to \$3.5	\$2.4 to \$4.2	\$2.5 to \$4.5	\$3.3 to \$6.1	\$2.5 to \$5.1
PIT: payment gap (unpaid taxes)	\$3.6	\$4.6	\$5.0	\$6.1	\$6.3	\$4.7	\$8.3	\$8.7	\$9.3
PIT: payment gap (payroll)	\$0.8	\$0.7	\$0.8	\$1.2	\$1.0	\$2.2	\$3.6	\$1.9	\$2.7
CIT: reporting gap (SMEs)	\$2.5 to \$3.2	\$2.7 to \$3.5	\$2.8 to \$3.6	\$3.1 to \$3.9	\$3.3 to \$4.3	\$3.3 to \$4.2	\$3.0 to \$3.9	\$3.7 to \$4.7	\$4.2 to \$5.4
CIT: reporting gap (large corporations)	\$6.2 to \$8.3	\$6.5 to \$7.2	\$7.1 to \$7.6	\$7.5 to \$9.0	\$8.9 to \$10.7	\$8.2 to \$9.7	\$8.8 to \$10.5	\$13.2 to \$15.8	\$14.4 to \$17.2
CIT: payment gap	\$1.1	\$0.6	\$0.5	\$0.7	\$0.7	\$0.9	\$1.2	\$0.9	\$0.9
GST/HST: reporting gap	\$3.9	\$4.7	\$3.8	\$3.6	\$4.6	\$4.3	\$3.6	\$4.2	\$4.6
GST/HST: payment gap	\$2.1	\$2.2	\$2.2	\$2.3	\$2.2	\$2.6	\$3.3	\$2.6	\$3.3
Excise: reporting gap (illegal production of cigarettes)	\$0.5	\$0.5	\$0.4	\$0.3	\$0.4	\$0.3	\$0.3	\$0.5	\$0.7
Excise: reporting gap (illegal production of cannabis)	\$ - **	\$ - **	\$ - **	\$ - **	\$ - **	\$0.3	\$0.3	\$0.2	\$0.2
Excise: payment gap	\$ - ***	\$ - ***	\$ - ***	\$0.1	\$0.2	\$0.2	\$0.2	\$0.1	\$0.2
Gross overall tax gap	\$29.5 to \$33.0	\$32.1 to \$34.6	\$32.7 to \$35.6	\$35.2 to \$39.0	\$37.7 to \$41.8	\$37.3 to \$41.6	\$42.5 to \$47.0	\$48.2 to \$54.5	\$53.0 to \$59.5

Tax gap component	2014	2015	2016	2017	2018	2019	2020	2021	2022
Impact of CRA's compliance and collections	-41% to -45%	-42% to -45%	-39% to -43%	-42% to -46%	-41% to -46%	-37% to -42%	-46% to -51%	-42% to -47%	-42% to -47%
Net overall tax gap	\$16.1 to \$19.6	\$17.6 to \$20.1	\$18.7 to \$21.7	\$19.0 to \$22.7	\$20.5 to \$24.6	\$21.8 to \$26.1	\$21.0 to \$25.5	\$25.5 to \$31.9	\$28.2 to \$34.7

* Totals may not add due to rounding.

** The reporting gap for cannabis is only estimated for 2019 onwards.

*** The excise payment gaps for tax years 2014 to 2016 were negligible due to high levels of regulation and compliance. The exact tax gap amount is not reported to maintain taxpayer confidentiality.

Table A.2: Tax gap estimates in constant 2022 dollars for tax years 2014 to 2022, in billions*

Tax gap component	2014	2015	2016	2017	2018	2019	2020	2021	2022
PIT: reporting gap (domestic underground economy)	\$8.0	\$8.3	\$8.5	\$9.0	\$9.1	\$9.0	\$8.2	\$9.4	\$9.8
PIT: reporting gap (hidden offshore investment income)	\$2.8 to \$3.7	\$3.2 to \$4.5	\$3.5 to \$5.4	\$3.0 to \$4.7	\$2.3 to \$4.0	\$2.7 to \$4.7	\$2.7 to \$5.0	\$3.5 to \$6.5	\$2.5 to \$5.1
PIT: payment gap (unpaid taxes)	\$4.3	\$5.5	\$5.9	\$7.1	\$7.3	\$5.3	\$9.2	\$9.3	\$9.3
PIT: payment gap (payroll)	\$0.9	\$0.8	\$1.0	\$1.4	\$1.2	\$2.4	\$3.9	\$2.0	\$2.7
CIT: reporting gap (SMEs)	\$3.0 to \$3.8	\$3.2 to \$4.1	\$3.4 to \$4.3	\$3.6 to \$4.5	\$3.8 to \$4.9	\$3.8 to \$4.8	\$3.4 to \$4.3	\$3.9 to \$5.0	\$4.2 to \$5.4
CIT: reporting gap (large corporations)	\$7.5 to \$10.1	\$7.7 to \$8.5	\$8.4 to \$9.0	\$8.8 to \$10.5	\$10.2 to \$12.3	\$9.2 to \$11.0	\$9.7 to \$11.6	\$14.0 to \$16.8	\$14.4 to \$17.2
CIT: payment gap	\$1.3	\$0.7	\$0.6	\$0.8	\$0.8	\$1.0	\$1.4	\$0.9	\$0.9
GST/HST: reporting gap	\$4.7	\$5.6	\$4.5	\$4.2	\$5.2	\$4.9	\$3.9	\$4.4	\$4.6
GST/HST: payment gap	\$2.5	\$2.7	\$2.6	\$2.7	\$2.5	\$2.9	\$3.6	\$2.7	\$3.3
Excise: reporting gap (illegal production of cigarettes)	\$0.6	\$0.6	\$0.4	\$0.4	\$0.5	\$0.3	\$0.4	\$0.5	\$0.7

Tax gap component	2014	2015	2016	2017	2018	2019	2020	2021	2022
Excise: reporting gap (illegal production of cannabis)	\$ – **	\$ – **	\$ – **	\$ – **	\$ – **	\$0.3	\$0.3	\$0.3	\$0.2
Excise: payment gap	\$ – ***	\$ – ***	\$ – ***	\$0.1	\$0.3	\$0.2	\$0.2	\$0.1	\$0.2
Gross overall tax gap	\$35.7 to \$40.0	\$38.3 to \$41.3	\$38.6 to \$42.1	\$41.0 to \$45.4	\$43.2 to \$47.9	\$42.0 to \$46.8	\$46.9 to \$52.0	\$51.3 to \$58.1	\$53.0 to \$59.5
Impact of CRA's compliance and collections	-41% to -45%	-42% to -45%	-39% to -43%	-42% to -46%	-41% to -46%	-37% to -42%	-46% to -51%	-42% to -47%	-42% to -47%
Net overall tax gap	\$19.5 to \$23.8	\$21.0 to \$23.9	\$22.1 to \$25.6	\$22.1 to \$26.5	\$23.5 to \$28.2	\$24.5 to \$29.3	\$23.2 to \$28.2	\$27.1 to \$33.9	\$28.2 to \$34.7

* Totals may not add due to rounding.

** The reporting gap for cannabis is only estimated for 2019 onwards.

*** The excise payment gaps for tax years 2014 to 2016 were negligible due to high levels of regulation and compliance. The exact tax gap amount is not reported to maintain taxpayer confidentiality.

Table A.3: Tax gap estimates as percentage of corresponding federal tax revenues for tax years 2014 to 2022*

Tax gap component	2014	2015	2016	2017	2018	2019	2020	2021	2022
PIT: reporting gap (underground economy)	4.9%	4.8%	5.0%	5.0%	4.8%	4.8%	4.2%	4.5%	4.7%
PIT: reporting gap (hidden offshore investment income)	1.7% to 2.3%	1.9% to 2.6%	2.1% to 3.2%	1.7% to 2.6%	1.2% to 2.1%	1.4% to 2.5%	1.4% to 2.6%	1.7% to 3.1%	1.2% to 2.4%
PIT: payment gap (unpaid taxes)	2.6%	3.2%	3.4%	4.0%	3.9%	2.8%	4.8%	4.4%	4.5%
PIT: payment gap (payroll)	0.6%	0.5%	0.6%	0.8%	0.6%	1.3%	2.0%	1.0%	1.3%
CIT: reporting gap (SMEs)	6.3% to 8.0%	6.5% to 8.3%	6.8% to 8.6%	6.4% to 8.1%	6.6% to 8.4%	6.7% to 8.5%	5.6% to 7.1%	4.6% to 5.9%	4.5% to 5.7%
CIT: reporting gap (large corporations)	15.6% to 21.0%	15.6% to 17.3%	16.8% to 18.0%	15.8% to 18.9%	17.7% to 21.3%	16.3% to 19.4%	16.3% to 19.4%	16.7% to 20.0%	15.3% to 18.3%
CIT: payment gap	2.8%	1.4%	1.2%	1.5%	1.4%	1.8%	2.3%	1.1%	1.0%
GST/HST: reporting gap	10.4%	11.9%	9.3%	8.3%	10.1%	9.6%	7.8%	7.7%	7.9%
GST/HST: payment gap	5.5%	5.7%	5.3%	5.3%	4.8%	5.7%	7.2%	4.8%	5.6%
Excise: reporting gap (illegal production of cigarettes)	4.2%	4.1%	3.2%	2.9%	3.2%	2.5%	3.2%	4.4%	5.6%
Excise: reporting gap (illegal production of cannabis)	-% **	-% **	-% **	-% **	-% **	2.3%	2.5%	2.1%	2.0%
Excise: payment gap	-% ***	-% ***	-% ***	1.0%	1.8%	1.4%	1.9%	1.0%	2.0%

Tax gap component	2014	2015	2016	2017	2018	2019	2020	2021	2022
Gross overall tax gap	13.2% to 14.7%	13.5% to 14.6%	13.7% to 14.9%	13.7% to 15.2%	13.9% to 15.4%	13.6% to 15.2%	14.9% to 16.5%	14.1% to 15.9%	14.2% to 16.0%
Net overall tax gap	7.2% to 8.8%	7.4% to 8.5%	7.9% to 9.1%	7.4% to 8.9%	7.5% to 9.1%	7.9% to 9.5%	7.4% to 8.9%	7.4% to 9.3%	7.6% to 9.3%

* Percentages of corresponding federal tax revenues for the net tax gap are based on the Public Accounts of Canada. Refer to Table A.4 for federal tax revenue amounts.

** The reporting gap for cannabis is only estimated for 2019 onwards.

*** The excise payment gaps for tax years 2014 to 2016 were negligible due to high levels of regulation and compliance. The exact tax gap percentage is not reported to maintain taxpayer confidentiality.

Table A.4: Federal tax revenue for fiscal years from 2014-15 to 2022-23, in billions*

Tax Revenues	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
PIT	\$164.6	\$173.0	\$169.8	\$179.0	\$187.9	\$188.6	\$193.2	\$211.3	\$207.9
CIT	\$47.8	\$49.5	\$49.9	\$55.7	\$57.8	\$56.3	\$59.8	\$83.9	\$93.9
GST/HST	\$45.4	\$46.9	\$48.4	\$50.9	\$52.0	\$50.7	\$50.9	\$57.7	\$58.8
Excise	\$13.6	\$13.7	\$13.6	\$13.6	\$13.9	\$13.1	\$11.4	\$12.0	\$12.2
Total	\$271.4	\$283.1	\$281.6	\$299.1	\$311.6	\$308.8	\$315.2	\$364.9	\$372.8

*All amounts are in constant 2022 dollars. The amounts were retrieved from the Public Accounts of Canada. A fiscal year was approximated to a tax year (for example, 2014-15 was used to calculate percentages for 2014 tax year)

Glossary

Term	Definition
Aggressive tax schemes	Aggressive tax schemes refer to strategies or arrangements used by individuals or businesses to minimize tax liability by exploiting loopholes, ambiguities, or unintended gaps in tax laws. These schemes often involve complex structures or transactions that go beyond the intended spirit of the law, and they may involve actions like income splitting, offshore tax havens, or artificially inflating deductions.
Appeal	A taxfiler who disagrees with a CRA Notice of Assessment can file a Notice of Objection with the CRA. The review of the Notice of Objection will result in a reassessment, a confirmation, or a determination. If the taxfiler does not agree with the CRA, they 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.
Arm's-length third party reporting	A process when an independent party (not related to a taxpayer directly) reports information about a transaction or business activity to the tax authorities.
Audit adjustments or federal tax adjustments	A change to federal income tax liability due to a reassessment (for example, audit).
Audit	The examination of taxfilers' books and records to determine the taxes, interest, and penalties payable under the law.
Bottom-up approach	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.
Cannabis duty	Cannabis duty in Canada is a special duty applied to the sale of legal cannabis products. It is charged at the point of packaging of a cannabis product, and the duty rates differ

	depending on product types. The cannabis duties in Canada started on October 17, 2018.
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.
Crypto-Asset Reporting Framework (CARF)	A set of guidelines developed by the OECD to help countries track and report transactions involving crypto-assets. It aims to increase transparency and prevent tax evasion by requiring crypto-asset service providers, like exchanges and wallets, to report certain information about transactions and customers. CARF helps governments better monitor crypto activities and ensure proper tax compliance.
Cigarette duty	Cigarette duty in Canada is a special duty applied to the sale of cigarettes. It is typically charged at the time the cigarettes are manufactured or imported into Canada. The duty rate is fixed for a certain number of cigarettes.
Corporate Income Tax (CIT)	A tax imposed on taxable income of corporations operating in Canada, with specific provisions for tax rates, deductions, credits and carryover or carryback amounts.
Cluster Analysis	Cluster analysis refers to a broad set of statistical techniques for identifying subgroups or "clusters" in a population, where objects in the same cluster are more similar to each other than to those in other clusters. In the context of tax gap analysis, clustering techniques were used to determine whether large corporations could be organized into relatively distinct groups or clusters on the basis of certain key variables to estimate the potential level of non-compliance within each cluster.
COVID-19 pandemic	It refers to the global outbreak of the COVID-19 virus, which began in December 2019. On January 30, 2020, the World Health Organization (WHO) declared this novel coronavirus outbreak a public emergency of international concern. A few weeks later, on March 11, 2020, it declared COVID-19 as a pandemic. Governments implemented measures like

	lockdowns, social distancing, and travel restrictions to slow virus the spread. The pandemic significantly impacted economies, healthcare systems, and everyday activities worldwide. Though the pandemic was declared in the last month of the reporting period, it was a significant disruption for the CRA as well.
COVID-19 emergency measures	The COVID-19 emergency measures, including benefits and subsidies, were financial programs introduced by the Canadian government to support individuals and businesses during the pandemic. These measures aimed to alleviate the financial strain caused by the pandemic and keep the economy stable during challenging times. For example, the Canada Emergency Response Benefit (CERB) provided temporary income support to workers who lost their jobs or could not work due to COVID-19. At the same time, the Canada Emergency Wage Subsidy (CEWS) helped businesses retain employees by covering a portion of their wages, even if they were unable to operate fully.
Canada Pension Plan (CPP)	A government program in Canada that provides financial support to people who are retired, disabled, or surviving family members after the death of a contributor. Workers and employers pay into the CPP through payroll deductions during the worker's career, and, in return, contributors receive monthly payments once they retire or if they become disabled.
CRA's compliance and collection actions or activities	This refers to the steps the CRA takes to ensure individuals and businesses follow tax laws and pay the right amount of taxes. This includes verifying tax returns, conducting audits, and taking action to collect unpaid taxes, such as sending reminders or garnishing wages and seizing assets if necessary. The goal is to make sure everyone meets their tax obligations.
Crypto-asset	This is a type of digital money or item that exists only online. It uses special coding to keep transactions safe and works on a technology called blockchain. Examples include bitcoin or digital collectibles.
Employment Insurance (EI)	This is a government of Canada's program that provides temporary financial support to workers who lose their job through no fault of their own (like due to layoffs or company closures). It also provides benefits to people who are sick, pregnant, or caring for a newborn or adopted child. To qualify,

	workers need to have worked a certain number of hours and paid into the system through their payroll taxes.
Excise duty or tax	A levy on production and importation of certain goods. The most common goods subject to excise duty or tax are tobacco products, alcoholic drinks, and fuel products (for example, gasoline).
Extreme Value Methodology	In the context of tax gap analysis, the extreme value methodology assumes that the majority of tax non-compliance in the large corporate population is concentrated in a relatively small number of corporations. It also assumes that the magnitude of non-compliance will tend to drop off exponentially when ranking corporations according to their level of non-compliance as one moves down the ranks of corporations from the most to the least non-compliant (highest to lowest). Based on the ranking of audited large corporations and the amount of federal tax adjustments identified from an audit, a regression analysis is then used to extrapolate tax non-compliance to the rest of the large corporate population in order to obtain an estimate of the tax gap for large corporations.
Goods and Service Tax / Harmonized Sales Tax (GST/HST)	Sale taxes applied to most goods and services in Canada. The GST is a federal tax, while the HST is a combined tax that includes both federal and provincial sales taxes in certain provinces. These taxes are collected by businesses on behalf of the government and are typically added to the price of products and services.
Gross tax gap	Tax gap estimate before accounting for compliance and collection actions. The total gross tax gap is estimated by combining all previously published tax gap components before accounting for the CRA actions.
Gross Domestic Product (GDP)	This refers to the total value of all goods and services produced within a country during a specific period, usually a year or a quarter. It measures the size and health of a country's economy by reflecting the overall economic activity. GDP can be used to compare the economic performance of different countries or track a country's growth over time.
Input tax credit	Credit that GST/HST registrants can claim to recover the GST/HST paid or payable for property or services they acquired, imported into Canada, or brought into a

	participating province for use, consumption, or supply in the course of their commercial activities.
Large corporations	For the purpose of this report, large corporations are incorporated businesses with gross revenues of more than \$20 million, except those in certain designated industries (manufacturing, transportation and allied services, wholesale trade, and retail and services) where the limit is more than \$50 million.
Macro-economic data	It refers to statistics that describe the overall performance and behaviour of an economy. This includes key indicators like GDP, unemployment rates, inflation, interest rates, and trade balances. These data help governments, businesses, and analysts understand economic trends, make policy decisions, and forecast future economic conditions.
Net tax gap	Tax gap estimate after subtracting compliance and collection results from the gross tax gap. The total net tax gap is estimated by combining all previously published tax gap components, after accounting for compliance and collection actions.
Notice of assessment or reassessment	The notice sent to taxfilers explaining the results of the CRA's assessment of their tax returns or the notice that is sent to a taxfiler if a previously filed return is reassessed as a result of either a taxfiler's request for an adjustment to an already assessed return, or when a return is changed as the result of a CRA review or audit.
Offshore investment income	Income earned from investments located outside Canada. Canadian residents must report investment from both Canadian and foreign sources.
Organisation for Economic Co-operation and Development (OECD)	This is an international organization. Its goal is to promote policies that improve the economic and social well-being of people around the world. The OECD provides a platform for countries to work together on issues like trade, education, health, and tax policies, sharing data and setting standards to help boost growth and development.
Personal income tax (PIT)	Personal income tax (sometimes called T1) refers to the tax levied on the income of individuals, including wages, salaries, business income, investments, and other sources of income. It is

	a progressive tax system, meaning the rate increases as income rises. Personal income tax is collected by both federal and provincial/territorial governments, with each level having its own tax rates.
Payment tax gap	Tax gap resulting from assessed taxes that are not partially or fully paid by the payment deadline. A taxfiler can have a payment gap for multiple taxation years.
Payroll	In Canada, Payroll refers to the system used by businesses to pay their employees for work performed. It includes calculating wages or salaries, withholding taxes (like income tax, CPP, and EI contributions), and ensuring employees receive their pay on time. Employers are responsible for keeping accurate records of all payments, deductions, and remitting the required taxes to the government.
Random audit	An audit where the entity audited is selected based on a random and representative sample of the target population.
Reporting tax gap	Tax gap resulting from when taxpayers fail to provide complete or accurate information on their tax returns by under-reporting income or claiming deductions or credits to which they are not entitled. In some cases, reporting non-compliance can include over-claiming credits and deductions.
Risk-based audit	An audit where the entity audited is selected based on risk factors determined by the tax administrator.
Small and Medium Enterprises (SMEs)	SMEs are incorporated businesses with gross revenues of less than \$20 million, except those in certain designated industries (manufacturing, transportation and allied services, wholesale trade, and retail and services) where the limit is less than \$50 million.
T1 matching program	A key CRA initiative to ensure the fairness and integrity of Canada's tax system by comparing information from an individual's tax return with third-party sources such as employers and financial institutions. The program helps identify discrepancies, unclaimed tax credits, and prevent tax non-compliance. It includes pre-matching, post-matching, and foreign source matching to address discrepancies and identify beneficial adjustments, helping reduce the overall tax gap.

Tax credit	Tax credits are the amounts that taxpayers can use to reduce their tax liability. Certain unused tax credits can be carried forward and applied to future years. In certain instances, tax credits can also be carried back and applied to past years.
Tax gap	Broadly defined, the tax gap is the difference between the taxes that would be paid if all obligations were fully met in all instances, and taxes that are reported and collected.
Tax assured	Tax assured measures the proportion of the tax base where the revenue body has justified trust through its activities or others' activities that tax is "under control" and so assured as accurate and paid. For the purposes of this report, all income for which there is third-party reporting is considered "tax assured" as well as low-risk credits and deductions.
Tax non-assured	Tax non-assured refers to portions of the tax base where there is a higher risk of non-compliance, typically due to a lack of third-party reporting or data matching, or because the amounts are more complex and subject to greater taxpayer discretion or interpretation.
Tax non-compliance	A state when taxpayers who do not comply with tax laws intentionally or unintentionally. Tax non-compliance can occur at any point – for example, failing to file a return, incorrect use of deductions, credits or income, or for failing to pay all taxes due.
Top-down approach	Broadly speaking, top-down methodology uses independent external data (usually national accounts data) to estimate the tax base, a figure that is then used to calculate a theoretical value of tax that should be paid and collected, by applying the appropriate tax rate to a high-level figure.
Underground Economy (UE)	The UE is commonly understood as economic activity or income that is purposely hidden from public authorities, which can include working under the table or skimming (when revenues are under-reported or costs over-reported to understate net income). A variety of definitions for the UE exist – depending on the context, it may include activities that are officially measured and unmeasured, taxable and nontaxable, legal and illegal, or even very small-scale economic activities that generate income. From the CRA's perspective,

the UE includes any activity that is unreported or under-reported for tax purposes.

Write-offs

Write-offs are amounts that were assessed as taxes payable but for various reasons are deemed to not be collectible. Write-offs include amounts that are legislatively uncollectible, such as the expiry of the collections limitation period and accounts that have an insolvency event under the Bankruptcy and Insolvency Act.
